

# Consolidated Fund of The Church Foundation

Financial Statements  
and Independent Auditor's Report  
Years Ended December 31, 2017 and 2016



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**CONSOLIDATED FUND OF THE CHURCH FOUNDATION**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Consolidated Fund of The Church Foundation, which comprise the statements of assets and liabilities as of December 31, 2017 and 2016, the related statements of operations and changes in net assets for the years then ended, the schedule of investments as of December 31, 2017, 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 Consolidated Fund of The Church Foundation as of December 31, 2017 and 2016, and the results of its operations and the changes in its net assets for the years then ended in accordance with U.S. generally accepted accounting principles.

*BBD, LLP*

**Philadelphia, Pennsylvania  
June 7, 2018**

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## STATEMENTS OF ASSETS AND LIABILITIES

December 31, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ -	\$ 167,185
Dividends receivable	120,672	-
Investments	<u>147,555,039</u>	<u>125,743,643</u>
<b>Total assets</b>	<u>147,675,711</u>	<u>125,910,828</u>
<b>LIABILITIES</b>		
Accounts payable	106,214	138,282
Distributions payable	1,521,009	2,028,896
Assets held on account for participants	<u>-</u>	<u>134,651</u>
<b>Total liabilities</b>	<u>1,627,223</u>	<u>2,301,829</u>
<b>NET ASSETS (Equivalent to \$ 191.92 per unit based upon 760,994 units outstanding in 2017. Equivalent to \$164.58 per unit based upon 751,067 units outstanding in 2016.)</b>	<u>\$ 146,048,488</u>	<u>\$ 123,608,999</u>

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See accompanying notes

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## STATEMENTS OF OPERATIONS

Years ended December 31, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
<b>INVESTMENT INCOME</b>		
<b>Income</b>		
Interest and dividends	\$ 6,639,101	\$ 3,510,750
<b>Expenses</b>		
Administration fees	<u>423,638</u>	<u>442,504</u>
<b>NET INVESTMENT INCOME</b>	6,215,463	3,068,246
<b>REALIZED AND UNREALIZED GAIN ON INVESTMENTS</b>	<u>16,450,715</u>	<u>5,130,548</u>
<b>NET INCREASE IN NET ASSETS     RESULTING FROM OPERATIONS</b>	<u>\$ 22,666,178</u>	<u>\$ 8,198,794</u>

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See accompanying notes

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## STATEMENTS OF CHANGES IN NET ASSETS

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATIONS</b>		
Net investment income	\$ 6,215,463	\$ 3,068,246
Net realized and unrealized gain on investments	<u>16,450,715</u>	<u>5,130,548</u>
Net increase in net assets resulting from operations	<u>22,666,178</u>	<u>8,198,794</u>
<b>DISTRIBUTIONS TO PARTICIPANTS</b>	<u>(2,006,279)</u>	<u>(2,178,217)</u>
<b>CAPITAL TRANSACTIONS</b>		
Proceeds from units issued	5,156,083	1,704,357
Payments for units redeemed	<u>(3,376,493)</u>	<u>(4,851,044)</u>
Net increase (decrease) in net assets from capital transactions	<u>1,779,590</u>	<u>(3,146,687)</u>
Total increase in net assets	22,439,489	2,873,890
<b>NET ASSETS</b>		
Beginning of year	<u>123,608,999</u>	<u>120,735,109</u>
End of year	<u>\$ 146,048,488</u>	<u>\$ 123,608,999</u>

### A summary of unit transactions is as follows:

Units issued	29,100	10,834
Units redeemed	<u>(19,173)</u>	<u>(30,018)</u>
	9,927	(19,184)
Units outstanding at beginning of the year	<u>751,067</u>	<u>770,251</u>
Units outstanding at end of the year	<u>760,994</u>	<u>751,067</u>

See accompanying notes

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## SCHEDULE OF INVESTMENTS

December 31, 2017

<u>Shares</u>		<u>Cost</u>	<u>Fair Value</u>
<b>MUTUAL FUNDS: 100%</b>			
<b><u>Money Market - .8%</u></b>			
71,463	Federated Money Market Obligations	\$ 71,463	\$ 71,463
1,121,754	T. Rowe Price US Treasury Money Fund	<u>1,121,754</u>	<u>1,121,754</u>
		<u>1,193,217</u>	<u>1,193,217</u>
<b><u>Domestic Equity - 46.2%</u></b>			
34,525	T. Rowe Price Institutional Mid Cap Equity Growth Fund	1,365,131	1,880,926
1,178,513	T. Rowe Price Institutional Large Cap Value Fund	18,526,610	27,553,630
306,200	T. Rowe Price Institutional Small Cap Stock Fund	5,186,463	7,263,060
745,121	T. Rowe Price Institutional Large Cap Growth Fund	15,846,588	27,502,419
56,275	T. Rowe Price Institutional Mid-Cap Value Fund	1,450,176	1,710,188
198,590	T. Rowe Price Real Assets Fund	<u>2,159,800</u>	<u>2,319,530</u>
		<u>44,534,768</u>	<u>68,229,753</u>
<b><u>International Equity - 21.9%</u></b>			
742,765	T. Rowe Price International Stock Fund	11,462,552	13,859,997
72,715	T. Rowe Price Emerging Markets Stock Fund	2,200,935	3,269,274
1,002,304	T. Rowe Price International Value Equity Fund	<u>14,258,646</u>	<u>15,124,765</u>
		<u>27,922,133</u>	<u>32,254,036</u>
<b><u>Fixed Income - 31.1%</u></b>			
4,415,595	T. Rowe Price Institutional Core Plus Fund	<u>45,620,100</u>	<u>45,878,033</u>
	<b>TOTAL INVESTMENTS - 100%</b>	<u>\$ 119,270,218</u>	<u>\$ 147,555,039</u>

See accompanying notes

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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### (1) NATURE OF OPERATIONS

The Consolidated Fund of The Church Foundation (the "**Consolidated Fund**") provides a diversified investment medium for trusts of which The Church Foundation is trustee. The Consolidated Fund is also made available as an investment medium for the Episcopal Diocese of Pennsylvania (the "**Diocese**"), its parishes and other related institutions. The Church Foundation is a Pennsylvania nonprofit corporation. Both The Church Foundation and the Consolidated Fund are exempt from income taxes.

Any institution canonically connected with the Diocese may invest in the Consolidated Fund. As a matter of policy of The Church Foundation, absent special circumstances, all endowments for which The Church Foundation serves as legal trustee are invested in the Consolidated Fund. The Church Foundation serves as legal trustee for the majority of accounts in the Consolidated Fund.

Separate accounts for income and principal are maintained for each participant in the Consolidated Fund. The respective accounts of participants are aggregated into the Principal Fund and the Income Fund for purposes of presentation in the accompanying financial statements. The sum of the Principal Fund account balances represents the net assets in the accompanying statement of assets and liabilities. These balances do not necessarily equal the balance of principal as legally defined in the underlying trust instrument that may be associated with the account. The sum of the Income Fund account balances represents distributions payable in the accompanying statement of assets and liabilities.

Separate money-denominated accounts for each participant are maintained in the Income Fund, whereas ownership of the Principal Fund is divided into units of equal value, measured as of each month-end. Participants' Principal Fund accounts are pooled and invested in a portfolio of securities managed by the Investment Committee of the Board of Directors of The Church Foundation.

Balances in participants' Income Fund accounts are reinvested in units of the Principal Fund only on specific instructions from the respective participants.

For all accounts for which The Church Foundation serves as legal trustee, as well as the accounts of other participants so electing, income is distributed based on the provisions of Pennsylvania law at 20 Pa. C. S. Section 8113 (often referred to as "**Act 141**"). A variant of the "total return" concept of trust income distribution, Act 141, as implemented by the Board of Directors of The Church Foundation, allows for the selection each year of a "spending rate" percentage, which is applied to the mean average for the past three years of the value of the year-end Principal Fund account balance of each participant. To the extent that actual cash income credited to the Income Fund account of each participant is less than the spending rate distribution amount, units in the participant's Principal Fund account are redeemed and credited to the Income Fund account of that participant.

In the case of participant accounts for which The Church Foundation is not legal trustee, the participant may choose its own spending rate or, alternatively, may elect to receive distributions equal to the actual cash income from its investment in units of the Principal Fund.

The Income Fund account of each participant is credited each month with an allocation of the interest and dividends earned. The aggregate balance of the Income Fund does not equal the actual cash on deposit.

### (2) SIGNIFICANT ACCOUNTING POLICIES

#### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the 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 increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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### **Valuation of Investments**

Investments are presented at fair value based upon Level 1 inputs as described below. The values of securities listed on a national securities exchange are based on the last quoted sale prices on December 31 for such securities. Securities traded on the over-the-counter market and listed securities for which no sale was reported are valued at the mean of the bid and ask prices. Mutual funds are valued at the published net asset value for such funds on December 31.

Investments are exposed to market and credit risks. Due to the level of risk associated with such investments, and the level of uncertainty related to the 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.

### **Investment Transactions and Related Investment Income**

Investment transactions are accounted for on the trade date net of brokerage fees. The cost of investments sold is determined on the average cost basis. Interest income is recorded on the accrual basis and dividend income is recorded on the ex-dividend date.

### **Fair Value Measurements of Assets and Liabilities**

The Consolidated Fund has adopted the provisions of an accounting standard regarding fair value measurements. Under this accounting standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This accounting standard 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 Consolidated Fund. Unobservable inputs reflect the Consolidated Fund's assumptions about the inputs market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

**Level 1** – Valuations based on quoted prices in active markets for identical assets or liabilities that the Consolidated Fund 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 require 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 Consolidated Fund's own assumptions.

### **Distributions to Participants**

Distributions were based on a spending rate of 4.445% for 2017 and 4.35% for 2016 for participant accounts for which The Church Foundation serves as legal trustee (representing the majority of accounts). Distributions are made quarterly in January, April, July and October.

### **Reclassifications**

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

### (3) NET INVESTMENT INCOME

Quarterly valuations of the units in the Consolidated Fund and investment income were as follows:

<u>Quarter Ended</u>	<u>Unit Value</u>	<u>Income Per Unit</u>	<u>Number of Units</u>	<u>Net Investment Income</u>
March 31, 2017	\$173.48	\$.24	753,625	\$ 183,910
June 30, 2017	\$180.35	.27	754,048	206,682
September 30, 2017	\$187.17	.29	763,229	217,877
December 31, 2017	\$191.92	<u>7.37</u>	760,994	<u>5,606,994</u>
Total		<u>\$8.17</u>		<u>\$6,215,463</u>

<u>Quarter Ended</u>	<u>Unit Value</u>	<u>Income Per Unit</u>	<u>Number of Units</u>	<u>Net Investment Income</u>
March 31, 2016	\$157.28	\$.24	764,853	\$ 182,940
June 30, 2016	\$159.78	.29	763,335	217,620
September 30, 2016	\$166.66	.27	756,285	207,255
December 31, 2016	\$164.58	<u>3.27</u>	751,067	<u>2,460,431</u>
Total		<u>\$4.07</u>		<u>\$3,068,246</u>

### (4) ASSETS HELD ON ACCOUNT FOR PARTICIPANTS

Assets held on account for participants consisted of deposits of cash held for certain participants, which were not invested in units of the Consolidated Fund and were subject to withdrawal on demand. The investment income related to the assets held on account for participants was not reflected as such in the accompanying statement of operations, but was credited directly to the liability.

### (5) FINANCIAL HIGHLIGHTS

Operating performance for a unit outstanding for the years ended December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Net unit value, beginning of year	<u>\$164.57</u>	<u>\$156.75</u>
Net investment income	8.17	4.07
Net realized and unrealized gain	<u>21.82</u>	<u>6.65</u>
Total from operations	<u>29.99</u>	<u>10.72</u>
Distributions	<u>(2.64)</u>	<u>(2.89)</u>
Net unit value, end of year	<u>\$191.92</u>	<u>\$164.58</u>
Total return	<u>18.25 %</u>	<u>6.86 %</u>

The ratios of expenses to average net assets and net investment income to average net assets for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Expenses	.31 %	.36 %
Net investment income	4.58 %	2.50 %

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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Total return is based on the assumption that distributions were reinvested in the Consolidated Fund at the time of distribution, in accordance with normal investment industry practice for this presentation. However, distributions were actually paid to participants in cash each quarter.

In computing the ratio of expenses to average net assets, expenses consisted entirely of administrative fees of \$423,638 for 2017 and \$442,504 for 2016 paid to The Church Foundation. Interest paid on assets held on account for participants is not included in the calculation of this ratio because such interest does not affect participants' investment in units of the Consolidated Fund. Fees and expenses on the portion of the Consolidated Fund's portfolio that is invested in mutual funds are reflected in the valuation of net assets and are not included in the ratio of expenses to average net assets, in accordance with normal investment industry practice for this presentation.

### (6) SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 7, 2018, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2017 that required recognition or disclosure in the financial statements.