



The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Consolidated Financial Report
December 31, 2018 and 2017

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RSM US LLP

Independent Auditor's Report

To The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries (Trinity), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, 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 audit 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 The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries as of December 31, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 2, Trinity adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended December 31, 2018. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and disclosures relating to net assets. The adoption was retrospectively applied to December 31, 2017; the earliest year presented. Our opinion is not modified with respect to this matter.

RSM US LLP

New York, New York
April 17, 2019

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Consolidated Balance Sheets
December 31, 2018 and 2017
(all dollar amounts in thousands)

	2018	2017
Assets		
Cash and cash equivalents	\$ 122,664	\$ 130,344
Accounts, rent agreements and notes receivable, net	4,745	6,070
Tenant security deposits	9,848	11,056
Ministry property and equipment, net	237,781	123,579
Investments, at fair value:		
Real estate	5,837,000	5,973,000
Financial	2,626,725	2,255,653
Prepayments and other assets	36,565	35,641
Total assets	\$ 8,875,328	\$ 8,535,343
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 106,550	\$ 74,901
Grants payable	5,933	6,727
Tenant security deposits	9,848	11,056
Pension and other postretirement benefits payable	7,161	8,875
Other liabilities	12,975	13,693
Notes and loans, net	473,442	414,386
Total liabilities	615,909	529,638
Net assets:		
Without donor restrictions:		
Ministry	159,491	82,251
Vestry designated endowment:		
Real Estate Investments	3,171,946	3,526,142
Financial Investments	2,610,758	2,242,612
Trinity portion of net assets without donor restrictions	5,942,195	5,851,005
Joint Venture Partners' interests in real estate investments	2,307,283	2,143,397
Total net assets without donor restrictions	8,249,478	7,994,402
With donor restrictions	9,941	11,303
Total net assets	8,259,419	8,005,705
Total liabilities and net assets	\$ 8,875,328	\$ 8,535,343

See notes to consolidated financial statements.

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Consolidated Statement of Activities
Years Ended December 31, 2018 and 2017
(all dollar amounts in thousands)

	2018	2017
Change in net assets without donor restrictions:		
Operating:		
Ministry revenue:		
Preschool tuition and other program revenue	\$ 4,169	\$ 4,214
Low income housing	11,994	6,545
Contributions and donations	795	969
All other revenue	1,317	7,843
Appropriation from endowment to support operations	55,885	46,980
Release from restrictions and reclassifications	645	841
Total ministry revenue	74,805	67,392
Ministry expenses:		
Program expenses:		
Parish programs and outreach ministries	27,861	28,041
Grants, other gifts and diocesan assessment	14,757	14,622
Low income housing	4,076	3,876
Church properties and program facilities support	8,650	7,689
Digital outreach and ministry communications	5,167	5,192
Total program expenses	60,511	59,420
Parish building development	1,437	1,109
Institutional and programmatic support	14,615	10,119
Fund development	44	363
Ministry expenses before depreciation expense	76,607	71,011
Excess of operating expenses over revenues before depreciation	(1,802)	(3,619)
Depreciation expenses	(7,607)	(5,273)
Excess of operating expenses over revenues	(9,409)	(8,892)
Change in net assets without donor restrictions:		
Nonoperating:		
Net return from investments:		
Attributable to Trinity:		
Real estate investments	370,655	168,434
Financial investments	(215,488)	300,732
Net return from investments before appropriation	155,167	469,166
Appropriation to support operations	(55,885)	(46,980)
Attributable to Joint Venture Partners' interests in real estate investments	206,562	76,414
Total net return from investments, net of appropriation to support operations	305,844	498,600
Postretirement related charges other than service costs	957	827
Received from Joint Venture Partners in real estate investments	360	236,459
Distributions to Joint Venture Partners in real estate investments	(42,676)	(18,170)
Change in net assets without donor restrictions	255,076	708,824
Change in net assets with donor restrictions:		
Return on financial investments, net of appropriation to support operations	(807)	1,592
Contributions and change in value of interest in perpetual trust	90	40
Release from restrictions and reclassifications	(645)	(841)
Change in net assets with donor restrictions	(1,362)	791
Change in net assets	253,714	709,615
Net assets at beginning of year	8,005,705	7,296,090
Net assets at end of year	\$ 8,259,419	\$ 8,005,705

See notes to consolidated financial statements.

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017
(all dollar amounts in thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 253,714	\$ 709,615
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in unrealized appreciation of real estate investments	(237,498)	(113,867)
Net loss (gain) on financial investments	234,027	(285,795)
Net gain on sale of real estate property	(168,631)	-
Depreciation and amortization	8,174	5,888
Received from Joint Venture Partners in real estate investments	(360)	(236,459)
Postretirement related charges other than service costs	(957)	(827)
Distributions to Joint Venture Partners in real estate investments	42,676	18,170
Changes in assets and liabilities:		
Accounts, rent agreements and notes receivable, net	2,279	2,184
Accounts payable and accrued liabilities	2,293	7,671
Other changes, net	(3,521)	(8,516)
Net cash provided by operating activities	132,196	98,064
Cash flows from investing activities:		
Purchases and improvements of real estate investments	(95,584)	(236,392)
Purchases of financial investments	(1,620,094)	(513,044)
Sales of financial investments	1,014,994	519,699
Construction, purchases and improvements to ministry property and equipment	(100,022)	(58,105)
Sales of real estate property	644,293	-
Security deposits	1,208	(19)
Net cash used in investing activities	(155,205)	(287,861)
Cash flows from financing activities:		
Received from Joint Venture Partners in real estate investments	360	236,459
Financing costs	-	(4,595)
Proceeds from notes and loans, net	57,645	14,110
Distributions to Joint Venture Partners in real estate investments	(42,676)	(18,170)
Net cash provided by financing activities	15,329	227,804
Net (decrease) increase in cash and cash equivalents	(7,680)	38,007
Cash and cash equivalents:		
Beginning	130,344	92,337
Ending	\$ 122,664	\$ 130,344
Supplemental disclosure of cash flow information:		
Interest paid	\$ 15,673	\$ 4,939
Supplemental disclosures of noncash investing activities:		
Additions to ministry property and equipment in accounts payable and accrued liabilities	\$ 21,898	\$ 6,800
Additions to real estate investments in accounts payable and accrued liabilities	\$ 6,663	\$ 14,571
Notes and loans, net	\$ -	\$ (400,000)

See notes to consolidated financial statements.

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

Notes to Consolidated Financial Statements (all dollar amounts in thousands unless otherwise indicated)

Note 1. Organization

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York (Trinity Church), a parish in the Episcopal Diocese of New York, seeks to serve and heal the world by building neighborhoods that live Gospel truths, generations of faithful leaders and financial capacity for holy service in New York City and around the world. Our mission is grounded in our core values of faith, integrity, inclusiveness, compassion, social justice and stewardship. Our ministries include education, a daily food program, housing for the low-income elderly and handicapped, programs that confront racism and inequality and promote social justice and music and the arts.

Trinity Church is a religious corporation formed under a charter from King William III of England in 1697 and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the Code). Trinity Church owns, or is the sole member of, or owns a controlling interest in, and operates the following entities which support the ministries of the Church:

St. Margaret's Housing Development Fund Corporation (St. Margaret's House): St. Margaret's House is a New York not-for-profit corporation and is exempt from federal income tax under Section 501(c)(3) of the Code. It operates housing and related facilities for low-income elderly and handicapped.

Trinity Episcopal Center Association, Incorporated (Trinity Retreat Center): Trinity Retreat Center is a Connecticut non-stock corporation located in West Cornwall, Connecticut and is exempt from federal income tax under Section 501(c)(3) of the Code. The Trinity Retreat Center ceased operations for external parties effective in November 2012. Trinity Church reopened its Retreat Center in late 2017.

Trinity Concerts, Inc. (Trinity Concerts): Trinity Concerts is a New York not-for-profit corporation and is exempt from federal income tax under Section 501(c)(3) of the Code. It was formed to promote music and the performing arts and further the public portion of the music program of Trinity Church.

Hudson Square Properties LLC (HSP): HSP, a Delaware limited liability company, was formed on November 30, 2015 and is organized for the object and purpose of owning Trinity REIT, Inc. (TREIT) and Trinity Hudson Holdings, LLC (THH) (together, the REIT Subsidiaries). The REIT subsidiaries were formed in Delaware, qualify as real estate investment trusts (REIT) and are the holders of an estate for 75 years interest in the land and buildings of 11 commercial buildings located in an area known as Hudson Square in the city of New York. HSP is 51% owned by Trinity Church, 48% owned by NBIM Franklin Hudson Square, LLC (Norges HSP), an affiliate of Norges Bank Investment Management, and 1% owned by Hines Hudson Square Investor, LLC (Hines HSP).

TREIT and THH have outstanding 120 and 125 shares, respectively, sold for \$1 per share, of cumulative, nonvoting preferred stock that is callable at the discretion of the REIT subsidiaries. Holders of the preferred stock are entitled to receive dividends semiannually at a per annum rate equal to 12.5% of the liquidation preference, which is \$1 per share. Shareholders have no redemption rights and the preferred shares are carried at the liquidation preference. Preferred shareholders are presented as part of joint venture partners' interests in real estate investments in the accompanying financial statements.

375 Hudson LLC (375 Hudson): 375 Hudson qualified as a REIT and until August 17, 2017, held the real and personal property as well as its interest in the ground lease at 375 Hudson Street in Hudson Square. On August 18, 2017, Trinity Church contributed its membership interest in 375 Hudson, including the right to use the land, to 375 HH, LLC (375 HH), and redeemed the 125 preferred shareholders.

The Rector, Church-Wardens, and Vestrymen of Trinity Church, in the city of New-York and Subsidiaries

**Notes to Consolidated Financial Statements
(all dollar amounts in thousands unless otherwise indicated)**

Note 1. Organization (Continued)

375 HSP LLC (375 HSP): 375 HSP, a Delaware limited liability company, was formed on July 25, 2017 with an inception date of August 15, 2017 and is organized for the objective and purpose of owning 375 HH and 375 Hudson (together, the 375 HSP Subsidiaries) and indirectly through the 375 HSP Subsidiaries, operating, improving and maintaining a commercial building located at 375 Hudson Street in Hudson Square, in the city of New York. 375 HH qualifies as a REIT that holds the real and personal property as well as its interest in the ground lease at 375 Hudson Street in Hudson Square. 375 HSP is 51% owned by Trinity Church, 48% owned by NBIM Franklin 375 Hudson LLC (Norges 375) and 1% owned by Hines 375 HSP Investor LLC (Hines 375).

375 HH has outstanding 125 units, sold for \$1 per unit, of cumulative, nonvoting preferred units that are callable at the discretion of 375 HH. Holders of the preferred units are entitled to receive dividends semiannually at a per annum rate equal to 12% of the liquidation preference, which is \$1 per unit. Holders of the preferred units have no redemption rights and the preferred units are carried at the liquidation preference. Holders of the preferred units are presented as part of joint venture partners' interests in real estate investments in the accompanying financial statements.

Remainderman LLCs for 12 Operating Properties (Remainderman LLCs): The Remainderman LLCs are Delaware limited liability companies formed as single member LLCs owned by Trinity Church. Each of the Remainderman LLCs holds a remainder interest in one of the 12 properties owned by the REIT Subsidiaries and 375 HSP. The remainderman interest in the 375 Hudson property was distributed to Trinity Church on August 14, 2017.

561 HH LLC (561 HH): 561 HH, a Delaware limited liability company, was formed as a single member LLC owned by Trinity Church on October 26, 2018. On December 11, 2018, Trinity Church contributed its fee interest in the 561 Greenwich Street property to 561 HH. 561 HH intends to qualify as a REIT effective as of the date of formation.

92 HH LLC (92 HH): 92 HH, a Delaware limited liability company, was formed as a single member LLC owned by Trinity Church on October 26, 2018. On December 12, 2018, Trinity Church contributed its fee interest in the 92 Avenue of the Americas property to 92 HH. 92 HH intends to qualify as a REIT effective as of the date of formation.

Trinity Global Leadership Institute LLC (Trinity Global): Trinity Global, a Delaware limited liability company, was formed on December 5, 2018, as a single member LLC owned by Trinity Church, to become the sole member of the Church Divinity School of the Pacific (CDSP) which occurred on March 4, 2019. For more details, see Note 18.

Note 2. Summary of Significant Accounting Policies

Principles of consolidation: The accompanying consolidated financial statements (collectively, the financial statements) include the accounts of Trinity Church, St. Margaret's House, Trinity Retreat Center, Trinity Concerts, HSP, 375 Hudson, 375 HSP, the Remainderman LLCs, 561 HH, 92 HH, and Trinity Global (collectively, Trinity). All significant intercompany accounts and transactions have been eliminated in consolidation. Joint venture partners' interests in real estate investments in the accompanying consolidated balance sheets represents Norges HSP and Norges 375's 48% ownership and Hines HSP and Hines 375's 1% ownership of HSP and 375 HSP, respectively, along with preferred unit holders of the REIT subsidiaries.

**The Rector, Church-Wardens, and Vestrymen of Trinity Church, in
the city of New-York and Subsidiaries**

**Notes to Consolidated Financial Statements
(all dollar amounts in thousands unless otherwise indicated)**

Note 2. Summary of Significant Accounting Policies (Continued)

In 2017, the year-end for St. Margaret's House was changed from September 30 to December 31. The consolidated statement of activities for the year ended December 31, 2017 includes fifteen months of activity for St. Margaret's House. As a result, additional ministry revenue of \$1,341 and program expenses of \$1,125 were included in the 2017 financial statements.

Basis of accounting and financial statement presentation: The consolidated financial statements of Trinity have been prepared on the accrual basis of accounting in accordance with U.S. GAAP.

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As required by the Non-Profit Entities topic 958, Trinity reports information on its net assets and revenues, expenses, gains and losses according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions as follows:

Net assets without donor restrictions: Net assets not subject to donor-imposed stipulations and include unrestricted and vestry designated amounts.

Net assets with donor restrictions: Net assets subject to donor-imposed restrictions that require they be maintained permanently or that may or will be met by actions of Trinity or the passage of time. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Measure of operations: Trinity's operating revenues in excess of expenses include all operating revenues and expenses that are an integral part of its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from Vestry-designated and other nonoperating funds to support current operating activities. The measure of operations includes support for operating activities from both donor restricted net assets and net assets without donor restrictions designated for long-term investment according to Trinity's spending policy which is detailed in Note 4. The measure of operations excludes endowment returns in excess of amounts available for current support.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: All short-term investments with maturities of three months or less at the date of purchase are considered to be cash equivalents, except for those amounts held as part of Trinity's long-term investment strategy.

Accounts, rent agreements and notes receivable: Accounts, rent agreements and notes receivable represent outstanding amounts due primarily from tenants and are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual receivables due from tenants.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to the applicable accounts or notes receivable. Based on the information available, Trinity believes the allowance for doubtful accounts as of December 31, 2018 and 2017 is adequate. However, actual write-offs may exceed the recorded allowance.

**The Rector, Church-Wardens, and Vestrymen of Trinity Church, in
the city of New-York and Subsidiaries**

**Notes to Consolidated Financial Statements
(all dollar amounts in thousands unless otherwise indicated)**

Note 2. Summary of Significant Accounting Policies (Continued)

Investments: Trinity records its investments at their estimated fair value as described in Note 7 with the related return from investments included in the accompanying consolidated statements of activities.

Ministry property and equipment: Additions in excess of \$10 are capitalized at cost and depreciated over the estimated useful lives of the respective assets using the straight-line method. The useful lives of the assets range from 3 to 50 years.

Collections: Trinity's collections, which include art work, books, monuments and artifacts of historical significance, have been acquired through contributions and purchases since Trinity's inception and are not recognized as assets on the consolidated balance sheets. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset class.

Notes and loans, net: Note payable is carried at cost and presented net of unamortized deferred financing costs. Deferred financing costs consist of direct costs incurred in obtaining debt financing. Deferred financing costs are being amortized over the life of the related loans using the effective interest method and are included as a deduction from notes and loans on the consolidated balance sheets.

Grants expense and related payable: The Trinity Grants Program currently operates to address spiritual, social and economic issues in the Episcopal Church, metropolitan New York and throughout the world. Trinity records grant obligations when approved by the Vestry and unconditionally committed to the recipient.

Revenue and expense recognition: Rental revenue is recognized using the accrual basis in accordance with the terms of the underlying lease agreement. Rental revenue is not accrued during periods of rent abatement as the value of the future rental revenue is considered in connection with estimating the fair value of real estate investments. Operating expenses of real estate investments are recognized as incurred. Additional rents and reimbursements, which are provided in the underlying leases, are recognized as income when earned and when their amounts can be reasonably estimated.

An agreement to terminate a lease may or may not include a payment to Trinity in recognition of future rents. When the agreement with the tenant includes termination income or expense to Trinity, it is recognized upon execution of the termination or surrender agreement. All commercial real estate activity is included in the net return from investments.

Trinity records as ministry revenue the following types of contributions at fair value when they are received unconditionally: cash and gifts of other assets, promises to give, and certain contributed services. Conditional contributions are recognized as support when the conditions on which they depend have been substantially met. Contributions and promises to give are initially reported at estimated fair value and are recorded as revenue when either cash or other assets are received or when donors make an enforceable promise to give. Contributions and promises to give are reported either as with donor restrictions or without donor restrictions, based on the donor's intent.

Trinity recognizes preschool tuition revenue in the period in which the related educational instruction is performed and the related expenses incurred. Accordingly, tuition fees received for the next school term are deferred until the first day of the new year, at which point they are recognized as revenue on a pro-rata basis over the school term.

Impairment of long-lived assets: Trinity periodically assesses the recoverability of its long-lived assets and believes that there is no impairment at December 31, 2018 and 2017.

**The Rector, Church-Wardens, and Vestrymen of Trinity Church, in
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**Notes to Consolidated Financial Statements
(all dollar amounts in thousands unless otherwise indicated)**

Note 2. Summary of Significant Accounting Policies (Continued)

Leases and related liabilities: Trinity leases space under noncancellable lease agreements, which are accounted for as operating leases. Trinity recognizes rent expense on a straight-line basis over the lease term. The cumulative excess of rents so recognized over amounts contractually due pursuant to the underlying leases is reported in other liabilities on the accompanying consolidated balance sheets.

Asset retirement and environmental obligations: Trinity follows FASB ASC 410, Asset Retirement and Environmental Obligations; this standard requires a liability be recorded at fair value specific to certain legal or contractual obligations. The recording of a liability is required if such conditions exist and the obligation can be reasonably estimated. Trinity is not aware of any such obligations as of December 31, 2018 and 2017. Trinity will recognize a liability in the period in which it becomes aware of such liability and sufficient information is available to reasonably estimate the fair value. In 2018, Trinity recorded \$4,700 for an asset retirement and environmental obligation which is included in the net return from real estate investments attributable to Trinity in the consolidated statements of activities.

Liquidity: In order to provide information about liquidity, assets are sequenced according to their nearness of conversion to cash and liabilities according to their nearness to their estimated maturity.

Income taxes: Trinity is a not-for-profit corporation exempt from federal income tax under Section 501(a) of the Internal Revenue Code, as an organization described in Section 501(c)(3); Trinity is similarly exempt from state income taxes. Despite the general exemption from income taxation, Trinity is subject to federal and state income tax at corporate rates on its unrelated business income.

REIT subsidiaries have elected to be taxed or intend to be taxed as REITs under sections 856-860 of the Internal Revenue Code, as amended, for federal income tax purposes. A REIT is subject to a number of organizational and operational requirements, including a requirement that it distributes at least 90 percent of its REIT taxable income (subject to certain adjustments) to its shareholders. The REIT Subsidiaries will not be subject to federal income tax on taxable income that is distributed to the shareholders.

Management believes the REIT Subsidiaries are organized in such a manner as to qualify for treatment as REITs and intend to continue in the foreseeable future in such a manner that they will remain qualified as REITs for federal income tax purposes. If the REIT Subsidiaries fail to qualify for REIT status in any taxable year, without the benefit of certain relief provisions, the REIT Subsidiaries will be subject to federal and state income tax on taxable income at regular corporate rates. Even if the REIT subsidiaries qualify for taxation as REITs, the REIT subsidiaries may be subject to certain state and local taxes on the income, property, and/or net worth and federal income and excise taxes, on undistributed income.

Trinity's current accounting practices include the review of uncertain tax positions by management on a regular basis with adjustments and disclosures made in accordance with U.S. GAAP. For the years ended December 31, 2018 and 2017, no uncertain tax positions have been identified. Trinity is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for the years before 2015.

**The Rector, Church-Wardens, and Vestrymen of Trinity Church, in
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**Notes to Consolidated Financial Statements
(all dollar amounts in thousands unless otherwise indicated)**

Note 2. Summary of Significant Accounting Policies (Continued)

Recently adopted accounting standards: During 2018, Trinity adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in Topic 958 to require Trinity to make reporting changes that effect the following:

- Net asset classifications and related disclosures
- Underwater donor-restricted endowments and related disclosures
- Additional disclosures useful in assessing liquidity within one year of the balance sheet date
- New reporting requirements related to expenses including disclosure of expenses by both nature and function
- Recognition of the expiration of restrictions under the placed-in-service-approach for all capital gifts
- Reporting of net investment return

Trinity made changes to terminology and classification as described above as well as additional or modified disclosures, particularly Notes 3 and 4. Amounts previously reported for the year ended December 31, 2017 have been reclassified, on a retrospective basis, to achieve consistent presentation. Amounts previously reported as temporarily or permanently restricted have been reclassified to be reported as with donor restrictions. There were no underwater endowment funds at December 31, 2018 and 2017.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension cost and Net Periodic Postretirement Benefit Cost*, to improve guidance related to the presentation of defined benefit costs in the income statement. ASU 2017-07 set forth transparency to the several components of an employer's financial arrangements and cost of benefits provided to employees. The ASU is effective for 2019, with early adoption permitted. Trinity adopted ASU 2017-07 on a retrospective basis as of January 1, 2018. The adoption of the new standard did not have a material impact on its consolidated financial statements.

During 2018, Trinity also early adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements. Trinity adopted ASU 2018-13 on a retrospective basis as of January 1, 2018. The adoption of the guidance resulted in the removal of certain fair value measurement disclosures presented in Trinity's consolidated financial statements.

Recently issued accounting standards: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for 2020 and Trinity does not expect the adoption of the new standard to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Currently, diversity exists in the classification and presentation of changes in restricted cash in the statement of cash flows. The updated standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The ASU is effective for and will be adopted in 2019. Trinity will include restricted cash in the consolidated statements of cash flows upon the adoption of this standard.

**The Rector, Church-Wardens, and Vestrymen of Trinity Church, in
the city of New-York and Subsidiaries**

**Notes to Consolidated Financial Statements
(all dollar amounts in thousands unless otherwise indicated)**

Note 2. Summary of Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, intended to clarify and improve the scope and the accounting guidance for contributions received and made. The ASU is effective for and will be adopted in 2020. Management has not evaluated the impact of this ASU on the financial statements.

Reclassifications: Certain amounts and accounts reported in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation. The reclassifications had no effect on the reported total assets, liabilities and net assets as of December 31, 2017 and the changes in net assets for the year ended December 31, 2017.

Evaluation of subsequent events: Trinity evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was April 17, 2019 for these financial statements.

Note 3. Financial Assets and Liquidity Reserves

The following reflects Trinity's financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt. Amounts not available include amounts set aside for investing in vestry designated endowment funds that could be drawn only upon the approval of the Vestry. However, amounts already appropriated from either the donor restricted endowment or Vestry designated endowment funds for general expenditures within one year of December 31, 2018 are considered available.

	<u>2018</u>
Financial assets at year end ^(a)	\$ 2,754,134
Financial assets restricted by donors and designated by the Vestry	<u>(2,598,134)</u>
Financial assets available within one year to meet cash needs for general expenditures, as defined under spending policy	<u>\$ 156,000</u>

^(a) Total assets less tenant security deposits, ministry property and equipment, net, investments in real estate and prepayments and other assets.

**The Rector, Church-Wardens, and Vestrymen of Trinity Church, in
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Note 3. Financial Assets and Liquidity Reserves (Continued)

Trinity also has three unsecured committed revolving credit facilities aggregating \$250,000, of which \$77,400 was outstanding as of December 31, 2018 (Note 13).

Trinity regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Trinity has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and lines of credit. As part of its liquidity management plan, Trinity invests cash in excess of daily requirements in short-term investments, CDs, and money market funds. Typically, Trinity keeps approximately three months of anticipated operating spending in cash on hand.

Trinity maintains a certain minimum level of liquidity sufficient to fund its ongoing expenses, including outstanding investment commitments. Trinity regularly monitors a number of liquidity measures to assess its ability to meet operating needs and investment commitments. These include monitoring the level of assets that could be liquidated within a year without significant losses to meet unfunded investment commitments and Trinity's projected current annual spending.

Note 4. Endowments

Trinity's endowment consists of both financial and real estate investments. Trinity's financial investment portfolio consists of approximately 20 individual funds established for a variety of purposes. The financial investment portion of the endowment includes both donor-restricted endowment funds and funds designated by the Vestry to function as endowments. Trinity's real estate investments portfolio consists of approximately 23 assets, including commercial operating properties, ground leases, and potential development sites.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment supports Trinity's legacy and mission in the world.

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Note 4. Endowments (Continued)

Changes in the fair value of the endowment assets and net assets by type of fund were as follows for the years ended 2018 and 2017:

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Changes in the fair value of endowment investments:			
Investment return:			
Real estate investments	\$ 370,655	\$ -	\$ 370,655
Financial investments	(215,488)	(395)	(215,883)
Endowment investments return attributable to Trinity	155,167	(395)	154,772
Appropriation from endowment to support operations and capital expenditures:			
Operations	(55,885)	(89)	(55,974)
Capital expenditures & other assets	(41,916)	-	(41,916)
Special appropriation for 76 Trinity Place Office Tower capital expenditures	(43,776)	-	(43,776)
Total appropriations from endowment	(141,577)	(89)	(141,666)
Endowment investment return, net after appropriation	13,590	(484)	13,106
Other changes in endowment assets:			
Received from Joint Venture Partners	360	-	360
Net change in endowment assets	13,950	(484)	13,466
Beginning of year	5,768,754	5,064	5,773,818
End of year	\$ 5,782,704	\$ 4,580	\$ 5,787,284
Investments by type of fund:			
Donor-restricted "true" endowment			
Historical gift value	\$ -	\$ 1,802	1,802
Appreciation	-	2,778	2,778
Total donor restricted "true" endowment		4,580	4,580
Vestry-designated "funds functioning as endowment":			
Real estate endowment:	3,171,946	-	3,171,946
Financial investments endowment	2,610,758	-	2,610,758
Total Vestry-designated "funds functioning as endowment":	5,782,704	-	5,782,704
Total - as above	\$ 5,782,704	\$ 4,580	\$ 5,787,284

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Note 4. Endowments (Continued)

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Changes in the fair value of endowment investments:			
Investment return:			
Real estate investments	\$ 168,434	\$ -	\$ 168,434
Financial investments	300,732	749	301,481
Endowment investments return attributable to Trinity	<u>469,166</u>	<u>749</u>	<u>469,915</u>
Appropriation from endowment to support operations and capital expenditures:			
Operations	(46,980)	(182)	(47,162)
Capital expenditures & other assets	(8,681)	-	(8,681)
Special appropriation for 76 Trinity Place Office Tower capital expenditures	<u>(34,121)</u>	<u>-</u>	<u>(34,121)</u>
Total appropriations from endowment	<u>(89,782)</u>	<u>(182)</u>	<u>(89,964)</u>
Endowment investment return, net after appropriation	<u>379,384</u>	<u>567</u>	<u>379,951</u>
Other changes in endowment assets:			
Received from Joint Venture Partners	715	-	715
Net change in endowment assets	<u>380,099</u>	<u>567</u>	<u>380,666</u>
Beginning of year	5,388,655	4,497	5,393,152
End of year	<u>\$ 5,768,754</u>	<u>\$ 5,064</u>	<u>\$ 5,773,818</u>
Investments by type of fund:			
Donor-restricted "true" endowment			
Historical gift value	\$ -	\$ 1,802	1,802
Appreciation	-	3,262	3,262
Total donor restricted "true" endowment		<u>5,064</u>	<u>5,064</u>
Vestry-designated "funds functioning as endowment":			
Real estate endowment:	3,526,142	-	3,526,142
Financial investments endowment	2,242,612	-	2,242,612
Total Vestry-designated "funds functioning as endowment":	<u>5,768,754</u>	<u>-</u>	<u>5,768,754</u>
Total - as above	<u>\$ 5,768,754</u>	<u>\$ 5,064</u>	<u>\$ 5,773,818</u>

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Note 4. Endowments (Continued)

Trinity's continued intention is for the endowment to exist in perpetuity and grow over time to support and sustain the church's ministries. The Vestry is responsible for overseeing the endowment. The Vestry oversees management and investment decisions about individual endowment assets in the context of an overall strategy that takes into consideration both risk and return objectives appropriate to Trinity and compliance with the New York Prudent Management of Institutional Funds Act (NYPMIFA).

For accounting and reporting purposes, Trinity classifies as net assets with donor restrictions the historical value of donor-restricted endowment funds, which includes (a) the historical value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) changes to the permanent endowment made in accordance with the applicable donor instrument. Also included in the net assets with donor restrictions is the accumulated appreciation on donor restricted endowments which are available for expenditure in a manner consistent with the standard of prudence prescribed by NYPMIFA, and deficiencies, if any, associated with funds where the value of the fund has fallen below the original value of the gift. There were no such deficiencies as of December 31, 2018 and 2017.

Trinity has interpreted NYPMIFA as allowing Trinity to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as Trinity determines is prudent for the uses, benefits, purposes and duration for which the endowment is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted until appropriated for expenditure by the Vestry.

Consistent with NYPMIFA, all investment decisions are made in good faith and with the care an ordinarily prudent person would exercise under similar circumstances. The following factors, to the extent relevant, are among the considerations in managing and investing financial investments: (i) general economic conditions; (ii) the possible effect of inflation or deflation; (iii) the expected tax consequences, if any, of investment decisions or strategies; (iv) the role that each investment or course of action plays within the overall financial investment portfolio; (v) the expected total return from income and the appreciation on investments; (vi) other resources of Trinity; (vii) the needs of Trinity regarding distributions, diversification and preservation of capital; (viii) an asset's special relationship or special value, if any, to the charitable purpose of Trinity and any restrictions placed on a particular asset by the donor or by the Vestry; (ix) management and administrative costs; and (x) liquidity considerations.

Trinity's spending policy is intended to carry out Trinity's mission in the world by withdrawing endowment funds in a stable and sustainable way. In 2018, the spending policy was amended from a range of 2.50% to 3.00% to a fixed 3.25% of a trailing five-year moving average of the fair value of the endowment investments. The payout percentage is reviewed periodically and adjusted, as considered necessary. The 2018 operating and capital expenditure budget approved by the Vestry was \$121.2 million which is 2.9% of the trailing five-year moving average of the fair value of the endowment investments. The actual spending rate for 2018 was 2.2%. The 2017 operating and capital expenditure budget approved by the Vestry was \$99 million which is 2.9% of the trailing five-year moving average of the fair value of the endowment investments. The actual spending rate for 2017 was 2.2%. In addition to the operating and capital expenditure budget, the Vestry approved additional endowment draws to fund construction of the commercial portion of the Parish building in 2018 and 2017.

If endowment income received is not sufficient to support the total return objective, the balance is provided from capital gains. If income is received in excess of the objective, the balance is reinvested in the endowment.

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Note 4. Endowments (Continued)

The Investment Committee, in accordance with the policies and procedures approved by the Vestry, has responsibility to develop, recommend to the Vestry and oversee the implementation of the overall asset allocation policies to secure, use prudently and grow the endowment, which is primarily unrestricted. The Investment Committee, in accordance with the policies and procedures approved by the Vestry, also has responsibility for oversight of the Trinity wholly-owned commercial real estate portion of the endowment, which is without donor restrictions.

Note 5. Investment in Real Estate Subsidiaries

As part of its ongoing stewardship and prudent management of its endowment assets, Trinity Church entered into joint venture agreements with Norges HSP, Norges 375, Hines HSP and Hines 375 for the ownership of 12 commercial buildings located in Hudson Square.

On August 15, 2017, Trinity Church purchased a building located at 375 Hudson Street for \$580,000, financed through the assumption of a \$400,000 mortgage note and a cash payment of \$180,000 before closing costs and prorations. The building is held by 375 HH, a wholly owned subsidiary of 375 HSP, in which Trinity has a 100% interest. Trinity Church then contributed to 375 HH its interest in 375 Hudson of \$285,000, which consisted of a ground lease under an estate for 93 years.

On August 18, 2017, Norges 375 and Hines 375 contributed a combined amount of \$227,850 for a combined 49% interest in 375 HSP, subject to closing costs and prorations. The net proceeds contributed amounted to \$235,580, which is reflected in the consolidated statements of activities within amounts received from joint venture partners in real estate investments. The ground lease was modified to eliminate ground rent payments.

Total distributions to the joint venture partners, including distributions to preferred members, amounted to \$42,676 and \$18,170 in 2018 and 2017, respectively.

In addition to the real estate owned through HSP and 375 HSP, Trinity also wholly owns several development sites as well as properties under ground leases.

On July 9, 2018, Trinity closed on a transaction with The Walt Disney Company (Disney) under which Trinity sold a 99-year Estate for Years interest for \$650,000, subject to closing costs and prorations, and retained the remainderman interest in the land. The net proceeds received amounted to \$644,293 and resulted in a gain of \$168,631 which is reflected in net return from real estate investments on the consolidated statements of activities.

Disney is obligated to raze the existing buildings and construct a new building which will be used as its New York City headquarters for at least 20 years from completion (substantial completion required by the earlier of: a) 6 years after tenant vacancy; or b) 8 years after transaction closing).

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Note 6. Accounts, Rent Agreements and Notes Receivable

Accounts, rent agreements and notes receivable consist of the following:

	2018	2017
Accounts receivable - Tenants	\$ 2,960	\$ 3,740
Rent agreements receivable	699	1,319
Other receivables	1,353	1,214
	<u>5,012</u>	<u>6,273</u>
Less allowance for doubtful accounts	(267)	(203)
Accounts, rent agreements and notes receivable, net	<u>\$ 4,745</u>	<u>\$ 6,070</u>

Note 7. Investments and Fair Value Measurements

Investments, at fair value, are as follows:

	2018		
	Domestic	Global	Total
Financial investments:			
Pending investments and distributions	\$ 138,593	\$ -	\$ 138,593
Cash and cash equivalents	39,532	-	39,532
Fixed income	368,947	-	368,947
Equities and equity mutual funds	439,603	1,119,737	1,559,340
Private equity funds:			
Oil and gas	4,421	-	4,421
Distressed	1,752	393	2,145
Venture capital	18,696	5,569	24,265
Commodities	-	1,632	1,632
Real estate	1,319	-	1,319
Growth	-	4,191	4,191
Marketable Alternatives:			
Multi-strategy	91,931	389,683	481,614
Distressed	-	726	726
Total financial investments	<u>1,104,794</u>	<u>1,521,931</u>	<u>2,626,725</u>
Real estate investments:			
Joint venture real estate investments	5,060,000	-	5,060,000
Trinity wholly owned real estate investments	777,000	-	777,000
Total real estate investments	<u>5,837,000</u>	<u>-</u>	<u>5,837,000</u>
Other:			
Beneficial interest in estate	296	-	296
Beneficial interest in perpetual trust	248	-	248
Total other	<u>544</u>	<u>-</u>	<u>544</u>
Total assets carried at fair value	<u>\$ 6,942,338</u>	<u>\$ 1,521,931</u>	<u>\$ 8,464,269</u>

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Note 7. Investments and Fair Value Measurements (Continued)

	2017		
	Domestic	Global	Total
Financial investments:			
Cash and cash equivalents	\$ 340,602	\$ -	\$ 340,602
Fixed income	91,425	58,296	149,721
Equities and equity mutual funds	589,693	747,495	1,337,188
Private equity funds:			
Oil and gas	4,685	-	4,685
Distressed	2,034	620	2,654
Venture capital	11,827	-	11,827
Commodities	-	1,386	1,386
Marketable Alternatives:			
Multi-strategy	31,644	375,039	406,683
Distressed	-	907	907
Total financial investments	<u>1,071,910</u>	<u>1,183,743</u>	<u>2,255,653</u>
Real estate investments:			
Joint venture real estate investments	4,705,000	-	4,705,000
Trinity wholly owned real estate investments	1,268,000	-	1,268,000
Total real estate investments	<u>5,973,000</u>	<u>-</u>	<u>5,973,000</u>
Other:			
Beneficial interest in estate	331	-	331
Beneficial interest in perpetual trust	276	-	276
Total other	<u>607</u>	<u>-</u>	<u>607</u>
Total assets carried at fair value	<u>\$ 7,045,517</u>	<u>\$ 1,183,743</u>	<u>\$ 8,229,260</u>

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Note 7. Investments and Fair Value Measurements (Continued)

Trinity's primary investment objectives are to maintain or increase the purchasing power of its assets net of spending, so that its ministries and programs can be maintained or increased in real terms in perpetuity, and to preserve and enhance the value of Trinity's assets for generations to come. Major investment decisions are authorized by the Vestry's Investment Committee, which oversees Trinity's investment program in accordance with established guidelines.

Fixed income investments are comprised of cash, U.S. treasuries, and opportunistic credit and mortgage-related investments. The U.S. treasury exposure serves to protect the overall financial investments during periods of deflation, recession, and times of financial stress, while also serving as a diversifying asset class, given its relatively low correlations with other asset classes in the financial investments portfolio. The cash portion of the financial investments serves to meet Trinity's liquidity needs as the primary source of funds for operations, expenses, capital calls and new investments and includes cash and short term liquid fixed income investments with maturities less than one year, which are valued based on quoted market prices in active markets. The majority of these investments are held in U.S. money market accounts. The opportunistic credit and mortgage portion of the financial investments serves to take advantage of attractive investment opportunities across the spectrum of performing credit securities. Non-cash fixed income investments consist of separately managed accounts and a limited partnership.

Global public equity investments consist of separate accounts, commingled funds, and limited partnerships, invested both actively and passively in public securities listed in the U.S., developed markets ex-U.S. and emerging markets. Securities held in separate accounts and daily traded commingled funds are generally valued based on quoted market prices. Commingled funds and limited partnership interests in equity-oriented funds with monthly or longer liquidity are valued based on independently determined NAV provided by external fund managers. Global public equity investments may also include equity long/short funds with over 60% exposure to global public equity markets.

The marketable alternatives portfolio consists of investments in limited partnership interests in hedge funds and drawdown private investment partnerships that have broad investment mandates, including the ability to invest long and short across asset classes. While the majority of underlying investments are in marketable securities, the funds are valued based on independently determined NAV provided by external fund managers.

Private investments in debt, equity, real assets and natural resources consist of limited partnership interests in partnerships that typically invest in private securities for which there is no readily determinable market value. Market value is determined by external managers through a variety of valuation processes, including external appraisals. Limited partnership valuations are held at the manager's reported NAV, unless information becomes available indicating the reported NAV may require adjustment. Trinity monitors the valuation practices of managers.

Trinity's real estate investments consist of directly-owned assets, including ground leases, potential development sites, and joint venture stakes in commercial operating properties (the Properties). Trinity actively manages these assets. Trinity recognizes both its historic relationship to its New York assets and the communities in which they reside, and the challenges of the overall portfolio illiquidity presented by its substantial real estate holdings. Trinity works to enhance the value of its real estate assets while managing, and selectively reducing when possible, the endowment's exposure to concentrated risk. The value of Trinity's real estate investments are determined quarterly to annually by independent appraisals.

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Note 7. Investments and Fair Value Measurements (Continued)

The investments held by Trinity include commitments to some limited partnerships for additional capital funding from Trinity. Funding of partnership commitments will occur over time with notice from the partnership's general partners. At December 31, 2018 and 2017, Trinity's outstanding commitments to these limited partnerships are \$234,942 and \$50,472, respectively.

Trinity values its financial and real estate assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, Trinity utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considering counterparty credit risk in its assessment of fair value.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Trinity's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

A description of the valuation techniques applied to Trinity's major categories of assets measured at fair value on a recurring basis is provided in the following paragraphs.

Securities traded on a national securities exchange (or reported on the Nasdaq global market), such as fixed income securities, equities and equity mutual funds, are stated at the last reported sales price on the day of valuation. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized as Level 1 in the fair value hierarchy.

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Note 7. Investments and Fair Value Measurements (Continued)

Investments in alternative investment funds are comprised of private equity and hedge funds. These investments are valued at fair value based on the applicable percentage ownership of the net assets of each of the investment funds as of the measurement date. In determining fair value, Trinity utilizes, as a practical expedient, the net asset value (or equivalent) provided by the fund managers (NAV of Funds). The underlying investment funds value securities and other financial instruments at fair value. The estimated fair values of certain investments of the underlying investment funds, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective investment fund and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Trinity's estimates of fair value for Levels 2 and 3 may differ significantly from the values that would have been used had a ready market for the investments existed. The financial statements of the alternative investment funds are audited annually by independent auditing firms.

Additionally, Trinity has investments in real estate through a controlling interest in HSP and 375 HSP, and through several wholly owned commercial real estate properties. Real estate investments are stated at fair value. The real estate and capital markets are cyclical in nature. Property and investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. As a result, determining real estate investment values involves many assumptions. Amounts ultimately realized from each investment may vary significantly from the fair value presented.

Since fair value measurements take into consideration the estimated effect of physical depreciation, depreciation and amortization on real estate related assets has been excluded from the net return from real estate investments. Significant betterments and improvements of the Properties are capitalized. Deferred expenses consisting of lease costs incurred in connection with obtaining new tenants or renewals of lease agreements are capitalized into real estate investments. Routine maintenance and repairs are charged to expense as incurred.

At December 31, 2018 and 2017, Trinity used the income approach to value the Properties with the exception of one of the development sites at December 31, 2018, Two Hudson Square, and the 375 HSP transaction at December 31, 2017. The value used for Two Hudson Square was based upon the term sheet value related to a transaction anticipated to close in 2019. At December 31, 2017, Trinity used the market transaction price on August 18, 2017 to value 375 HSP which is classified within Level 3 of the valuation hierarchy. The income approach estimates an income stream for a property and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. Yield rates and growth assumptions utilized in this approach are derived from market transactions as well as other financial and industry data.

When discounted cash flows are used in determining fair value, management projects operating cash flows and market assumptions based on, but not limited to, the operating cash flows and financial performance of the Properties relative to budgets or projections, property types and geographical locations, the physical condition of the asset, prevailing market capitalization rates, prevailing market discount rates, general economic conditions, and other elements of the investments' revenues and expenses including rental rates, rental growth rates, tenant improvements, commissions, and operating expenses, deemed appropriate by management.

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Note 7. Investments and Fair Value Measurements (Continued)

Considerable judgment is required in interpreting market data to determine the estimates of value; accordingly, the estimates of value presented in the consolidated financial statements are not necessarily indicative of the amount that Trinity could realize in a market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the fair values. The amounts ultimately realized by Trinity from the disposal of the Properties may vary significantly from the fair values presented.

At December 31, 2018 and 2017, all of Trinity's real estate investments were classified within Level 3 of the valuation hierarchy.

The following tables represent quantitative information about unobservable inputs related to the Level 3 fair value measurements of the Properties as of December 31, 2018 and 2017:

Joint Venture Real Estate (Income Capitalization Approach)

December 31, 2018:	Minimum	Maximum	Weighted Average
Terminal capitalization rates	5.25%	5.75%	5.47%
Discount rates	6.35%	7.00%	6.59%
December 31, 2017:			
Terminal capitalization rates	5.50%	5.75%	5.53%
Discount rates	6.50%	7.25%	6.76%

Development Sites (Sales Comparison Approach)

December 31, 2018:	Minimum	Maximum	Weighted Average
Sales price per square foot	\$526	\$1,073	\$661
December 31, 2017:			
Sales price per square foot	\$524	\$826	\$598

Ground Leases (Income Capitalization Approach)

December 31, 2018:	Assumed		
Discount rates	6.00%		
December 31, 2017:			
Discount rates	6.00%		

Remainderman Interests (Income Capitalization Approach)

December 31, 2018:	Minimum	Maximum	Weighted Average
Terminal capitalization rates	5.25%	5.75%	5.45%
Discount rates	6.35%	7.00%	6.63%
December 31, 2017:			
Terminal capitalization rates	5.50%	7.00%	6.42%
Discount rates	5.50%	12.00%	8.00%

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Note 7. Investments and Fair Value Measurements (Continued)

Assets carried at fair value at December 31, 2018 and 2017 are classified in the following tables in one of the three levels described earlier.

	2018				
	Level 1	Level 2	Level 3	Practical Expedient (Net Asset Value) ^(a)	Total
Financial investments:					
Pending investments and distributions	\$ 138,593	\$ -	\$ -	\$ -	\$ 138,593
Cash and cash equivalents	39,532	-	-	-	39,532
Fixed income	360,628	-	-	8,319	368,947
Equities and equity mutual funds	774,708	-	-	784,632	1,559,340
Private equity funds:					
Oil and gas	-	-	-	4,421	4,421
Distressed	-	-	-	2,145	2,145
Venture capital	-	-	-	24,265	24,265
Commodities	-	-	-	1,632	1,632
Real estate	-	-	-	1,319	1,319
Growth	-	-	-	4,191	4,191
Marketable Alternatives:					
Multi-strategy	-	-	-	481,614	481,614
Distressed	-	-	-	726	726
Total financial investments	1,313,461	-	-	1,313,264	2,626,725
Real estate investments:					
Joint venture real estate investments	-	-	5,060,000	-	5,060,000
Trinity wholly owned real estate investments	-	-	777,000	-	777,000
Total real estate investments	-	-	5,837,000	-	5,837,000
Other:					
Beneficial interest in estate	-	-	296	-	296
Beneficial interest in perpetual trust	-	-	248	-	248
Total other	-	-	544	-	544
Total assets carried at fair value	\$ 1,313,461	\$ -	\$ 5,837,544	\$ 1,313,264	\$ 8,464,269

(a) Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient are not classified as Level 2 or 3, in accordance with ASU 2015-07, and are shown for informational purposes.

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Note 7. Investments and Fair Value Measurements (Continued)

	2017				
	Level 1	Level 2	Level 3	Practical Expedient (Net Asset Value) ^(a)	Total
Financial investments:					
Cash and cash equivalents	\$ 340,602	\$ -	\$ -	\$ -	\$ 340,602
Fixed income	122,534	-	-	27,187	149,721
Equities and equity mutual funds	756,206	-	-	580,982	1,337,188
Private equity funds:					
Oil and gas	-	-	-	4,685	4,685
Distressed	-	-	-	2,654	2,654
Venture capital	-	-	-	11,827	11,827
Commodities	-	-	-	1,386	1,386
Marketable Alternatives:					
Multi-strategy	-	-	-	406,683	406,683
Distressed	-	-	-	907	907
Total financial investments	1,219,342	-	-	1,036,311	2,255,653
Real estate investments:					
Joint venture real estate investments	-	-	4,705,000	-	4,705,000
Trinity wholly owned real estate investments	-	-	1,268,000	-	1,268,000
Total real estate investments	-	-	5,973,000	-	5,973,000
Other:					
Beneficial interest in estate	-	-	331	-	331
Beneficial interest in perpetual trust	-	-	276	-	276
Total other	-	-	607	-	607
Total assets carried at fair value	\$ 1,219,342	\$ -	\$ 5,973,607	\$ 1,036,311	\$ 8,229,260

- (a) Investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient are not classified as Level 2 or 3, in accordance with ASU 2015-07, and are shown for informational purposes.

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Note 7. Investments and Fair Value Measurements (Continued)

The following table summarizes the investment strategies and liquidity provisions of investments in other funds valued at the NAV as provided by the fund managers as of December 31:

	2018		2017		Redemption Frequency ^(e)	Redemption Notice Period
	Fair Value	Unfunded Commitments	Fair Value			
Fixed income	\$ 8,319	\$ 11,516	\$ 27,187		Illiquid ^(a)	N/A ^(a)
Equities and equity mutual funds	784,632	-	580,982		Varies ^(b)	3 to 90 days ^(b)
Private equity funds:						
Oil and gas	4,421	316	4,685		Illiquid	N/A
Distressed	2,145	1,404	2,654		Illiquid	N/A
Venture capital	24,265	52,262	11,827		Illiquid	N/A
Commodities	1,632	257	1,386		Illiquid	N/A
Real estate	1,319	13,681			Illiquid	N/A
Growth	4,191	33,731			Illiquid	N/A
Buyout	-	80,000			Illiquid	N/A
Marketable Alternatives:						
Multi-strategy	481,614	41,775	406,683		Varies ^(c)	3 to 90 days ^(c)
Distressed	726	-	907		Illiquid ^(d)	N/A
Total	<u>\$ 1,313,264</u>	<u>\$ 234,942</u>	<u>\$ 1,036,311</u>			

(a) 2018: Redemption frequency is permitted as follows: \$8.3 million illiquid.

2017: Redemption frequency is permitted as follows: \$27.2 million monthly. Redemption notice period is as follows: \$27.2 million; 0 days notice.

(b) 2018: Redemption frequency is permitted as follows: \$178.4 million daily, \$216.6 million monthly, \$233.1 million quarterly and \$156.6 million annually. Redemption notice periods are as follows: \$87.9 million, 3 days notice; \$201.5 million, 10 days notice; \$105.6 million, 15 days notice; \$100.4 million, 30 days notice; \$32.3 million, 45 days notice; \$108.5 million, 60 days notice; \$148.5 million, 90 days notice.

2017: Redemption frequency is permitted as follows: \$212.8 million daily, \$188.2 million monthly, \$120.7 million quarterly and \$59.3 million annually. Redemption notice periods are as follows: \$95.3 million, 3 days notice; \$202.6 million, 10 days notice; \$103.0 million, 15 days notice; \$53.4 million, 30 days notice; \$31.1 million, 45 days notice; \$45.3 million, 60 days notice; \$50.3 million, 90 days notice.

(c) 2018: Redemption frequency is permitted as follows: \$13.7 million monthly, \$357 million quarterly, \$66.7 million semi-annually, \$11.1 million annually, and \$33.2 million illiquid. Redemption notice periods are as follows: \$93.8 million, 30 days notice; \$85.6 million, 45 days notice; \$227.1 million, 60 days notice; \$41.9 million, 90 days notice; \$33.2 million, illiquid.

2017: Redemption frequency is permitted as follows: \$18.0 million daily, \$52.3 million monthly, \$271.1 million quarterly, \$64.8 million annually, and \$0.3 million illiquid. Redemption notice periods are as follows: \$18.0 million, 3 days notice; \$83.9 million, 30 days notice; \$102.6 million, 45 days notice; \$164.7 million, 60 days notice; \$37.1 million, 90 days notice.

(d) 2018: Investments totaling \$726 thousand have been fully redeemed and proceeds are expected to be received in 2019.

2017: Investments totaling \$907 thousand have been fully redeemed and proceeds will be received in 2018 and 2019.

(e) 2018: Certain investments have lock-up periods that expire within 24 months. \$185 million of investments have lock-up periods that expire within 0-12 months, and \$44 million on investments have lock-up periods that expire within 13 – 24 months.

2017: Certain investments have lock-up periods that expire within 24 months. \$125 million of investments have lock-up periods that expire within 12 months or less, and \$75 million on investments have lock-up periods that expire within 13 – 24 months.

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Note 7. Investments and Fair Value Measurements (Continued)

ASU 2018-13 requires that Trinity disclose the period of time over which the underlying assets of non-redeemable private equity funds (PE funds) are expected to be liquidated by the PE Funds only if the PE Fund has communicated the timing to Trinity or announced the timing publicly. As of December 31, 2018, the timing of the liquidations of all of the PE Funds in which Trinity is invested in is unknown.

Note 8. Minimum Future Rental Commitments from Real Estate Tenants

Trinity has commitments from existing tenants under noncancellable leases for future minimum rental income related to its commercial property and ground leases subsequent to December 31, 2018 as follows:

Years ending December 31:

2019	\$ 287,279
2020	306,713
2021	304,417
2022	291,942
2023	229,241
Thereafter	<u>1,349,506</u>
	<u>\$ 2,769,098</u>

Future minimum rental income excludes amounts to be received for real estate tax, Consumer Price Index escalations and additional rents related to ground leases, which are all contingent upon future economic events.

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Note 9. Ministry Property and Equipment

Ministry property and equipment consists of the following:

	2018	2017
Church buildings and grounds	\$ 59,925	\$ 62,086
Clergy housing	4,241	4,241
Ministry and parish facilities	34,988	31,655
Furniture, fixtures and equipment	32,100	17,654
	<u>131,254</u>	<u>115,636</u>
Less accumulated depreciation and amortization	(57,611)	(54,387)
Subtotal	<u>73,643</u>	<u>61,249</u>
Construction-in-progress - Parish building development	164,138	62,330
Ministry property and equipment, net	<u>\$ 237,781</u>	<u>\$ 123,579</u>

Certain costs pertaining to the decision to demolish and rebuild a new parish building at 76 Trinity Place are reflected as parish building development in the consolidated statements of activities. Trinity has begun the construction of the parish building and expects to complete the project in late 2019.

Construction-in-progress – parish building development contains costs for both Trinity ministry property as well as planned commercial real estate. Once the building is placed in service, the cost attributable to commercial real estate will be transferred to investment in commercial real estate. The estimated amount of costs attributable to the commercial portion is \$46,932 and \$24,163 at December 31, 2018 and 2017, respectively.

In 2017, two non-commercial properties were sold for a gain of \$6,878. These gains are included in all other revenue as part of ministry revenue in the consolidated statements of activities.

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Note 10. Net Assets

The following tables summarize the changes in net assets without donor restrictions during the years ended 2018 and 2017:

	2018				
	Ministry	Endowment		Attributable to Joint Venture Partners' Interests	Total
		Real Estate Investments	Financial Investments		
Balance, beginning of year	\$ 82,251	\$ 3,526,142	\$ 2,242,612	\$ 2,143,397	\$ 7,994,402
Change in net assets:					
Gain on sale of real estate property	-	(168,631)	168,631	-	-
Received from Joint Venture Partners	-	-	360	-	360
Distributions to Joint Venture Partners	-	-	-	(42,676)	(42,676)
Investment return	-	370,655	(215,488)	206,562	361,729
Other	(64,337) ^(a)	-	-	-	(64,337)
Appropriated to Ministry from endowment and other transfers	141,577	(556,220)	414,643	-	-
Balance, end of year	\$ 159,491	\$ 3,171,946	\$ 2,610,758	\$ 2,307,283	\$ 8,249,478

^(a) Change in net assets for Ministry includes \$(1,437) of costs for parish building development and postretirement charges other than service costs of \$957.

	2017				
	Ministry	Endowment		Attributable to Joint Venture Partners' Interests	Total
		Real Estate Investments	Financial Investments		
Balance, beginning of year	\$ 47,514	\$ 3,423,750	\$ 1,964,905	\$ 1,849,409	7,285,578
Change in net assets:					
Purchase of real estate	-	185,484	(185,484)	-	-
Received from Joint Venture Partners	-	(234,865)	235,580	235,744	236,459
Distributions to Joint Venture Partners	-	-	-	(18,170)	(18,170)
Investment return	-	168,434	300,732	76,414	545,580
Other	(55,045) ^(a)	-	-	-	(55,045)
Appropriated to Ministry from endowment and other transfers	89,782	(16,661)	(73,121)	-	-
Balance, end of year	\$ 82,251	\$ 3,526,142	\$ 2,242,612	\$ 2,143,397	\$ 7,994,402

^(a) Change in net assets for Ministry includes \$(1,121) of costs for parish building development and postretirement charges other than service costs of \$827.

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Note 10. Net Assets (Continued)

Net assets with donor restrictions consist of the following at December 31:

	2018	2017
Subject to appropriation and expenditure when a specific event occurs:		
Music	\$ 3,262	\$ 3,722
Education	1,099	1,093
Other	456	817
	<u>4,817</u>	<u>5,632</u>
Subject to the passage of time:		
Beneficial interest in estate	296	331
	<u>296</u>	<u>331</u>
Subject to Trinity's spending policy and appropriation:		
Investments in perpetuity (including original gift amount of \$1,802 as of December 31, 2018 and 2017) and the investment income from which is expendable to support:		
Cemetery	557	604
Education	2,382	2,665
Medical	908	986
Other	733	809
	<u>4,580</u>	<u>5,064</u>
Not subject to spending policy or appropriations:		
Beneficial interest in perpetual trust	248	276
Total net assets with donor restrictions	<u>\$ 9,941</u>	<u>\$ 11,303</u>

Trinity's Vestry has designated certain net assets without donor restrictions for the following purposes as of December 31:

	2018	2017
Vestry designated for endowment purposes	<u>\$ 5,782,704</u>	<u>\$ 5,768,754</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the years ended December 31:

	2018	2017
Release of appropriated endowment:		
Music	\$ 173	\$ 441
Education	76	98
Other	396	302
Ministry programs	<u>\$ 645</u>	<u>\$ 841</u>

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Note 11. Tenant Security Deposits

Tenant security deposits include cash deposits held in interest-bearing trust accounts at financial institutions on behalf of tenants to secure obligations under terms of the leases. In addition, in lieu of cash deposits, certain tenants have elected to provide irrevocable letters of credit naming Trinity as beneficiary. These letters of credit also act as security pursuant to obligations under the terms of the lease agreements and total \$66,553 and \$58,875 at December 31, 2018 and 2017, respectively.

Note 12. Employee Benefits and Other Postretirement Plans

Trinity sponsors two defined contribution pension plans covering all eligible employees other than clergy. Contributions are based on 5% of each covered employee's salary in 2018 and 2017 and totaled \$907 and \$791, respectively.

Trinity sponsors two thrift plans as supplemental plans for the above two defined contribution plans, which cover certain employees and clergy. Contributions by employees are matched at the discretion of the Vestry. Trinity contributed \$684 and \$634 in 2018 and 2017, respectively, which represent up to 5% of each covered employee's salary in each year.

Trinity provides certain postretirement health and life insurance benefits for retired employees and certain dependents, as these employees become eligible. The plan was amended in 2000, effective January 1, 2001, such that these benefits are not available to new employees and their dependents. In addition, benefits were modified for current employees and retirees.

The following is a summary of the funded status, change in funded status and amounts recognized in the financial statements for postretirement health and life insurance benefits:

	Postretirement Health and Life Insurance Benefits	
	2018	2017
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 8,363	\$ 9,425
Service cost	90	84
Interest cost	263	309
Benefits paid	(375)	(345)
Plan participant contributions	26	26
Actuarial gain	(1,220)	(1,136)
Benefit obligation, end of year	<u>7,147</u>	<u>8,363</u>
Change in plan assets:		
Employer contributions	349	319
Plan participant contributions	26	26
Benefits paid	(375)	(345)
	<u>-</u>	<u>-</u>
Funded status, end of year and amounts recognized as liability in consolidated balance sheets	<u>\$ (7,147)</u>	<u>\$ (8,363)</u>

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Note 12. Employee Benefits and Other Postretirement Plans (Continued)

Net periodic benefit cost includes the following components:

	Postretirement Health and Life Insurance Benefits	
	2018	2017
Service cost	\$ 90	\$ 84
Interest cost	263	309
Net benefit periodic cost	<u>\$ 353</u>	<u>\$ 393</u>

Other changes in benefit obligations recognized in changes in net assets without donor restrictions for the years ended December 31, 2018 and 2017 are sensitive to expected discount rate assumptions, plan participants and assumptions regarding the costs to purchase annuities and future healthcare costs. These changes consist of the following:

	Postretirement Health and Life Insurance Benefits	
	2018	2017
Net unrecognized gain (loss) and prior service credit (cost), beginning of year	\$ 68	\$ (1,068)
Actuarial gain	1,220	1,136
Net unrecognized gain and prior service credit end of year	<u>\$ 1,288</u>	<u>\$ 68</u>

Estimated amount to be recognized in benefit costs in 2019 is \$86 of net gain.

Weighted average assumptions used to determine benefit obligation included the following at December 31:

	Postretirement Health and Life Insurance Benefits	
	2018	2017
Discount rate	4.00%	3.50%
Rate of compensation increase	N/A	N/A
Initial medical trend rate	6.50%	6.75%
Ultimate medical trend rate	4.75%	4.75%
Year of ultimate trend	2025	2025

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Note 12. Employee Benefits and Other Postretirement Plans (Continued)

Weighted average assumption used to determine net periodic pension cost included the following at December 31:

	Postretirement Health and Life Insurance Benefits	
	2018	2017
Discount rate	3.50%	4.00%
Rate of compensation increase	N/A	N/A
Expected long-term return on plan assets	N/A	N/A
Initial medical trend rate	6.75%	7.00%
Ultimate medical trend rate	4.75%	4.75%
Year of ultimate trend	2025	2025

At December 31, 2018, the RP 2014 Total Dataset (adjusted to 2006) with Scale MP 2018 was used for the mortality assumptions. At December 31, 2017 the RP 2014 Total Dataset (adjusted to 2006) with Scale MP 2017 was used for the mortality assumptions.

The health care cost trend rate assumption has a significant effect on the amounts reported. For the year ended December 31, 2018, the effect of a 1% increase (decrease) in the assumed health care trend cost rates on the aggregate of the service and interest cost components of net periodic postretirement healthcare benefit cost and the accumulated postretirement benefit obligation for healthcare benefits is as follows:

	1% Increase	1% Decrease
Interest and service cost	\$ 64	\$ (50)
Accumulated postretirement benefit obligation	1,063	(865)

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	Postretirement Health and Life Insurance Benefits
Years ending December 31:	
2019	\$ 369
2020	403
2021	415
2022	414
2023	372
Thereafter	1,964
	<u>\$ 3,937</u>

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Note 12. Employee Benefits and Other Postretirement Plans (Continued)

Trinity expects to contribute \$369 to its postretirement health and life insurance benefit plan in 2019.

The clergy employees of Trinity are participants in a defined benefit pension plan sponsored by the National Episcopal Church. Contributions are based upon a percentage of salaries and housing allowances and totaled \$501 and \$444 in 2018 and 2017, respectively.

Note 13. Notes and Loans, Net

On August 15, 2017, 375 HH assumed a loan in the amount of \$400,000 to partially fund the acquisition of the building at 375 Hudson. The loan bears a fixed interest at 3.493% per annum, is secured by the leasehold and estate for years interest in the building and requires monthly interest only payments through maturity on September 6, 2027. The note payable balance as of December 31, 2018 and 2017 is as follows:

	2018	2017
Total principal outstanding	\$ 400,000	\$ 400,000
Unamortized deferred financing charges	(3,958)	(4,414)
Note payable, net	<u>\$ 396,042</u>	<u>\$ 395,586</u>

Deferred financing costs were incurred in obtaining the note payable. During the year ended December 31, 2017, \$4,595 was capitalized as deferred financing costs. These costs are amortized into interest expense on a straight-line basis over the life of the related debt, which approximates the effective interest method. Amortization of deferred financing costs was \$456 and \$181 for the year ended December 31, 2018 and the period from August 15, 2017 through December 31, 2017, respectively. The balance of deferred financing costs as of December 31, 2018 and 2017 is \$3,958 and \$4,414, respectively, and is included in notes and loans, net on the accompanying consolidated balance sheets.

Trinity Church has two \$25,000 unsecured committed revolving credit facilities. The facilities can be drawn and paid down at any time until September 16, 2019, when they mature and any amounts outstanding will be payable. The facilities have variable interest rates of London Interbank Offered Rate (LIBOR) plus 70 basis points for LIBOR based loans or prime for prime rate based loans. There were no loans outstanding under these facilities at December 31, 2018 and 2017.

Trinity Church also entered into a \$75,000 unsecured committed revolving credit facility during 2017. This credit facility was amended on August 22, 2018, increasing the committed amount to \$200,000 and changed the maturity date to November 22, 2019. The facility can be drawn and paid down at any time until November 22, 2019, when it matures and any amounts outstanding will be payable. The facility has variable interest rates of LIBOR plus 35 basis points for LIBOR based loans or prime minus 200 basis points for prime rate based loans. Outstanding loans under this facility were \$77,400 and \$18,800 at December 31, 2018 and 2017, respectively. The interest rate under this facility was 2.82% and 1.8% at December 31, 2018 and 2017, respectively.

The credit agreements have various covenants including the maintenance of unencumbered liquid assets at the last day of the second quarter and the last day of each fiscal year in an amount at least equal to \$100,000.

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Note 13. Notes and Loans, Net (Continued)

St. Margaret's House was indebted to the U.S. Department of Housing and Urban Development (HUD) under a loan agreement dated December 1979, which was secured by the property financed with the proceeds of the loan. The loan bore interest at 7.625% per annum and was payable in monthly installments through December 2021. Interest expense was \$224 for the year ended December 31, 2017.

On June 13, 2017, Trinity Church entered into a \$6,500 loan agreement with St. Margaret's, secured by a mortgage on the property. A draw under this agreement was used to fund the payoff of the HUD mortgage. The intercompany balances and transactions relating to this loan agreement have been eliminated upon consolidation.

Trinity has complied with all the bank covenants in 2018 and 2017.

Note 14. Related Party Transactions

Trinity has property management and asset management agreements with Hines Interests Limited Partnership (HILP) to manage the operations of the 12 properties at HSP and 375 HSP, which expire on May 31, 2026. In addition, the management agreements provide for reimbursement of certain costs related to managing the properties.

The amounts paid to HILP for the property and asset management of the 12 properties was \$15,549 and \$13,393 in 2018 and 2017, respectively. These amounts are reflected within the net return from real estate investments line on the accompanying consolidated statements of activities.

Trinity Church has a Vestry member who serves as the Chief Executive Officer and a trustee of the Church Pension Fund which provides retirement benefits for the clergy as well as medical benefits to employees of Trinity Church. (See Note 12)

Note 15. Commitments and Contingencies

Trinity has agreements to purchase electricity from Direct Energy, which will expire in May 2019 and December 2019, respectively. The pricing is based on a fixed rate and floating New York Installed Capacity (ICAP) rate.

Trinity enters into multi-year contracts to cover the cleaning, maintenance and security for its commercial real estate buildings and the properties of the ministry (the ministry properties) which are cancellable upon 30 days' notice. Trinity Church has a commitment to procure gas services through 2021 for three of its real estate buildings. Consistent with many tenant leases, there are commitments for lease and tenant-related work outstanding at any point in time. Additionally, Trinity Church has various commitments related to upkeep on the ministry properties. These contracts are funded predominantly through normal operating cash flow and supplemental borrowing as needed.

Trinity Church has entered into and is negotiating multi-year contracts with architects and contractors related to the development of the 76 Trinity Place parish building, which will house Trinity's congregational space, ministry offices, a gym and commercial tenants. As of December 31, 2018, Trinity Church has \$137,521 in outstanding commitments related to the 76 Trinity Place parish building development.

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Note 15. Commitments and Contingencies (Continued)

Trinity Church executed noncancellable leases for the preschool and temporary space for congregational gatherings and ministry offices and accounts for these leases as operating leases. The lease for the temporary space for the ministry offices provides for reimbursement of certain costs in connection with the build-out of the unit. Future minimum rental payments due under the leases are as follows:

Years ending December 31:

2019	\$	3,246
2020		619
2021		637
2022		656
2023		676
Thereafter		3,962
	\$	<u>9,796</u>

The total rent expense included as ministry expenses in the consolidated statements of activities for the years ended December 31, 2018 and 2017 on a straight-line basis was \$3,651 and \$3,526, respectively.

Trinity Church has guaranteed payments required related to a loan made by a bank to the Rector in connection with the purchase of his home. The guarantee is limited to the principal amount of \$940 and accrued interest, until the final payment is due in August 2020.

Trinity, as an owner of real estate, is subject to various environmental laws of the federal and local governments. Compliance by Trinity with existing laws has not had a material adverse effect on Trinity's financial position and changes in net assets, and management does not believe it will have such an impact in the future. However, Trinity cannot predict the impact of new or changed laws or regulations on its properties.

Trinity is not aware of any pending or threatened litigation other than litigation arising out of the normal course of business, which is expected to be covered by liability insurance. None of such litigation is expected to have a material adverse effect on its financial position or changes in net assets or cash flows.

Note 16. Risks and Concentrations

Concentration of credit risk: Financial instruments, which potentially subject Trinity to concentrations of credit risk, consist of cash and cash equivalents and tenant security deposits.

Trinity places its cash and cash equivalents and tenant security deposits with creditworthy, high-quality financial institutions which, at times, may exceed federally insured limits. Trinity has not experienced any losses in these accounts and management believes that this risk is not significant.

Market risk of investment portfolio: Market risk represents the potential loss that can be caused by a change in the market value of the financial instrument. Trinity's exposure to market risk is determined by a number of factors, including interest rates and market volatility. Trinity attempts to minimize exposure to such risks by diversifying its portfolio and the active monitoring and oversight of risks by an internal investment management team.

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Note 16. Risks and Concentrations (Continued)

Real estate-related concentration: Trinity's real estate investments are predominantly located in lower Manhattan within the area known as Hudson Square. Leasing-related revenue is derived principally through rental payments as provided for under the terms of the respective noncancellable operating leases. For the years ended December 31, 2018 and 2017, no tenants accounted for more than 10% of leasing related revenue.

Note 17. Functional Allocation of Expenses

Trinity's primary program service is ministry activities. Natural expenses attributable to more than one functional expense category have been allocated reasonably and consistently using a variety of cost allocation techniques such as square footage and time and effort.

Expenses by functional classification for the year ended December 31, 2018 consist of the following:

	Program Activities	Parish Building Development	Management & General	Fundraising	Total Expenses
Compensation	\$ 20,106	\$ 1,209	\$ 9,311	\$ 14	\$ 30,640
Grants and other gifts	14,749	-	8	-	14,757
Occupancy cost	11,301	70	1,111	21	12,503
Professional fees	3,575	33	2,030	-	5,638
Depreciation	7,253	31	323	-	7,607
Supplies, services and other	10,772	125	2,163	9	13,069
Total ministry expenses	<u>\$ 67,756</u>	<u>\$ 1,468</u>	<u>\$ 14,946</u>	<u>\$ 44</u>	<u>\$ 84,214</u>

Note 18. Subsequent Events

Church Divinity School of the Pacific

On December 18, 2018, Trinity Church, the sole member of Trinity Global, who will become the sole member of CDSP, entered into an agreement whereby CDSP's Board of Trustees approved amendments to the By-Laws and Articles of Incorporation of CDSP providing Trinity Global with the authority to appoint and remove the members of the CDSP Board. Pursuant to the terms of the agreement, the transaction would close upon confirmation of the continuation of CDSP's accreditation by the Association of Theological Schools (ATS). CDSP Board members serving immediately prior to the closing of the transaction would resign as of the closing date and Trinity Global would appoint its managing members as the Board of Trustees of CDSP, with the managing members of Trinity Global being those persons then serving on the Vestry of Trinity Church as of the closing date. CDSP will remain a separate legal entity and continue to own and operate its facilities. The ATS approval was received and the transaction with CDSP closed on March 4, 2019.

Under the agreement, Trinity will provide support to help build on CDSP's historic strength as a seminary, and its Vestry will become the members of CDSP's governing body. CDSP will continue to be dedicated to rigorous academic and spiritual preparation for people who will lead the global church. Over time, Trinity and CDSP expect to enhance CDSP's curriculum and student life with substantial content and perspectives from other disciplines, including practical, managerial, and business skills that will help prepare ordained and lay people to lead and resource the church in a changing world.

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(all dollar amounts in thousands unless otherwise indicated)**

Note 18. Subsequent Events (Continued)

For accounting purposes, Trinity will account for this transaction as a contribution of net assets at fair value effective March 4, 2019. The estimated identifiable assets of CDSP and liabilities as of the closing date are as follows:

Estimated fair value of net assets contributed:

Current assets	\$ 1,113
Investments	15,825
Beneficial interest in perpetual trust and split-interest agreements held by others	2,665
Deferred lease incentive	1,405
Property and equipment	36,350
Total assets	<u>57,358</u>
Current liabilities	727
Loans payable and financial arrangement, net	2,144
Total liabilities	<u>2,871</u>
Net assets	<u>\$ 54,487</u>

Estate for Years Extension and 561 Greenwich Street and 92 Avenue of the Americas

On April 17, 2019, Trinity entered into an Interest Purchase and Sale Agreement with its joint venture partners, Norges HSP, Norges 375, Hines HSP, and Hines 375 to extend the term of the existing estate for years on eleven properties owned by HSP and one property owned by 375 HSP. With the exception of 100 Avenue of the Americas (100 AoA) and 345 Hudson Street (345 Hudson), the new term will be 99 years commencing on closing and for 100 AoA and 345 Hudson, the new term will be 102 years commencing on closing. The total consideration is approximately \$100,000.

Additionally, on April 17, 2019, Norges HSP and Hines HSP entered into a Share Purchase Agreement to acquire 48% and 1%, respectively, in each of 561 HH and 92 HH, with a closing to occur upon substantial completion of the respectively buildings to be built on such development parcels subject to certain terms and conditions. Norges HSP will pay a cash deposit of \$20,000 at the closing of the Share Purchase Agreement and Hines HSP will pay a cash deposit of \$200. The Share Purchase Agreement contains conditions which allow for termination rights which may result in a return of a portion of the cash deposits.