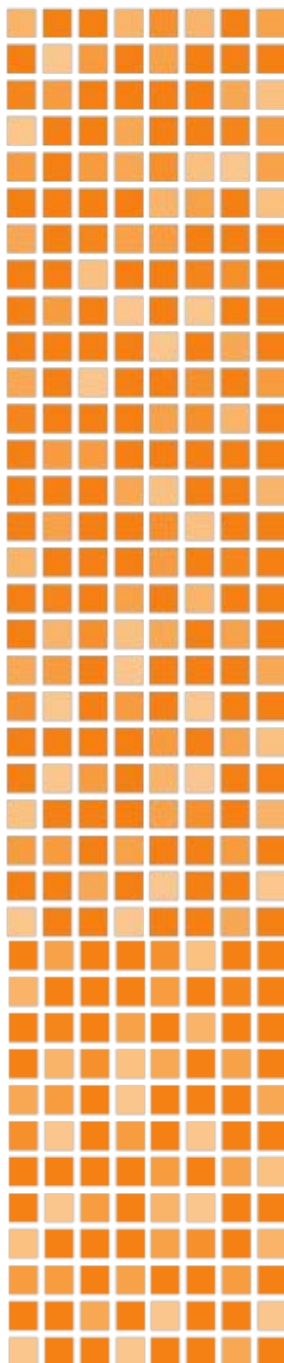




CERTIFIED PUBLIC ACCOUNTANTS



THE CHURCH FOUNDATION
(AN AFFILIATE OF
THE EPISCOPAL DIOCESE OF PENNSYLVANIA)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

**THE CHURCH FOUNDATION
(AN AFFILIATE OF THE EPISCOPAL DIOCESE OF PENNSYLVANIA)**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
The Church Foundation
Philadelphia, Pennsylvania**

We have audited the accompanying financial statements of The Church Foundation (a nonprofit organization and an affiliate of the Episcopal Diocese of Pennsylvania) which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. 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 Church Foundation as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

BBD, LLP.

**Philadelphia, Pennsylvania
September 9, 2015**

**THE CHURCH FOUNDATION
(AN AFFILIATE OF THE EPISCOPAL DIOCESE OF PENNSYLVANIA)**

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 39,014	\$ 24,099
Accounts receivable	24,442	9,245
Investments	870,726	837,928
Assets under management	128,244,997	126,490,183
Prepaid expenses	<u>13,261</u>	<u>9,087</u>
Total assets	<u>\$ 129,192,440</u>	<u>\$ 127,370,542</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 62,999	\$ 36,697
Deferred compensation	37,114	43,700
Funds managed on behalf of others	<u>128,344,328</u>	<u>126,490,183</u>
Total liabilities	<u>128,444,441</u>	<u>126,570,580</u>
NET ASSETS		
Unrestricted	383,383	448,367
Temporarily restricted	5,105	3,164
Permanently restricted	<u>359,511</u>	<u>348,431</u>
Total net assets	<u>747,999</u>	<u>799,962</u>
Total liabilities and net assets	<u>\$ 129,192,440</u>	<u>\$ 127,370,542</u>

See accompanying notes

**THE CHURCH FOUNDATION
(AN AFFILIATE OF THE EPISCOPAL DIOCESE OF PENNSYLVANIA)**

STATEMENTS OF ACTIVITIES

Years ended December 31, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Management fees	\$ 323,079	\$ -	\$ -	\$ 323,079	\$ 240,852	\$ -	\$ -	\$ 240,852
Investment income	21,009	5,841	11,080	37,930	77,569	5,044	51,562	134,175
Contributions	62,795	-	-	62,795	59,411	-	-	59,411
Other	-	-	-	-	4,033	-	-	4,033
Net assets released from restrictions	3,900	(3,900)	-	-	8,000	(8,000)	-	-
Total revenue and support	<u>410,783</u>	<u>1,941</u>	<u>11,080</u>	<u>423,804</u>	<u>389,865</u>	<u>(2,956)</u>	<u>51,562</u>	<u>438,471</u>
EXPENSES								
Program services								
Investment management expenses	313,139	-	-	313,139	327,881	-	-	327,881
Grants	66,695	-	-	66,695	67,411	-	-	67,411
General and administrative	95,933	-	-	95,933	101,880	-	-	101,880
Total expenses	<u>475,767</u>	<u>-</u>	<u>-</u>	<u>475,767</u>	<u>497,172</u>	<u>-</u>	<u>-</u>	<u>497,172</u>
CHANGE IN NET ASSETS	(64,984)	1,941	11,080	(51,963)	(107,307)	(2,956)	51,562	(58,701)
NET ASSETS								
Beginning of year	448,367	3,164	348,431	799,962	555,674	6,120	296,869	858,663
End of year	<u>\$ 383,383</u>	<u>\$ 5,105</u>	<u>\$ 359,511</u>	<u>\$ 747,999</u>	<u>\$ 448,367</u>	<u>\$ 3,164</u>	<u>\$ 348,431</u>	<u>\$ 799,962</u>

See accompanying notes

**THE CHURCH FOUNDATION
(AN AFFILIATE OF THE EPISCOPAL DIOCESE OF PENNSYLVANIA)**

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31, 2014 and 2013

	2014			2013		
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 90,061	\$ 30,020	\$ 120,081	\$ 86,072	\$ 28,690	\$ 114,762
Employee Benefits	39,675	13,225	52,900	62,531	20,843	83,374
Custodial fees	55,297	-	55,297	51,930	-	51,930
Grants	66,695	-	66,695	67,411	-	67,411
Insurance	9,538	3,179	12,717	9,111	3,037	12,148
Interest	-	-	-	-	-	-
Professional fees	114,618	48,243	162,861	115,271	48,428	163,699
Supplies	911	253	1,164	1,488	390	1,878
Miscellaneous	3,039	1,013	4,052	1,478	492	1,970
	<u>\$ 379,834</u>	<u>\$ 95,933</u>	<u>\$ 475,767</u>	<u>\$ 395,292</u>	<u>\$ 101,880</u>	<u>\$ 497,172</u>

**THE CHURCH FOUNDATION
(AN AFFILIATE OF THE EPISCOPAL DIOCESE OF PENNSYLVANIA)**

STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ (51,963)	\$ (58,701)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Realized and unrealized gain on investments	(24,203)	(122,023)
(Increase) decrease in		
Accounts receivable	(15,197)	(3,986)
Assets under management	(1,754,814)	(18,866,753)
Prepaid expenses	(4,174)	(843)
Increase (decrease) in		
Accounts payable	26,302	(18,042)
Funds managed on behalf of others	1,854,145	18,866,753
Deferred compensation	<u>(6,586)</u>	<u>16,800</u>
Net cash provided by (used for) operating activities	<u>23,510</u>	<u>(186,795)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(13,719)	(17,153)
Proceeds from sale of investments	<u>5,124</u>	<u>228,047</u>
Net cash (used for) provided by investing activities	<u>(8,595)</u>	<u>210,894</u>
Increase in cash	14,915	24,099
CASH		
Beginning of year	<u>24,099</u>	<u>-</u>
End of year	<u>\$ 39,014</u>	<u>\$ 24,099</u>

See accompanying notes

**THE CHURCH FOUNDATION
(AN AFFILIATE OF THE EPISCOPAL DIOCESE OF PENNSYLVANIA)**

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

(1) NATURE OF OPERATIONS

The Church Foundation (the "**Foundation**") is a Pennsylvania nonprofit corporation that was created as a service organization for the Episcopal Diocese of Pennsylvania (the "**Diocese**"). The Foundation serves as trustee, custodian and investment advisor for certain assets owned by the Diocese and churches, chapels, missions and other institutions within the Diocese and provides ministerial services with respect to real estate as directed by the Diocese.

The Foundation's primary activity is managing the Consolidated Fund, a balanced co-mingled fund of stocks and fixed income securities providing a diversified investment medium for the Diocese, its parishes and other related institutions. In its role as trustee, custodian and investment advisor for assets of the Diocese and its churches, chapels, missions and other institutions, the Foundation holds legal but not equitable title to certain real and personal property of the Diocese, including Church House, and improvements thereon. The Diocese is equitable owner of all such property and, accordingly, such property is not reflected in the Foundation's statement of financial position.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The Foundation reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets

Net assets that are subject to donor-imposed restrictions that will be satisfied by actions of the Foundation and/or the passage of time. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as "**net assets released from restrictions.**"

Permanently restricted net assets

Net assets that are subject to donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation.

Fair Value Measurements of Assets and Liabilities

Generally accepted accounting principles ("**GAAP**") define fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. GAAP establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

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December 31, 2014 and 2013

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable, that is, inputs that reflect the Foundation's own assumptions.

Accounting Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Investments and Investment Income

Investments are reported at fair value with gains and losses included in the statement of activities. Investment income is recorded as earned. Restricted investment income whose restrictions are satisfied in the same period are classified as unrestricted.

The Consolidated Fund invests in a professionally managed portfolio that contains various types of securities (**See Note 3**). Such investments are exposed to market and credit risk. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in the near term would materially affect investment balances and the amounts reported in the financial statements.

Management Fees

The Foundation recovers a portion of its expenses not covered by the investment income from its own assets by charges against the investment assets managed on behalf of others.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions and other grants whose restrictions are satisfied in the same period are reported as unrestricted.

Unconditional contributions are recognized as revenue when the related promise to give is received. Conditional contributions are recognized as revenue when the conditions are satisfied.

Functional Allocation of Expenses

The costs of providing the programs and supporting services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is a tax-exempt religious organization; therefore, no provision or liability for income taxes is included in the accompanying financial statements.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

GAAP requires entities to evaluate, measure, recognize and disclose any uncertain tax positions. GAAP prescribes a minimum threshold that a tax position is required to meet in order to be recognized in the financial statements. The Foundation believes that it had no uncertain tax positions as defined in GAAP.

Concentration of Credit Risk

Cash represents a financial instrument that potentially subjects the Foundation to concentration of credit risk. The Foundation maintains its cash at a high-quality financial institution. At times, such deposits may exceed federally-insured limits.

(3) INVESTMENTS

As described in Note 1, the Foundation serves as trustee, custodian and investment advisor for assets owned by the Foundation, the Diocese and churches, chapels, missions and other institutions within the Diocese and these assets are maintained in the Consolidated Fund. The composition of the investments in the Consolidated Fund at December 31, 2014 and 2013 was as follows:

	Fair Value	
	<u>2014</u>	<u>2013</u>
Money market funds and other short-term investments	\$ 709,498	\$ 3,155,296
Mutual funds		
Fixed income	45,201,250	40,676,661
Equity	<u>83,204,975</u>	<u>83,496,154</u>
	<u>\$129,115,723</u>	<u>\$127,328,111</u>

At December 31, 2014 and 2013, the Foundation determined that valuation inputs used to determine the fair value of investments were Level 2.

The Church Foundation owns the following funds which are invested in the Consolidated Fund and included in the accompanying statement of financial position.

	<u>2014</u>	<u>2013</u>
Church Foundation Pension Fund	\$ 58,461	\$ 55,265
Church Foundation Fund	3,672	42,684
Clergy Daughters' Fund	368,516	351,595
George Crout Fund	271,009	256,840
William Crout Fund	70,790	68,903
Unallocated management fees	<u>98,278</u>	<u>62,641</u>
	<u>\$870,726</u>	<u>\$837,928</u>

Investment income for 2014 and 2013 was comprised of the following:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 13,727	\$ 12,152
Net realized and unrealized gain	<u>24,203</u>	<u>122,023</u>
	<u>\$ 37,930</u>	<u>\$134,175</u>

**THE CHURCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

(4) INVESTMENTS MANAGED ON BEHALF OF OTHERS

Investments managed on behalf of others consist of (1) investment funds managed by the Foundation for the Diocese and related entities for investment purposes which are returnable to the investing entity; and (2) endowment funds for which the Foundation acts as a fiduciary and another entity is the income beneficiary. The Foundation shows an offsetting liability for these assets called "Funds managed on behalf of others". The investment income related to these investments is not reflected in the statement of activities, but is credited directly to the liability.

(5) RETIREMENT PLAN

The Foundation participates in a defined contribution plan. The provisions of the plan permit the employees to make tax-deferred contributions to the plan not to exceed IRS limitations. The plan also permits the Foundation to make discretionary contributions to the plan. The Foundation's contributions were \$13,906 for 2014 and \$40,206 for 2013.

(6) DEFERRED COMPENSATION

The Foundation has a deferred compensation agreement with a former officer of the Foundation pursuant to which it makes fixed monthly payments to the former officer and/or his spouse for the remainder of their lives. The related liability, which is estimated based upon the former officer and spouse's life expectancies and a discount rate of 6%, was \$37,114 and \$43,700 at December 31, 2014 and 2013, respectively.

(7) RESTRICTED NET ASSETS

Permanently restricted net assets consist of the Clergy Daughter's Fund. Temporarily restricted net assets consist of the income distributions from this fund which is restricted to support the education of the daughters of the Clergymen of the Protestant Episcopal Church.

(8) ENDOWMENT FUNDS

The Foundation follows an accounting standard which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("**UPMIFA**"). The Church Foundation is not subject to this guidance since Pennsylvania has not enacted a version of UPMIFA. The standard also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

In accordance with Pennsylvania statutes, The Church Foundation has adopted investment and spending policies for their endowment assets that attempt to provide a predictable stream of funding to programs supported by their endowments while seeking to maintain the purchasing power of these endowment assets over the long-term. The Church Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

The spending policy calculates the amount of money annually distributed from the permanently restricted endowment fund to support various programs. The current spending policy is to distribute an amount equal to 4.50% of a moving three-year average of the fair value of the endowment fund.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

Changes in the permanently restricted endowment assets for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Endowment net assets, beginning of year	\$348,431	\$296,869
Investment income	14,980	59,562
Spending policy distribution	<u>(3,900)</u>	<u>(8,000)</u>
Endowment net assets, end of year	<u>\$359,511</u>	<u>\$348,431</u>

(9) RELATED PARTY TRANSACTIONS

During 2014 and 2013, the Foundation gave grants of \$62,795 and \$59,411, respectively, to the Diocese.

During 2014 and 2013, the Foundation charged the Consolidated Fund \$159,158 and \$116,982, respectively, in management fees related to the Diocese's units within the Consolidated Fund.

(10) SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 9, 2015, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2014 that required recognition or disclosure in the financial statements.