Independent Auditors' Reports as Required by Title *2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and Government Auditing Standards* and Related Information

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

December 31, 2017 and 2016

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

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Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017

T 212.599.0100
F 212.370.4520
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Executive Council of
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (collectively, the "Society"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Society's preparation and fair presentation of the consolidated 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 Society'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information
Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, including the consolidated schedule of financial position as of December 31, 2017 and the consolidating schedule of activities for the year ended December 31, 2017 presented on pages 29 and 30, respectively, and the schedule of expenditures of federal awards for the year ended December 31, 2017, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200,* Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, presented on page 31 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other reporting required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report, dated July 13, 2018, on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control over financial reporting and compliance.

Grant Thornton LLP

New York, New York
July 13, 2018

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

Consolidated Statements of Financial Position

As of December 31, 2017 and 2016
(Dollar amounts in thousands)

	2017	2016
ASSETS		
Cash and cash equivalents	$ 20,596	$ 35,118
Receivables:		
Diocesan commitments receivable, net (Note 2)	1,220	986
Loans receivable, net (Note 5)	9,042	13,826
Government grants	1,466	1,446
Contributions and other receivables, net (Note 4)	4,239	5,838
Collateral received under securities loan agreement (Note 3)	-	837
Prepaid expenses and other assets	919	1,044
Investments (Note 3):		
DFMS-controlled funds	330,811	271,070
Funds held for the benefit of others	153,727	131,207
Interest rate swap (Note 7)	28	-
Property and equipment, net (Note 6)	44,565	46,239
Beneficial interest in outside trusts (Note 2)	8,123	7,411
Total assets	$ 574,736	$ 515,022
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 5,828	$ 4,807
Payable under securities loan agreement (Note 3)	-	837
Grants payable	211	109
Notes payable and line of credit (Note 7)	34,823	36,303
Interest rate swap (Note 7)	-	363
Mortgage payable (Note 7)	2,759	2,863
Accrued postretirement benefits other than pensions (Note 9)	15,338	14,938
Annuities payable	553	493
Funds held for the benefit of others	123,310	105,151
Funds held in a trustee relationship	30,417	26,056
Total liabilities	213,239	191,920
Contingencies (Note 13)		
NET ASSETS (Notes 10 and 11)		
Unrestricted	159,259	151,634
Temporarily restricted (Note 10)	170,047	138,962
Permanently restricted	32,191	32,506
Total net assets	361,497	323,102
Total liabilities and net assets	$ 574,736	$ 515,022

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

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

Consolidated Statements of Activities

For the years ended December 31, 2017 and 2016

(Dollar amounts in thousands)

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT								
Diocesan commitments (Note 12)	$ 27,127	$ -	$ -	$ 27,127	$ 27,587	$ -	$ -	$ 27,587
Contributions and bequests	828	2,177	-	3,005	302	2,111	580	2,993
Contributions and other income - Episcopal Relief and Development	-	24,038	22	24,060	-	14,572	4	14,576
Contributed services	434	-	-	434	372	-	-	372
Contributed services - Episcopal Relief and Development	-	-	-	-	-	18	-	18
Investment return designated for current operations (Note 3)	9,289	1,540	-	10,829	9,099	1,721	-	10,820
Other investment income	581	90	-	671	833	83	-	916
Government revenue	11,720	529	-	12,249	19,813	410	-	20,223
Fees and other income	7,104	436	-	7,540	6,560	1	-	6,561
Revenue from the Episcopal Church in Micronesia	7,522	202	-	7,724	6,988	(21)	(3)	6,964
Net assets released from restrictions	24,509	(24,509)	-	-	26,612	(26,612)	-	-
Total revenues and other support	89,114	4,503	22	93,639	98,166	(7,717)	581	91,030
EXPENSES								
Program services -								
Canonical and missional programs	51,143	-	-	51,143	51,746	-	-	51,746
General convention	3,569	-	-	3,569	1,964	-	-	1,964
Grant-related activities and other	3,779	-	-	3,779	6,934	-	-	6,934
Episcopal Relief and Development (Note 14)								
Sustainable Development	13,156	-	-	13,156	11,530	-	-	11,530
Disaster Relief & Recovery	5,183	-	-	5,183	5,464	-	-	5,464
Expenses from the Episcopal Church in Micronesia	7,576	-	-	7,576	6,995	-	-	6,995
Total program services	84,406	-	-	84,406	84,633	-	-	84,633
Supporting services -								
General and administrative	9,757	-	-	9,757	7,813	-	-	7,813
General and administrative ERD	993	-	-	993	1,308	-	-	1,308
Fundraising ERD	2,524	-	-	2,524	1,856	-	-	1,856
Total supporting services	13,274	-	-	13,274	10,977	-	-	10,977
Total expenses	97,680	-	-	97,680	95,610	-	-	95,610
Changes in net assets from operations	(8,566)	4,503	22	(4,041)	2,556	(7,717)	581	(4,580)
NONOPERATING ACTIVITIES								
Investment return (Note 3)	25,643	28,212	(337)	53,518	10,097	4,525	598	15,220
Less: Other investment (loss) income	(581)	(90)	-	(671)	(833)	(83)	(15)	(931)
Net investment (loss) gain - trust fund	25,062	28,122	(337)	52,847	9,264	4,442	583	14,289
Less: Investment return designated for current operations (Note 3)	(9,289)	(1,540)	-	(10,829)	(9,099)	(1,721)	-	(10,820)
Change in value of interest rate swap agreement	391	-	-	391	279	-	-	279
Postretirement related activities other than net periodic pension cost (Note 9)	27	-	-	27	703	-	-	703
Total nonoperating activities	16,191	26,582	(337)	42,436	1,147	2,721	583	4,451
Changes in net assets	7,625	31,085	(315)	38,395	3,703	(4,996)	1,164	(129)
Net assets, beginning of year	151,634	138,962	32,506	323,102	147,931	143,958	31,342	323,231
Net assets, end of year	$ 159,259	$ 170,047	$ 32,191	$ 361,497	$ 151,634	$ 138,962	$ 32,506	$ 323,102

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

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Dollar amounts in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ 38,395	$ (129)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Noncash items:		
Depreciation	2,501	2,511
Change in allowance for uncollectible amounts	27	(15)
Amortization of discount to present value receivables	2	2
Total noncash adjustments	2,530	2,498
Change in working capital:		
Increase in diocesan commitments receivable	(263)	(334)
Decrease in loans receivable	4,784	271
(Increase) decrease in government grants receivable	(20)	1,257
Decrease (increase) in contributions and other receivables	1,599	(1,294)
Decrease (increase) in prepaid expenses and other assets	125	(314)
Increase (decrease) in accounts payable and accrued expenses	1,021	(600)
Increase (decrease) in grants payable	102	(45)
Increase in annuities payable	60	4
Total change in working capital accounts	7,408	(1,055)
Change in investments:		
Net realized and unrealized gains on investments	(50,930)	(11,591)
Total change in investments	(50,930)	(11,591)
Other changes:		
Change in value of beneficial interests in outside trusts	(712)	11
Change in value of interest rate swap agreement	(391)	(279)
Increase (decrease) in accrued postretirement benefits other than pensions	400	(304)
Permanently restricted contributions	-	(580)
Total other changes	(703)	(1,152)
Total change in working capital accounts and other	(44,225)	(13,798)
Net cash used in operating activities	(3,300)	(11,429)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(827)	(274)
Proceeds from sales of investments	47,945	27,136
Purchases of investments	(56,756)	(594)
Net cash (used in) provided by investing activities	(9,638)	26,268
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	-	580
Repayments under notes payable and line of credit	(1,480)	(1,980)
Proceeds from mortgage loan	-	885
Principal payments on motgage loan	(104)	(108)
Net cash used in financing activities	(1,584)	(623)
Net (decrease) increase in cash and cash equivalents	(14,522)	14,216
Cash and cash equivalents, beginning of year	35,118	20,902
Cash and cash equivalents, end of year	$ 20,596	$ 35,118
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	$ 1,159	$ 1,026

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

1. ORGANIZATION AND NATURE OF ACTIVITIES

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America ("DFMS") is the corporate organization charged with the legal and financial responsibilities for the operations of The Episcopal Church in the United States and 15 other countries. It does not, however, operate or otherwise control individual dioceses. The General Convention is the legislative body of the Episcopal Church and meets in convention once every three years. Between conventions, the Executive Council of the General Convention is charged with the responsibility of implementing the programs and policies adopted by the General Convention

DFMS's consolidated financial statements include the activities of Episcopal Relief & Development ("ERD"), a separate 501(c)(3) not-for-profit corporation. ERD was established by resolution of the General Convention in 1940 in order to meet the needs of refugees fleeing the war in Europe. Today, ERD is a compassionate response of the Episcopal Church to human suffering in the world. Hearing God's call to seek and serve Christ in all persons and to respect the dignity of every human being, ERD serves to bring together the generosity of Episcopalians and others to heal a hurting world.

DFMS's consolidated financial statements also include the activities of Episcopal Church Women, United Thank Offering and all other direct agencies of DFMS, as well as the missional church and school activities in Micronesia ("Guam").

All intercompany transactions are eliminated upon consolidation. These entities and programs are collectively known as the "Society."

A significant amount of the Society's support comes from amounts provided by the dioceses.

DFMS and ERD have been classified by the Internal Revenue Service as not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Accordingly, the classification of the Society's net assets and its support, revenues and expenses are based on the existence or absence of donor-imposed restrictions. The amounts for each of the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, are displayed in the consolidated statements of financial position and the changes in each of those classes of net assets are displayed in the consolidated statements of activities.

Net assets consist of the following:

Unrestricted - net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations and, therefore, are available to carry out the Society's operations. Unrestricted net assets also include those net assets that are restricted as to their use by action of the Executive Council.

Temporarily Restricted - net assets resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Society pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently Restricted - net assets resulting from contributions and other inflows of assets whose use by the Society is limited in perpetuity by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Society. Permanently restricted net assets are comprised primarily of funds restricted by donors to be held in perpetuity, the income from which is intended to support the operations of the Society.

Concentration of Credit Risk

Financial instruments that potentially subject the Society to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit, and investments. Management does not believe that a significant risk of loss is likely due to the failure of a financial institution the Society utilizes to perform. Management also believes that its market risk is mitigated by an adequate diversification of its investments amongst a variety of asset classes.

Diocesan Commitments Receivable

The Society provides for an allowance for uncollectible receivables based on an assessment of various factors, including historical collection experience and current economic conditions. These allowances are maintained at a level management considers adequate to provide for potentially uncollectible accounts. These estimates are reviewed periodically and, if the financial condition of a diocese changes significantly, the Society will evaluate the recoverability of any commitments due from that diocese and write-off any amounts that are no longer considered to be recoverable. Subsequent collections of receivables previously written-off are credited to income.

(Dollar amounts in thousands)

Diocesan commitments receivables, net, at December 31, 2017 and 2016 are as follows:

	2017	2016
Amounts expected to be collected:		
Within one year	$ 1,292	$ 1,070
Between one and five years	68	396
Greater than five years	982	665
Total Diocesan commitments	2,342	2,131
Allowance for uncollectible receivables	(1,122)	(1,145)
Diocesan commitments receivable, net	$ 1,220	$ 986

Investments

Investments include those that belong to the Society as well as those held on behalf of others. They consist of both marketable and non-marketable securities, stated at quoted market values or values provided by the respective fund manager or general partner as of the measurement date. Purchases and sales of securities are reflected on a trade-date basis. Dividends and interest pertaining to the Society are recognized as earned. Realized and unrealized gains or losses on investments pertaining to the Society are recorded on the consolidated statements of activities in the period in which the securities are sold.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility changes. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported on the accompanying consolidated financial statements.

Fair Value Measurements

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

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

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

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

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

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity. The Society considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Society's perceived risk of that instrument.

The Society estimates that the fair value of its financial instruments does not differ materially from the carrying values as presented on the accompanying consolidated statements of financial position.

Cash and Cash Equivalents

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

Valuation of Investments

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include actively traded equities, certain U.S. government and sovereign obligations, and certain money market securities. The Society does not adjust the quoted price for such instruments, even in situations where the Society holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government and sovereign obligations, not included in Level 1, most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for these securities, the Society uses one or more valuation techniques (e.g., the market approach, the income approach or the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the Society in estimating the fair value of Level 3 investments include the original transaction price, recent transactions for the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Society in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Society in valuing such assets, due to the lack of observable inputs, may significantly impact the resulting fair value and therefore the Society's changes in net assets for the respective reporting period.

Property and Equipment

The Society's investment in property and equipment consists of its New York headquarters, property in Austin, Texas, and the school and missional churches of Micronesia (Guam). Property and equipment costing greater than $1.5 and with useful lives greater than five years are capitalized. Property and equipment, with the exception of land, are depreciated using the straight-line method over the estimated service lives of the respective assets. The useful lives assigned to furniture and equipment and buildings and improvements range from 5 to 30 years. Maintenance and repairs are expensed as incurred.

Beneficial Interest in Outside Trusts

From time to time, certain donors have established trusts with third-party administrators, typically banks or other Episcopal entities that call for the income earned on these gifts to be paid to the Society and/or other stipulated beneficiaries and the principal to be invested in perpetuity. Historically, the income received from these outside trusts has been recorded as either temporarily restricted or unrestricted based upon the donors' imposed stipulations. The fair value of these outside trust assets is recognized as a component of permanently restricted net assets. The beneficial interest in outside trusts is adjusted each year and the change in fair value is recognized on the consolidated statement of activities based on changes in the fair values of the trusts' underlying investments. Pursuant to certain of the trust arrangements, however, the earnings that are initially paid to the Society are distributable to other beneficiaries. A liability has been recorded for such amounts payable to others and is reflected as annuities payable in the accompanying consolidated statements of financial position. The Society's beneficial interest in outside trusts is classified as Level 3 within the Financial Accounting Standards Board ("FASB") fair value hierarchy as of December 31, 2017 and 2016.

(Dollar amounts in thousands)

The following table summarizes the changes in fair value associated with the Society's beneficial interest in outside trusts for the years ended December 31, 2017 and 2016:

	2017	2016
Balance, beginning of the year	$ 7,411	$ 7,418
Change in value of amounts due to beneficiaries	35	35
Unrealized gains (losses)	677	(42)
Balance, end of the year	$ 8,123	$ 7,411

Grants Payable

The awarding of grants is reflected on the consolidated financial statements at the time they are approved by the appropriate board and the respective grantee is notified. Grants payable represent unconditional promises to give that are expected to be paid within one year of award.

Funds Held for the Benefit of Others

In the ordinary course of business, the Society acts as a custodian for funds owned by others and for which no benefit of income or principal is received. In these cases, the balances are treated as liabilities, rather than included in the Society's net assets, and as assets held in investment accounts. The income derived from these investments is not included on the consolidated statements of activities, but reflected as a change in value of related assets and liabilities.

Funds Held in a Trustee Relationship

Funds held in a trustee relationship are funds held in a fiduciary relationship by the Society, as trustee, where the original principal is invested permanently and the income is payable to specific third-party beneficiaries. Amounts held on behalf of others are reflected as assets and equivalent liabilities. The income derived from these investments is not included on the consolidated statements of activities, but reflected as a change in value of related assets and liabilities.

Contributions

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

Contributed Services

Contributed services are recorded at their estimated fair value and are recognized as revenues and expenses on the consolidated statements of activities in the period received. Contributed legal services for the years ended December 31, 2017 and 2016 totaled $434 and $390, respectively.

Income Taxes

DFMS follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

DFMS is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. DFMS has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it was nexus; and to identify and evaluate other matters that may be considered tax positions. At December 31, 2017 and 2016, DFMS has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. The most significant of which pertain to the determination of specific reserves against loans, contributions and other accounts receivable, the valuation of non-exchange traded alternative investments, postretirement benefit obligations, and the useful lives assigned to fixed assets, amongst others. Actual results may differ from these estimates.

Reclassifications

Certain 2016 consolidated financial statement amounts have been reclassified to conform to the 2017 consolidated financial statement presentation. Such changes had no effect on total assets, liabilities, or net assets as previously reported.

Subsequent Events

The Society evaluated its December 31, 2017 consolidated financial statements for subsequent events through July 13, 2018, the date the consolidated financial statements were available to be issued. The Society is not aware of any subsequent events that would require recognition or disclosure in the accompanying consolidated financial statements.

New Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Society is in the process of evaluating the impact this standard will have on the financial statements.

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. The guidance is effective for interim and annual periods on or after December 15, 2018 (early adoption is permitted only as of annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period). The guidance permits the use of either a retrospective or cumulative effect transition method. The Society is currently evaluating the new guidance and has not determined the impact this standard may have on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Society for fiscal year 2020. Early adoption is permitted. The Society is in the process of evaluating the impact this standard will have on the financial statements.

(Dollar amounts in thousands)

3. INVESTMENTS

At December 31, 2017, total investments of approximately $484,500 consist of $448,900 in trust fund endowment assets, $7,000 in unit-trust and pooled income funds, $25,100 in medium-term investments, $3,000 in St. John's School (Guam) investments and $500 in certificates of deposit with minority-controlled banks.

At December 31, 2016, total investments of approximately $402,000 consist of $366,000 in trust fund endowment assets, $7,300 in unit-trust and pooled income funds, $24,400 in medium-term investments, $2,300 in St. John's School (Guam) investments and $2,000 in certificates of deposit with minority-controlled banks.

Investments are carried at fair value and consist of the following at December 31:

	Fair Value	
	2017	**2016**
Stocks:		
Common stock	$ 199,734	$ 143,491
Stock funds	29,329	47,535
Total stocks	229,063	191,026
Bonds:		
Corporate	7,742	26,246
Government	3,200	2,987
Other, primarily mutual bond funds	80,809	65,659
Total bonds	91,751	94,892
Mutual funds (primarily common stock and bonds)	5,077	5,225
Certificates of deposit	500	2,000
Other, primarily money market funds and other cash equivalents	5,842	6,900
Alternative investments		
Commingled funds	152,305	102,234
Total investments	484,538	402,277
Funds held for the benefit others	(153,727)	(131,207)
Total DFMS-controlled funds	$ 330,811	$ 271,070

(Dollar amounts in thousands)

Since alternative investments may not be readily marketable, the estimated fair value assigned to such interests is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The fair values assigned to such holdings do not necessarily represent amounts which might ultimately be realized upon sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. Because of the inherent uncertainty of such valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed and the differences could be material.

The following tables prioritize the inputs used to measure the fair value of the Society's investments within the fair value hierarchy at December 31, 2017 and 2016:

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Stocks	$ 229,063	$ -	$ -	$ 229,063
Bonds	91,751	-	-	91,751
Mutual funds	5,077	-	-	5,077
Certificates of deposit	500	-	-	500
Other, primarily money market funds and other cash equivalents	5,842	-	-	5,842
	$ 332,233	$ -	$ -	332,233
Alternative investments reported at NAV				152,305
Total				$ 484,538

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Stocks	$ 191,026	$ -	$ -	$ 191,026
Bonds	94,892	-	-	94,892
Mutual funds	5,225	-	-	5,225
Certificates of deposit	2,000	-	-	2,000
Other, primarily money market funds and other cash equivalents	6,900	-	-	6,900
	$ 300,043	$ -	$ -	300,043
Alternative investments reported at NAV				102,234
Total				$ 402,277

(Dollar amounts in thousands)

In accordance with ASC Subtopic 820-10, investments measured at fair value using the NAV per share practical expedient have not been categorized in the fair value hierarchy.

The Society uses the NAV per share, or its equivalent to determine the fair value as of the measurement date of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following tables detail certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2017 and 2016:

2017

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Commingled funds	Equity and interest rate-driven focused commingled funds.	$ 152,305	5	N/A	$ -	2 funds have monthly redemption with 5-10 days notice and 2 funds has daily redemption with 10 days notice; 1 fund has quarterly redemption with 100 days notice	None
Total		$ 152,305	5		$ -		

2016

Type	Strategy	NAV in Funds	# of Funds	Remaining Life	$ Amount of Unfunded Commitments	Redemption Terms	Redemption Restrictions
Commingled funds	Equity and interest rate-driven focused commingled funds.	$ 102,234	4	N/A	$ -	2 funds have monthly redemptions with 5-10 days notice; 1 fund has daily redemption with 10 days; 1 fund has quarterly redemption with 100 days notice	None
Total		$ 102,234	4		$ -		

The Society lends certain equities and bonds included in its investment portfolio to brokerage firms. In return for the securities loaned, the Society receives cash or securities as collateral in amounts at least equal to the fair value of the securities loaned. The Society retains all rights of ownership to the securities loaned and receives all interest and dividend income. The related collateral received under this arrangement at December 31 and 2016 is reflected as collateral received under securities loan agreement with an off-setting payable in the accompanying consolidated statements of financial position. At December 31, 2017, the Society did not have any securities on loan with brokerage firms.

(Dollar amounts in thousands)

The composition of collateral received under the securities loan agreement at December 31, 2017 and 2016 is as follows:

	2017	2016
Asset-backed securities	$ -	$ 600
Bank notes	-	237
Total	$ -	$ 837

The collateral detailed above is classified as Level 2 within the FASB's fair value hierarchy as of December 31, 2016.

The Society follows the "Total Return Approach" to investments whereby it applies a prudent portion of the realized and unrealized returns on investments to meet current designated and undesignated expenditures. Total return consists of two elements: yield and appreciation. Based on the Society's long-term investment strategy, the Executive Council sets the payout rate on the DFMS trust funds at a percentage (5% in 2017 and 2016) of a five-year moving average of the fair value of the portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation.

Investment return is comprised of the following for the years ended December 31, 2017 and 2016:

	2017	2016
Interest and dividends	$ 2,588	$ 3,629
Realized and unrealized gains	50,930	11,591
Total investment income	53,518	15,220
Less: ERD investment return	(3,643)	(1,033)
Investment return	$ 49,875	$ 14,187

4. CONTRIBUTIONS AND OTHER RECEIVABLES, NET

Contributions and other receivables, net, consist of the following at December 31, 2017 and 2016:

	2017	2016
Contributions receivable, net	$ 577	$ 1,060
Other receivables	3,662	4,778
Total other receivables	$ 4,239	$ 5,838

(Dollar amounts in thousands)

Contributions receivable, net, which are recorded at the present value of their expected future cash flows, consist of the following at December 31, 2017 and 2016:

	2017	2016
Amounts expected to be collected:		
Within one year	$ 523	$ 598
In one to four years	65	476
Total contributions receivable	588	1,074
Less:		
Allowance for uncollectible pledges	(2)	(2)
Present value discount (rates ranging from 1.50% to 6.00%)	(9)	(12)
Total contributions receivables, net	$ 577	$ 1,060

5. LOANS RECEIVABLE, NET

Loans receivable, net, consist of the following at December 31, 2017 and 2016:

	2017	2016
Construction loans to dioceses and missionary districts	$ 1,149	$ 1,218
Economic justice and community investment loans	6,000	5,000
Loans to reorganizing dioceses	2,194	7,909
Residential loans to employees	10	10
	9,353	14,137
Less:		
Allowance for uncollectible accounts	(311)	(311)
Total loans receivable, net	$ 9,042	$ 13,826

Such loans bear interest at varying rates ranging from 2.0% to 8.0% and are payable in installments or on demand. These loans are typically unsecured with maturities of between three and five years. No new residential loans have been extended to employees since 1998.

(Dollar amounts in thousands)

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following at December 31, 2017 and 2016:

	2017	2016
Land	$ 17,986	$ 17,986
Buildings and improvements	68,180	67,731
Other equipment and furnishings	3,575	2,742
	89,741	88,459
Less: Accumulated depreciation	(45,176)	(42,220)
Property and equipment, net	$ 44,565	$ 46,239

Depreciation expense amounted to $2,501 and $2,511 for the years ended December 31, 2017 and 2016, respectively. The Society owns a parking lot located in Austin, Texas, which had a carrying value of $9,991 at December 31, 2017 and 2016, and is reflected as part of land in the table above.

7. MORTGAGE AND NOTES PAYABLE

Mortgage

A mortgage payable on the St. John's School property, located in Guam, amounted to $2,759 and $2,863 as of December 31, 2017 and 2016, respectively. The interest rate of 4.5% is adjusted every three years on March 11 to 1% over the Federal Home Loan rate. The note is collateralized by a third-party mortgage on real and leasehold property and matures in September 15, 2025. At December 31, 2017 and 2016, the effective interest rate was 1% and 4.5%, respectively.

Interest expense pertaining to this mortgage amounted to $133 and $121 for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, scheduled annual principal payments are as follows:

	Amount
2018	$ 102
2019	107
2020	112
2021	117
2022	123
Thereafter	2,198
	$ 2,759

(Dollar amounts in thousands)

Term Loan

On January 11, 2011, DFMS obtained a $37 million term loan, secured by DFMS's investment in unrestricted marketable securities, from U.S. Bank, to be used primarily for working capital and other business purposes. The facility was structured as a 5-year loan with a fixed annual interest rate of 3.69% and annual repayments on a 25-year schedule. Interest was payable monthly; annual principal of $1,480 was payable on each anniversary date through 2016.

On April 8, 2014, DFMS amended and restated the credit agreement with U.S. Bank. On that date, the then outstanding $31,163 under the existing term loan was continued as an unsecured term loan. The facility continues as a 5-year loan with a fixed annual interest rate of 3.69% and annual repayments on a 25-year schedule. Interest is payable monthly; annual principal of $1,480 is payable on each January 1st through 2021. If not extended or renegotiated, unpaid principal will be due in 2021.

On July 23, 2014, DFMS completed Amendment No. 1 to the amended and restated credit agreement dated April 8, 2014, with U.S. Bank. Amendment No. 1 extended the Loan Termination Date to January 23, 2021 and adjusted the interest rate on the unpaid principal balance of the Term Loan to an annual rate of 1.19% plus the one-month LIBOR rate. Amendment No. 1 was required because DFMS entered into an interest rate swap transaction with U.S. Bank.

At December 31, 2017 and 2016, $26,723 and $28,203, respectively, was outstanding under this loan and is reflected on the accompanying consolidated statements of financial position as notes payable and line of credit. Interest expense amounted to $854 and $904 for the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, scheduled annual principal payments are as follows:

	Amount
2018	$ 1,480
2019	1,480
2020	1,480
2021	1,480
2022	1,480
Thereafter	19,323
	$ 26,723

The credit agreement includes standard affirmative and negative covenants usual and customary for similar facilities, including remaining an ongoing business, semi-annual financial reporting, and limitations on additional indebtedness. DFMS was compliant with all such covenants (including financial covenants) at December 31, 2017.

(Dollar amounts in thousands)

Revolving Lines of Credit

On January 11, 2011, the Society obtained a $5 million revolving credit facility from U.S. Bank, which was then expanded to $15 million as of April 8, 2014. The facility, which is unsecured, bears interest based on the Eurodollar rate plus 75 basis points and matures on August 30, 2018. The facility is renewed annually. Interest only is payable monthly. At December 31, 2017 and 2016, $8,100 and $8,100, respectively, was outstanding under this revolving credit facility, and was reflected on the accompanying consolidated statements of financial position as notes payable and line of credit. Interest expense amounted to $169 and $115 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, the effective interest rate was 2%.

Interest Rate Swap

The Society uses an interest rate swap agreement as a strategy for managing interest rate risk associated with its variable rate term loan, by converting it to a synthetic fixed rate. To manage credit risk, the Society considered the credit rating and reputation of the counterparty (U.S. Bank) before entering into the transaction and continues to monitor the credit standing of its counterparty.

The reported fair value of the swap represents the estimated cost to terminate the swap agreement at the measurement date, taking into account current and projected market interest rates. The fair value of the interest rate swap is reported on the Society's consolidated statements of financial position as a liability.

As of and for the years ended December 31, 2017 and 2016, amounts included within the accompanying consolidated financial statements relating to the interest rate swap agreement are as follows:

Fair Value at December 31, 2017	Fair Value at December 31, 2016	Consolidated Statement of Financial Position Location	Change in Value of Interest Rate Swap Agreement for Year Ended December 31, 2017	Change in Value of Interest Rate Swap Agreement for Year Ended December 31, 2016	Consolidated Statement of Activities Location
$ 28	$ (363)	Interest rate swap	$ 391	$ 279	Change in value of interest rate swap

Fair value for LIBOR based swaps is determined using a relative price approach, by discounting the future expected cash flows at the market discount rate (the 100% LIBOR swap rate matching the average life of the notional reduction, if any, of the swap). For the variable leg of a swap, the expected cash flows are based on implied market forward rates for the appropriate underlying index.

The transactions in April and July of 2014 resulted in a five-year extension of DFMS's term loan maturity and secured an effective annual interest rate of 3.197%, reducing the annual service cost on the debt.

8. PENSION PLANS

DFMS maintains a defined contribution pension plan (the "Plan") for all eligible lay employees and employees of ERD. Under the Plan, the employer contributes 5% of eligible salaries and matches employee contributions to the Plan up to 4%. It is the opinion of counsel to the Plan that, as a Church Plan, this plan is exempt from the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). Pension expense for this plan recognized on the accompanying consolidated financial statements amounted to $1,221 and $1,213 for the years ended December 31, 2017 and 2016, respectively.

DFMS is a participant in a separate pension plan administered by the Church Pension Fund (an independent organization) that provides pension benefits to all ordained clergy of the Episcopal Church, including those who hold positions within DFMS. Pension expense for this plan recognized on the accompanying consolidated financial statements amounted to $760 and $692 for the years ended December 31, 2017 and 2016, respectively.

The Executive Council of DFMS has voluntarily paid pension supplements to employees who retired prior to 1971 and had 20 years of service with DFMS. These benefits are accounted for on a "pay-as-you-go basis." Pension expense for this "plan," recognized on the accompanying consolidated financial statements, amounted to $657 and $641 for the years ended December 31, 2017 and 2016, respectively.

The St. John's School maintains a defined contribution pension plan. This plan covers all eligible employees of the St. John's School. Benefits under this plan are provided by fixed-dollar annuities issued by the Teachers Insurance and Annuity Association and by variable annuities offered by its companion organization, the College Retirement Equities Fund. The St. John's School contributes 5% of the gross base pay of its employees to each participant's account. After 10 years of employment, the St. John's School will increase its contribution by a graduated percentage rate (7% - 17%) depending on the number of years of employment. Pension expense for this plan recognized on the accompanying consolidated financial statements amounted to $117 and $107 for the years ended December 31, 2017 and 2016, respectively.

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

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

(Dollar amounts in thousands)

The following tables set forth the funded status of the plans and the components of net periodic benefit cost at December 31, 2017 and 2016:

	2017	2016
Change in benefit obligation:		
Benefit obligation, beginning of year	$ 14,938	$ 15,242
Service cost	509	476
Interest cost	558	593
Actuarial gain	(27)	(704)
Benefits paid	(640)	(669)
Benefit obligation, end of year	$ 15,338	$ 14,938
Fair value of plan assets at December 31	$ -	$ -
Funded status at December 31	$ (15,338)	$ (14,938)
Fair value of plan assets at beginning of year	$ -	$ -
Employer contributions	640	669
Benefits paid	(640)	(669)
Fair value of plan assets at end of year	$ -	$ -
Components of accrued benefit cost:		
Funded status	$ 15,338	$ 14,938
Unrecognized actuarial net gain	(727)	(754)
Accrued benefit cost	$ 14,611	$ 14,184
Amounts not yet reflected in net periodic benefit cost and included in unrestricted net assets:		
Net actuarial loss	$ 727	$ 754
Components of net periodic benefit cost:		
Service cost	$ 509	$ 476
Interest cost	558	593
Amortization of unrecognized prior service cost	-	-
Net periodic benefit cost for fiscal year	$ 1,067	$ 1,069
Changes in assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial gain	$ (27)	$ (703)
Amortization of unrecognized prior service cost	-	-
Total change recognized in unrestricted net assets	$ (27)	$ (703)

(Dollar amounts in thousands)

The amount of contributions and benefit payments from the plan for the year ended December 31, 2017 and 2016 were:

	2017	2016
Employer contributions	$ 639	$ 669
Participant contributions	-	-
Benefit payments	$ 639	$ 669

	2017		2016	
	MedSup Plan	Self-Insured Plan	MedSup Plan	Self-Insured Plan
Assumed health care trend rates at December 31:				
Health care cost trend rate assumed for next year	0.9 %	4.3 %	6.7 %	4.9 %
Rate to which the cost trend rate assumed to decline (ultimate trend rate)	4.2 %	4.0 %	4.2 %	4.0 %
Year that the rate reaches the ultimate trend	2082	2074	2078	2074

For the year ended December 31, 2017, the effect of a 1% change in the health care cost trend rate was as follows:

	1% Increase	1% Decrease
Effect on net periodic benefit cost	$ 238	$ (184)
Effect on postretirement benefit obligation	2,327	(1,868)

Contributions

Annual contributions are determined by the Society based upon calculations prepared by the Society's actuary. Projected contributions for 2018 are expected to be $800.

(Dollar amounts in thousands)

Benefit Payments

The following benefit payments are expected to be paid as follows:

2018	$ 800
2019	737
2020	734
2021	715
2022	725
2023 - 2027	3,494
Total	$ 7,205

The estimated net loss (gain) and prior service cost included in unrestricted net asset expected to be recognized as components of net periodic benefit cost during the fiscal year ending December 31, 2017 are $-0- and $-0-, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are held for the following purposes at December 31, 2017 and 2016:

	2017	2016
Other program related funds	$ 140,877	$ 115,668
Episcopal Relief and Development	25,314	19,674
Guam - School Scholarships	2,813	2,689
United Thank Offering and Episcopal Church Women Fund	1,043	931
Total temporarily restricted net assets	$ 170,047	$ 138,962

11. ENDOWMENT FUND

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

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

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted nets assets until such amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purpose of the fund, general economic conditions, the possible effect of inflation or deflation, the expected total return from income and appreciation of investments, other resources of the Society, the investment policies of the Society and, where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on the Society.

The Society has a policy of appropriating for distribution each year an Executive Council approved spending rate of its endowment fund's average fair value over five years. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long-term, the Society expects the current spending policy to grow at a pace at least equal to inflation. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Society has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without putting the assets at imprudent risk. To satisfy its long-term objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Certain amounts previously included in the Society's board-designated endowment fund have now been reflected as part of the donor-restricted endowment fund. The reclassification of the endowment net assets is included in the transfer line in the table below. The effect of this net asset transfer had no impact on current or historical endowment fund distributions or asset values.

(Dollar amounts in thousands)

The following tables summarize endowment net asset composition, by type of fund as of December 31, 2017 and 2016:

	2017			
Composition of Endowment Net Assets by Type of Fund	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 156,645	$ 24,812	$ 181,457
Board-designated endowment funds	133,503	-	-	133,503
Total	$ 133,503	$ 156,645	$ 24,812	$ 314,960
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 121,263	$ 129,808	$ 24,497	$ 275,568
Investment return:				
Investment income	195	-	-	195
Net appreciation (realized and unrealized)	20,522	26,062	315	46,899
Contributions	327	865	-	1,192
Appropriation of endowment assets for expenditure	(8,804)	(90)	-	(8,894)
Endowment net assets, end of year	$ 133,503	$ 156,645	$ 24,812	$ 314,960

	2016			
Composition of Endowment Net Assets by Type of Fund	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 129,808	$ 24,497	$ 154,305
Board-designated endowment funds	121,263	-	-	121,263
Total	$ 121,263	$ 129,808	$ 24,497	$ 275,568
Changes in Endowment Net Assets				
Endowment net assets, beginning of year	$ 128,627	$ 126,143	$ 19,611	$ 274,381
Investment return:				
Investment income	191	-	-	191
Net appreciation (realized and unrealized)	6,488	1,644	583	8,715
Contributions	32	334	580	946
Appropriation of endowment assets for expenditure	(8,624)	(41)	-	(8,665)
Transfers	(5,451)	1,728	3,723	-
Endowment net assets, end of year	$ 121,263	$ 129,808	$ 24,497	$ 275,568

12. RELATED PARTIES

The Episcopal Church is an unincorporated association governed by the General Convention. It carries out its administrative, finance and other program activities through DFMS, a New York corporation. DFMS is governed by the Executive Council whose members are elected by the General Convention and the Provinces. The Executive Council acts as the board of directors between meetings of General Convention. DFMS engages in financial transactions with both foreign and domestic entities affiliated with the Episcopal Church and the worldwide Anglican Communion. DFMS receives its principal financial support in the form of Diocesan commitments, which totaled approximately $27,127 and $27,587 for the years ended December 31, 2017 and 2016, respectively. In addition, DFMS receives a significant portion of non-governmental fees from related parties as well, which totaled approximately $1,116 and $1,049 for the years ended December 31, 2017 and 2016, respectively. DFMS expended approximately $62 for each of the years ended December 31, 2017 and 2016, respectively, in either direct payments/grants to affiliated entities or expenses incurred on behalf of these related parties. Of the total loans receivable reported on the accompanying consolidated statements of financial position at December 31, 2017 and 2016, approximately $3,354 in 2017 and $9,138 in 2016 represent loans to related entities which bear interest at rates ranging from 3.0% to 8.0% per annum.

13. CONTINGENCIES

Government Funding

The Society enters into contracts with agencies of the U.S. government under which the government provides funding for various refugee resettlement activities carried on by the Society in the United States and in other countries. The expenditures of these funds by the Society and its affiliated organizations are subject to audit by the federal government. In the opinion of management, audit adjustments, if any, are not expected to have a material effect on the consolidated financial statements of the Society.

Refugee Loans Receivable and Collections

In connection with its cooperative agreements with the U.S. government for refugee resettlement, the Society acts as the collection agent for travel loans made to refugees by the International Organization for Migration. In return for these services, the Society retains 25% of all loan collections as a recovery of its administrative costs incurred. As of December 31, 2017 and 2016, there were $13,912 and $13,456, respectively, of refugee loans outstanding. Such amounts are not reflected on the accompanying consolidated financial statements, and the Society does not guarantee the loans.

Litigation

The Society is subject to various claims and legal proceedings that have arisen in the ordinary course of its business activities. The Society is not aware of any pending litigation, the resolution of which will have a material adverse effect on its consolidated financial statements.

SUPPLEMENTARY INFORMATION

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

Consolidating Schedule of Financial Position

As of December 31, 2017
(Dollar amounts in thousands)

ASSETS	DFMS	ERD	GUAM	Consolidating Entries	Total
Cash and cash equivalents	$ 10,021	$ 8,539	$ 2,036	$ -	$ 20,596
Receivables:					
Diocesan commitments receivable, net	1,220	-	-	-	1,220
Loans receivable, net	9,042	-	-	-	9,042
Government grants	938	528	-	-	1,466
Other receivables, net	1,872	2,501	221	(355)	4,239
Prepaid expenses and other assets	778	207	121	(187)	919
Investments:					
DFMS-controlled funds	306,011	21,823	2,977	-	330,811
Funds held for the benefit of others	153,727	-	-	-	153,727
Interest rate swap agreement	28	-	-	-	28
Property and equipment, net	37,671	86	6,621	187	44,565
Beneficial interests in outside trusts	7,729	394	-	-	8,123
Total assets	$ 529,037	$ 34,078	$ 11,976	$ (355)	$ 574,736
LIABILITIES AND NET ASSETS					
Accounts and accrued expenses	$ 1,839	$ 1,106	$ 2,912	$ (29)	$ 5,828
Grants payable	524	13	-	(326)	211
Notes payable	34,823	-	-	-	34,823
Mortgage payable	-	-	2,759	-	2,759
Accrued postretirement benefits other than pensions	13,441	1,897	-	-	15,338
Annuities payable	553	-	-	-	553
Funds held for the benefit of others	123,310	-	-	-	123,310
Funds held in a trustee relationship	30,417	-	-	-	30,417
Total liabilities	204,907	3,016	5,671	(355)	213,239
Contingencies					
NET ASSETS					
Unrestricted	151,825	86	2,555	4,793	159,259
Temporarily restricted	141,920	30,107	2,813	(4,793)	170,047
Permanently restricted	30,385	869	937	-	32,191
Total net assets	324,130	31,062	6,305	-	361,497
Total liabilities and net assets	$ 529,037	$ 34,078	$ 11,976	$ (355)	$ 574,736

The accompanying consolidated financial statements and notes thereto are an integral part of this consolidating schedule.

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

Consolidating Schedule of Activities

For the year ended December 31, 2017
(Dollar amounts in thousands)

	DFMS	ERD	GUAM	Consolidating Entries	Total
REVENUES AND OTHER SUPPORT					
Diocesan commitments	$ 27,127	$ -	$ -	$ -	$ 27,127
Contributions and bequests	2,448	557	-	-	3,005
Contributed services	434	1,192	-	(1,192)	434
Investment return designated for current operations	10,829	-	-	-	10,829
Other investment income	671	-	-	-	671
Government revenue	11,720	529	-	-	12,249
Fees and other income	7,324	216	-	-	7,540
Episcopal Relief & Development	-	24,060	-	-	24,060
Revenues frm the Episcopal Church in Micronesia	-	-	7,724	-	7,724
Total revenues and other support	60,553	26,554	7,724	(1,192)	93,639
EXPENSES					
Program services:					
Canonical and missional programs	51,143	-	-	-	51,143
General convention	3,569	-	-	-	3,569
Grant-related activities and other	3,453	-	-	326	3,779
Episcopal Relief & Development			-	-	
Sustainable Development		14,081	-	(925)	13,156
Disaster Relief & Recovery		5,548	-	(365)	5,183
Episcopal Church in Micronesia	-	-	7,576	-	7,576
Total program services	58,165	19,629	7,576	(964)	84,406
Supporting services:					
Fundraising	-	2,676	-	(152)	2,524
General and administrative	9,757	1,069	-	(76)	10,750
Total supporting services	9,757	3,745	-	(228)	13,274
Total expenses	67,922	23,374	7,576	(1,192)	97,680
Changes in net assets from operations	(7,369)	3,180	148	-	(4,041)
NONOPERATING ACTIVITIES					
Investment return	49,875	3,643	-	-	53,518
Less: other investment income	671	-	-	-	671
Net investment gain - trust fund	49,204	3,643	-	-	52,847
Less: investment return designated for current operations	(10,829)	-	-	-	(10,829)
Change in value of interest rate swap	391	-	-	-	391
Postretirement related activities other than net periodic pension cost	27	-	-	-	27
Total nonoperating activities	38,793	3,643	-	-	42,436
Changes in net assets	31,424	6,823	148	-	38,395
Net assets, beginning of year	292,706	24,239	6,157	-	323,102
Net assets, end of year	$ 324,130	$ 31,062	$ 6,305	$ -	$ 361,497

The accompanying consolidated financial statements and notes thereto are an integral part of this consolidating schedule.

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2017

Federal Grantor/Program Title	Federal CFDA Number	Federal Expenditures	Amounts Passed Through to Subrecipients
United States Department of State/Bureau for Population, Refugees, and Migration:			
U.S. Refugee Admissions Program	19.510	$ 7,418,508	$ 6,233,427
United States Department of Health and Human Services:			
Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	2,851,970	2,590,381
Refugee and Entrant Assistance - Discretionary Grants	93.576	1,302,836	949,162
Total United States Department of Health and Human Services		4,154,806	3,539,543
Total Expenditures of Federal Awards		$ 11,573,314	$ 9,772,970

The accompanying notes to the schedule of expenditures of federal awards should be read in conjunction with this schedule.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (collectively, the "Society") and under programs of the federal government for the year ended December 31, 2017 and is prepared on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Society, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Society.

2. INDIRECT COST RATE

The Society has elected not to use the 10-percent de minimis indirect cost rate as provided by §200.414 Indirect (F&A) Costs of the Uniform Guidance.

Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017

T 212.599.0100
F 212.370.4520
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

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

To the Executive Council of
The Domestic and Foreign Missionary Society
of the Protestant Episcopal Church in the
United States of America and Affiliates:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (collectively, the "Society"), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 13, 2018.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2017-001 that we consider to be a material weakness in the Society's internal control.

Compliance and other matters

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

Society's response to findings

The Society's response to our finding, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on the Society's response.

Intended purpose

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

Grant Thornton LLP

New York, New York
July 13, 2018

Grant Thornton LLP
757 Third Avenue, 9th Floor
New York, NY 10017

T 212.599.0100
F 212.370.4520
GrantThornton.com
linkd.in/GrantThorntonUS
twitter.com/GrantThorntonUS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Executive Council of
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates:

Report on compliance for each major federal program

We have audited the compliance of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (collectively, the "Society") with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2017. The Society's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the Society's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for the Society's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Society's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Society's compliance.

Opinion on each major federal program

In our opinion, the Society complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on internal control over compliance

Management of the Society is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Society's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control over compliance.

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

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

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

New York, New York
July 18, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Consolidated Financial Statements:

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_X_ yes	___ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes	_X_ none reported
Noncompliance material to the consolidated financial statements noted?	___ yes	_X_ no

Federal Awards:

Internal control over the major program:		
• Material weakness(es) identified?	___ yes	_X_ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	___ yes	_X_ none reported
Type of auditor's report issued on compliance for the major program:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	___ yes	_X_ no

Identification of the major programs:

Federal Grantor/Program Title	Federal CFDA Number
United States Department of Health and Human Services:	
U.S. Refugee Admissions Program	19.510

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as a low-risk auditee?	_X_ yes	___ no

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2017-001 - Accounting for Loans Receivable (Material Weakness)

Criteria
A well designed internal control environment enables an individual, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition
During the fiscal 2017 audit, we identified errors relating to the Society's accounting for a loan that had been forgiven during the year.

Context:
During fiscal year 2017, the Society determined that it would forgive a significant loan receivable balance relating to a diocesan loan made during a prior year. In order to effectuate this transaction within the Society's general ledger, an entry was made to reduce the principal balance of the loan (i.e., a credit to the loan account) with a corresponding reduction of the allowance for doubtful accounts (i.e., a debit to this reserve account), resulting in a net neutral impact on both the statement of financial position and the statement of activities.

Cause:
A secondary review of this unique and significant transaction had not been performed to ensure appropriate accounting treatment.

Effect:
As a reserve had not been previously established relating to this particular loan, we proposed, and management recorded, an audit adjustment to reverse the entry to the allowance for doubtful accounts and properly record the forgiveness of the loan receivable as bad debt expense of approximately $5.9 million.

Recommendation:
We recommend the Society implement a process to ensure that unique and significant transactions are reviewed timely and the appropriate accounting treatment reflected within the general ledger.

Views of Responsible Officials:
Management agrees with the observation and the correcting entry. In the future, when unique entries are identified, Management will ensure that there are two reviews of the proposed entries to ensure the appropriate accounting treatment has been reflected within the general ledger.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.