

Consolidated Fund of The Church Foundation

Financial Statements
Years Ended December 31, 2019 and 2018



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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, including the schedules of investments, as of December 31, 2019 and 2018, the related statements of operations and changes in net assets 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 Consolidated Fund of The Church Foundation as of December 31, 2019 and 2018, 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
May 14, 2020**

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

STATEMENTS OF ASSETS AND LIABILITIES

December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| ASSETS | | |
| Investments (cost of \$122,952,032 in 2019 and \$123,003,470 in 2018) | \$ 153,572,201 | \$ 133,743,255 |
| Dividends receivable | <u>108,945</u> | <u>124,018</u> |
| Total assets | <u>153,681,146</u> | <u>133,867,273</u> |
| LIABILITIES | | |
| Distributions payable | <u>-</u> | <u>436,258</u> |
| Total liabilities | <u>-</u> | <u>436,258</u> |
| NET ASSETS (Equivalent to \$ 205.18 per unit based upon 749,012 units outstanding in 2019. Equivalent to \$176.01 per unit based upon 758,099 units outstanding in 2018.) | <u>\$ 153,681,146</u> | <u>\$ 133,431,015</u> |

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

STATEMENTS OF OPERATIONS

Years ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|-----------------------|
| INVESTMENT INCOME | | |
| Income | | |
| Interest and dividends | \$ 5,707,389 | \$ 7,434,479 |
| Expenses | | |
| Administration fees | <u>431,331</u> | <u>443,925</u> |
| NET INVESTMENT INCOME | 5,276,058 | 6,990,554 |
| REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS | <u>22,492,109</u> | <u>(14,490,353)</u> |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS | <u>\$ 27,768,167</u> | <u>\$ (7,499,799)</u> |

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

STATEMENTS OF CHANGES IN NET ASSETS

Years ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| OPERATIONS | | |
| Net investment income | \$ 5,276,058 | \$ 6,990,554 |
| Net realized and unrealized gain (loss) on investments | <u>22,492,109</u> | <u>(14,490,353)</u> |
| Net increase (decrease) in net assets resulting from operations | <u>27,768,167</u> | <u>(7,499,799)</u> |
| DISTRIBUTIONS TO PARTICIPANTS | <u>(5,801,530)</u> | <u>(6,012,553)</u> |
| CAPITAL TRANSACTIONS | | |
| Proceeds from units issued | 3,740,080 | 4,735,695 |
| Payments for units redeemed | <u>(5,456,586)</u> | <u>(3,840,816)</u> |
| Net increase (decrease) in net assets from capital transactions | <u>(1,716,506)</u> | <u>894,879</u> |
| Total increase (decrease) in net assets | 20,250,131 | (12,617,473) |
| NET ASSETS | | |
| Beginning of year | <u>133,431,015</u> | <u>146,048,488</u> |
| End of year | <u>\$ 153,681,146</u> | <u>\$ 133,431,015</u> |

A summary of unit transactions is as follows:

| | | |
|--|-----------------|-----------------|
| Units issued | 19,360 | 16,568 |
| Units redeemed | <u>(28,447)</u> | <u>(19,463)</u> |
| | (9,087) | (2,895) |
| Units outstanding at beginning of the year | <u>758,099</u> | <u>760,994</u> |
| Units outstanding at end of the year | <u>749,012</u> | <u>758,099</u> |

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

SCHEDULE OF INVESTMENTS

December 31, 2019

| <u>Shares</u> | | <u>Cost</u> | <u>Fair Value</u> |
|---|--|-----------------------|-----------------------|
| MUTUAL FUNDS: 99.9% (as a % of net assets) | | | |
| <u>Money Market - .1%</u> | | | |
| 139,749 | Federated Money Market Obligations | \$ 139,749 | \$ 139,749 |
| 1,256 | T. Rowe Price US Treasury Money Fund | <u>1,256</u> | <u>1,256</u> |
| | | <u>141,005</u> | <u>141,005</u> |
| <u>Domestic Equity - 49.2%</u> | | | |
| 37,398 | T. Rowe Price Institutional Mid Cap Equity Growth Fund | 1,547,961 | 2,285,482 |
| 1,242,385 | T. Rowe Price Institutional Large Cap Value Fund | 20,696,908 | 29,357,549 |
| 319,938 | T. Rowe Price Institutional Small Cap Stock Fund | 5,789,050 | 8,193,610 |
| 705,046 | T. Rowe Price Institutional Large Cap Growth Fund | 17,227,321 | 31,057,277 |
| 79,203 | T. Rowe Price Institutional Mid-Cap Value Fund | 2,064,751 | 2,213,729 |
| 209,831 | T. Rowe Price Real Assets Fund | <u>2,282,712</u> | <u>2,461,312</u> |
| | | <u>49,608,703</u> | <u>75,568,959</u> |
| <u>International Equity - 21.5%</u> | | | |
| 770,588 | T. Rowe Price International Stock Fund | 12,001,483 | 14,363,754 |
| 98,219 | T. Rowe Price Emerging Markets Stock Fund | 3,289,237 | 4,607,440 |
| 1,001,340 | T. Rowe Price International Value Equity Fund | <u>14,119,047</u> | <u>14,178,978</u> |
| | | <u>29,409,767</u> | <u>33,150,172</u> |
| <u>Fixed Income - 29.1%</u> | | | |
| 4,206,215 | T. Rowe Price Institutional Core Plus Fund | <u>43,432,557</u> | <u>44,712,065</u> |
| | TOTAL INVESTMENTS | <u>\$ 122,592,032</u> | <u>\$ 153,572,201</u> |

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

SCHEDULE OF INVESTMENTS

December 31, 2018

| <u>Shares</u> | | <u>Cost</u> | <u>Fair Value</u> |
|--|--|-----------------------|-----------------------|
| MUTUAL FUNDS: 100.2% (as a % of net assets) | | | |
| <u>Money Market - .1%</u> | | | |
| 116,972 | Federated Money Market Obligations | \$ 116,972 | \$ 116,972 |
| 48,007 | T. Rowe Price US Treasury Money Fund | <u>48,007</u> | <u>48,007</u> |
| | | <u>164,979</u> | <u>164,979</u> |
| <u>Domestic Equity - 45.0%</u> | | | |
| 38,081 | T. Rowe Price Institutional Mid Cap Equity Growth Fund | 1,538,793 | 1,838,922 |
| 1,200,403 | T. Rowe Price Institutional Large Cap Value Fund | 19,233,161 | 23,671,945 |
| 331,636 | T. Rowe Price Institutional Small Cap Stock Fund | 5,797,527 | 6,732,207 |
| 678,561 | T. Rowe Price Institutional Large Cap Growth Fund | 15,330,996 | 24,224,620 |
| 63,705 | T. Rowe Price Institutional Mid-Cap Value Fund | 1,646,521 | 1,553,770 |
| 203,962 | T. Rowe Price Real Assets Fund | <u>2,215,406</u> | <u>2,055,941</u> |
| | | <u>45,762,404</u> | <u>60,077,405</u> |
| <u>International Equity - 22.0%</u> | | | |
| 841,648 | T. Rowe Price International Stock Fund | 13,033,000 | 12,591,055 |
| 101,437 | T. Rowe Price Emerging Markets Stock Fund | 3,310,123 | 3,802,866 |
| 1,077,989 | T. Rowe Price International Value Equity Fund | <u>15,199,460</u> | <u>12,978,993</u> |
| | | <u>31,542,583</u> | <u>29,372,914</u> |
| <u>Fixed Income - 33.1%</u> | | | |
| 4,412,796 | T. Rowe Price Institutional Core Plus Fund | <u>45,533,504</u> | <u>44,127,957</u> |
| | TOTAL INVESTMENTS | <u>\$ 123,003,470</u> | <u>\$ 133,743,255</u> |

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

(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.

The purpose of the Consolidated Fund is to provide for the current and future funding of the participant organizations. Therefore, the primary objective of its investment policy is to maximize long term financial returns consistent with the goal of providing current income and preserving purchasing power over time. The intent is to achieve this objective while minimizing the amount of risk and not engaging in any investment activities generally considered imprudent.

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.

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 12 quarters of the value of the account balance of each 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.

The Consolidated Fund calculates a monthly unit value which is used for pricing purchases and redemptions of units.

(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.

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 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.

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.

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 specific identification 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 4.25% for 2019 and 4.44% for 2018 for participant accounts for which The Church Foundation serves as legal trustee (representing the majority of accounts). Distributions are made quarterly in March, June, September and December.

Reclassifications

Certain items in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

(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, 2019 | \$191.98 | \$.31 | 757,190 | \$ 229,658 |
| June 30, 2019 | \$195.81 | .31 | 759,725 | 236,781 |
| September 30, 2019 | \$194.95 | .30 | 750,713 | 225,558 |
| December 31, 2019 | \$205.18 | 6.12 | 749,012 | 4,584,061 |
| Total | | <u>\$7.04</u> | | <u>\$5,276,058</u> |

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

| <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, 2018 | \$191.80 | \$.31 | 760,469 | \$ 239,518 |
| June 30, 2018 | \$191.92 | .36 | 754,635 | 272,816 |
| September 30, 2018 | \$194.87 | .39 | 753,990 | 293,888 |
| December 31, 2018 | \$176.01 | <u>8.16</u> | 758,099 | <u>6,184,332</u> |
| Total | | <u>\$9.22</u> | | <u>\$6,990,554</u> |

(4) FINANCIAL HIGHLIGHTS

Operating performance for a unit outstanding for the years ended December 31, 2019 and 2018 was as follows:

| | <u>2019</u> | <u>2018</u> |
|---|-----------------|-----------------|
| Net unit value, beginning of year | <u>\$176.01</u> | <u>\$191.92</u> |
| Net investment income | 7.04 | 9.22 |
| Net realized and unrealized gain (loss) | <u>29.82</u> | <u>(17.19)</u> |
| Total from operations | <u>36.86</u> | <u>(7.97)</u> |
| Distributions | <u>(7.69)</u> | <u>(7.94)</u> |
| Net unit value, end of year | <u>\$205.18</u> | <u>\$176.01</u> |
| Total return | <u>21.19 %</u> | <u>(4.34)%</u> |

The ratios of expenses to average net assets and net investment income to average net assets for the years ended December 31, 2019 and 2018 were as follows:

| | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Ratio of expenses to average net assets | .31 % | .31 % |
| Ratio of net investment income to average net assets | 3.74 % | 4.87 % |

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, most 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 \$431,331 for 2019 and \$443,925 for 2018 paid to The Church Foundation.

The ratios of expenses and net investment income to average net assets do not reflect the expenses of the underlying mutual funds in which the Consolidated Fund invests.

(5) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 14, 2020, the date on which the financial statements were available to be issued. The extent of the impact of COVID-19 on the Fund's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, all of which cannot be predicted at this time. No other material subsequent events have occurred since December 31, 2019 that required recognition or disclosure in the financial statements.