

# **The Church Foundation (An Affiliate of the Episcopal Diocese of Pennsylvania)**

Financial Statements  
Years Ended December, 2015 and 2014



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**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 affiliate of the Episcopal Diocese of Pennsylvania), which comprise the statements of financial position as of December 31, 2015 and 2014, 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, 2015 and 2014, 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  
August 17, 2016**

**THE CHURCH FOUNDATION  
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**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash	\$ 232,510	\$ 39,014
Accounts receivable	24,442	24,442
Investments	795,982	870,726
Investments managed on behalf of others	122,393,344	128,244,997
Prepaid expenses	<u>7,479</u>	<u>13,261</u>
<b>Total assets</b>	<u>\$ 123,453,757</u>	<u>\$ 129,192,440</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 342,092	\$ 162,330
Deferred compensation	33,235	37,114
Funds managed on behalf of others	<u>122,393,344</u>	<u>128,244,997</u>
<b>Total liabilities</b>	<u>122,768,671</u>	<u>128,444,441</u>
<b>NET ASSETS</b>		
Unrestricted	326,328	383,383
Temporarily restricted	1,188	5,105
Permanently restricted	<u>357,570</u>	<u>359,511</u>
<b>Total net assets</b>	<u>685,086</u>	<u>747,999</u>
<b>Total liabilities and net assets</b>	<u>\$ 123,453,757</u>	<u>\$ 129,192,440</u>

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See accompanying notes

**THE CHURCH FOUNDATION  
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**STATEMENTS OF ACTIVITIES**

Years ended December 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>								
Management fees	\$ 423,978	\$ -	\$ -	\$ 423,978	\$ 323,079	\$ -	\$ -	\$ 323,079
Investment income	(2,424)	5,583	(1,941)	1,218	21,009	5,841	11,080	37,930
Contributions	73,996	-	-	73,996	62,795	-	-	62,795
Net assets released from restrictions	9,500	(9,500)	-	-	3,900	(3,900)	-	-
<b>Total revenue and support</b>	<u>505,050</u>	<u>(3,917)</u>	<u>(1,941)</u>	<u>499,192</u>	<u>410,783</u>	<u>1,941</u>	<u>11,080</u>	<u>423,804</u>
<b>EXPENSES</b>								
Program services								
Investment management expenses	362,112	-	-	362,112	313,139	-	-	313,139
Grants	83,496	-	-	83,496	66,695	-	-	66,695
General and administrative	116,497	-	-	116,497	95,933	-	-	95,933
<b>Total expenses</b>	<u>562,105</u>	<u>-</u>	<u>-</u>	<u>562,105</u>	<u>475,767</u>	<u>-</u>	<u>-</u>	<u>475,767</u>
<b>CHANGE IN NET ASSETS</b>	(57,055)	(3,917)	(1,941)	(62,913)	(64,984)	1,941	11,080	(51,963)
<b>NET ASSETS</b>								
Beginning 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>
<b>End of year</b>	<u>\$ 326,328</u>	<u>\$ 1,188</u>	<u>\$ 357,570</u>	<u>\$ 685,086</u>	<u>\$ 383,383</u>	<u>\$ 5,105</u>	<u>\$ 359,511</u>	<u>\$ 747,999</u>

See accompanying notes

**THE CHURCH FOUNDATION  
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**STATEMENTS OF FUNCTIONAL EXPENSES**

Years ended December 31, 2015 and 2014

	2015			2014		
	<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	\$ 105,745	\$ 35,248	\$ 140,993	\$ 90,061	\$ 30,020	\$ 120,081
Employee benefits	63,794	21,264	85,058	39,675	13,225	52,900
Custodial fees	38,784	-	38,784	55,297	-	55,297
Grants	83,496	-	83,496	66,695	-	66,695
Insurance	9,621	3,207	12,828	9,538	3,179	12,717
Professional fees	118,881	48,990	167,871	114,618	48,243	162,861
Supplies	4,372	817	5,189	911	253	1,164
Miscellaneous	20,915	6,971	27,886	3,039	1,013	4,052
	<u>\$ 445,608</u>	<u>\$ 116,497</u>	<u>\$ 562,105</u>	<u>\$ 379,834</u>	<u>\$ 95,933</u>	<u>\$ 475,767</u>

See accompanying notes

**THE CHURCH FOUNDATION  
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**STATEMENTS OF CASH FLOWS**

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$ (62,913)	\$ (51,963)
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Realized and unrealized (gain) loss on investments	12,352	(24,203)
(Increase) decrease in		
Accounts receivable	-	(15,197)
Prepaid expenses	5,782	(4,174)
Increase (decrease) in		
Accounts payable	179,762	125,633
Deferred compensation	<u>(3,879)</u>	<u>(6,586)</u>
<b>Net cash provided by operating activities</b>	<u>131,104</u>	<u>23,510</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(42,165)	(13,719)
Proceeds from sale of investments	<u>104,557</u>	<u>5,124</u>
<b>Net cash provided by (used for) investing activities</b>	<u>62,392</u>	<u>(8,595)</u>
<b>Increase in cash</b>	193,496	14,915
<b>CASH</b>		
Beginning of year	<u>39,014</u>	<u>24,099</u>
<b>End of year</b>	<u>\$ 232,510</u>	<u>\$ 39,014</u>

See accompanying notes

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2015 and 2014

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**(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 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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**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 program and general and administrative services have been presented on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and general and administrative 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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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.

**Reclassifications**

Certain amounts in the 2014 financial statements have been reclassified in order to conform to the 2015 presentation.

**(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, 2015 and 2014 was as follows:

	<b>Fair Value</b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>
Money market funds and other short-term investments	\$ 238,927	\$ 709,498
Mutual funds		
Fixed income	43,175,468	45,201,250
Equity	<u>79,774,931</u>	<u>83,204,975</u>
	<b><u>\$123,189,326</u></b>	<b><u>\$129,115,723</u></b>

At December 31, 2015 and 2014, 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.

	<b><u>2015</u></b>	<b><u>2014</u></b>
Church Foundation Pension Fund	\$ 17,461	\$ 58,461
Church Foundation Fund	39,880	72,106
Clergy Daughters' Fund	358,758	368,516
George Crout Fund	270,755	271,009
William Crout Fund	70,637	70,790
Unallocated management fees	<u>38,491</u>	<u>29,844</u>
	<b><u>\$795,982</u></b>	<b><u>\$870,726</u></b>

Investment income for 2015 and 2014 was comprised of the following:

	<b><u>2015</u></b>	<b><u>2014</u></b>
Interest and dividends	\$ 13,570	\$ 13,727
Net realized and unrealized gain (loss)	<u>(12,352)</u>	<u>24,203</u>
	<b><u>\$ 1,218</u></b>	<b><u>\$ 37,930</u></b>

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**December 31, 2015 and 2014**

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**(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 \$13,319 for 2015 and \$13,906 for 2014.

**(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 \$33,235 and \$37,114 at December 31, 2015 and 2014, 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 4.35% of a moving three-year average of the fair value of the endowment fund.

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Changes in the permanently restricted endowment assets for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Endowment net assets, beginning of year	\$359,511	\$348,431
Investment income	2,454	14,980
Spending policy distribution	<u>(4,395)</u>	<u>(3,900)</u>
Endowment net assets, end of year	<u>\$357,570</u>	<u>\$359,511</u>

**(9) RELATED PARTY TRANSACTIONS**

During 2015 and 2014, the Foundation gave grants of \$73,996 and \$62,795, respectively, to the Diocese.

During 2015 and 2014, the Foundation charged the Consolidated Fund \$209,434 and \$159,158, respectively, in management fees related to the Diocese's units within the Consolidated Fund.

**(10) SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 17, 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.