

# Consolidated Fund of the Church Foundation

Financial Statements  
and Independent Auditor's Report  
Years Ended December 31, 2015 and 2014



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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, 2015 and 2014, the related statements of operations and changes in net assets for the years then ended, the schedule of investments as of December 31, 2015, 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, 2015 and 2014, 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  
September 29, 2016**

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## STATEMENTS OF ASSETS AND LIABILITIES

December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash	\$ 334,822	\$ -
Investments	122,950,399	129,012,137
Other	<u>-</u>	<u>386</u>
<b>Total assets</b>	<u>123,285,221</u>	<u>129,012,523</u>
<b>LIABILITIES</b>		
Accounts payable	106,926	116,990
Distributions payable	2,134,103	1,908,356
Assets held on account for participants	<u>309,083</u>	<u>148,492</u>
<b>Total liabilities</b>	<u>2,550,112</u>	<u>2,173,838</u>
<b>NET ASSETS (Equivalent to \$ 156.75 per unit based upon 770,251 units outstanding in 2015. Equivalent to \$159.34 per unit based upon 796,043 units outstanding in 2014.)</b>	<u>\$ 120,735,109</u>	<u>\$ 126,838,685</u>

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See accompanying notes

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## STATEMENTS OF OPERATIONS

Years ended December 31, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<b>INVESTMENT INCOME</b>		
<b>Income</b>		
Interest and dividends	\$ 4,565,663	\$ 5,336,289
<b>Expenses</b>		
Administration fees	<u>427,479</u>	<u>326,958</u>
<b>NET INVESTMENT INCOME</b>	4,138,184	5,009,331
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>	<u>(4,210,366)</u>	<u>2,328,777</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS   RESULTING FROM OPERATIONS</b>	<u>\$ (72,182)</u>	<u>\$ 7,338,108</u>

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See accompanying notes

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## STATEMENTS OF CHANGES IN NET ASSETS

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>OPERATIONS</b>		
Net investment income	\$ 4,138,184	\$ 5,009,331
Net realized and unrealized gain (loss) on investments	<u>(4,210,366)</u>	<u>2,328,777</u>
Net increase (decrease) in net assets resulting from operations	<u>(72,182)</u>	<u>7,338,108</u>
<b>DISTRIBUTIONS TO PARTICIPANTS</b>	<u>(1,909,891)</u>	<u>(1,978,941)</u>
<b>CAPITAL TRANSACTIONS</b>		
Proceeds from units issued	716,373	1,281,826
Payments for units redeemed	<u>(4,837,876)</u>	<u>(5,087,652)</u>
Net decrease in net assets from capital transactions	<u>(4,121,503)</u>	<u>(3,805,826)</u>
Total increase (decrease) in net assets	(6,103,576)	1,553,341
<b>NET ASSETS</b>		
Beginning of year	<u>126,838,685</u>	<u>125,285,344</u>
<b>End of year</b>	<u>\$ 120,735,109</u>	<u>\$ 126,838,685</u>

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

Units issued	4,449	8,238
Units redeemed	<u>(30,241)</u>	<u>(32,436)</u>
	(25,792)	(24,198)
Units outstanding at beginning of the year	<u>796,043</u>	<u>820,241</u>
<b>Units outstanding at end of the year</b>	<u>770,251</u>	<u>796,043</u>

See accompanying notes

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## SCHEDULE OF INVESTMENTS

December 31, 2015

<u>Shares</u>		<u>Cost</u>	<u>Fair Value</u>
<b><u>MUTUAL FUNDS: 100%</u></b>			
<b><u>Domestic Equity - 44%</u></b>			
19,049	T. Rowe Price Institutional Mid Cap Equity Growth Fund	554,279	826,733
1,229,728	T. Rowe Price Institutional Large Cap Value Fund	17,681,470	23,094,299
167,622	T. Rowe Price Institutional Small Cap Stock Fund	2,326,289	3,107,709
813,031	T. Rowe Price Institutional Large Cap Growth Fund	14,688,160	23,488,469
39,067	T. Rowe Price Institutional Mid-Cap Value Fund	938,674	974,341
339,250	T. Rowe Price Real Assets Fund	<u>3,703,387</u>	<u>3,070,210</u>
		<u>39,892,259</u>	<u>54,561,761</u>
<b><u>International Equity - 21%</u></b>			
504,339	T. Rowe Price Institutional Foreign Equity Fund	9,984,333	10,404,512
125,553	T. Rowe Price Institutional Emerging Markets Equity Fund	3,855,355	3,289,117
881,373	T. Rowe Price International Growth & Income Fund	<u>12,672,919</u>	<u>11,519,541</u>
		<u>26,512,607</u>	<u>25,213,170</u>
<b><u>Fixed Income - 35%</u></b>			
4,257,936	T. Rowe Price Institutional Core Plus Fund	<u>43,918,094</u>	<u>43,175,468</u>
	<b>TOTAL INVESTMENTS - 100%</b>	<u>\$ 110,322,960</u>	<u>\$ 122,950,399</u>

See accompanying notes

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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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.

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# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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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 4.35% for 2015 and 4.50% for 2014 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 2014 financial statements have been reclassified to conform to the 2015 presentation.

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### (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, 2015	\$163.24	\$ .25	788,160	\$ 193,275
June 30, 2015	\$162.33	.30	781,961	236,171
September 30, 2015	\$152.89	.30	771,810	235,075
December 31, 2015	\$156.75	<u>4.51</u>	770,251	<u>3,473,663</u>
Total		<u>\$5.36</u>		<u>\$4,138,184</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, 2014	\$154.95	\$ .34	817,782	\$ 275,187
June 30, 2014	\$158.70	.34	810,471	272,477
September 30, 2014	\$156.61	.29	798,506	234,303
December 31, 2014	\$159.34	<u>5.31</u>	796,043	<u>4,227,364</u>
Total		<u>\$6.28</u>		<u>\$5,009,331</u>

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

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

### (5) FINANCIAL HIGHLIGHTS

Operating performance for a unit outstanding for the years ended December 31, 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Net unit value, beginning of year	<u>\$159.34</u>	<u>\$152.74</u>
Net investment income	5.36	6.28
Net realized and unrealized gain (loss)	<u>(5.48)</u>	<u>2.79</u>
Total from operations	<u>(.12)</u>	<u>9.07</u>
Distributions	<u>(2.47)</u>	<u>(2.47)</u>
Net unit value, end of year	<u>\$156.75</u>	<u>\$159.34</u>
Total return	<u>(.08)%</u>	<u>5.95%</u>

The ratios of expenses to average net assets and net investment income to average net assets for the years ended December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Expenses	.34 %	.26 %
Net investment income	3.33 %	3.96 %

# CONSOLIDATED FUND OF THE CHURCH FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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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 \$427,479 for 2015 and \$326,958 for 2014 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 September 29, 2016, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in the financial statements.