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

Financial Statements
Years Ended December 31, 2019 and 2018

bbd

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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, 2019 and 2018, 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, 2019 and 2018, 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**
**May 14, 2020**

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

***STATEMENTS OF FINANCIAL POSITION***

**December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 125,777 | $ 155,865 |
| Investments | 1,263,449 | 944,450 |
| Investments managed on behalf of others | 153,317,697 | 133,822,823 |
| Prepaid expenses and other | 3,029 | 20,072 |
| **Total assets** | $ 154,709,952 | $ 134,943,210 |
| **LIABILITIES** | | |
| Accounts payable | $ 20,470 | $ 31,558 |
| Deferred compensation | 15,176 | 20,104 |
| Funds managed on behalf of others | 153,317,697 | 133,822,823 |
| **Total liabilities** | 153,353,343 | 133,874,485 |
| **NET ASSETS** | | |
| Without donor restrictions | 888,648 | 659,214 |
| With donor restrictions | 467,961 | 409,511 |
| **Total net assets** | 1,356,609 | 1,068,725 |
| **Total liabilities and net assets** | $ 154,709,952 | $ 134,943,210 |

*See accompanying notes*

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

***STATEMENTS OF ACTIVITIES***

**Years ended December 31, 2019 and 2018**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| **REVENUE AND SUPPORT** | | | | | | |
| Management fees | $ 431,330 | $ - | $ 431,330 | $ 443,927 | $ - | $ 443,927 |
| Investment income (loss), net of fees | 120,550 | 83,450 | 204,000 | (30,656) | (22,144) | (52,800) |
| Contributions | 70,087 | - | 70,087 | 58,137 | - | 58,137 |
| Net assets released from restrictions | 25,000 | (25,000) | - | 7,200 | (7,200) | - |
| **Total revenue and support** | 646,967 | 58,450 | 705,417 | 478,608 | (29,344) | 449,264 |
| **EXPENSES** | | | | | | |
| Program services | | | | | | |
| Investment management expenses | 241,664 | - | 241,664 | 263,404 | - | 263,404 |
| Grants | 95,002 | - | 95,002 | 65,155 | - | 65,155 |
| General and administrative | 80,867 | - | 80,867 | 98,227 | - | 98,227 |
| **Total expenses** | 417,533 | - | 417,533 | 426,786 | - | 426,786 |
| **CHANGE IN NET ASSETS** | 229,434 | 58,450 | 287,884 | 51,822 | (29,344) | 22,478 |
| **NET ASSETS** | | | | | | |
| Beginning of year | 659,214 | 409,511 | 1,068,725 | 607,392 | 438,855 | 1,046,247 |
| **End of year** | $ 888,648 | $ 467,961 | $ 1,356,609 | $ 659,214 | $ 409,511 | $ 1,068,725 |

***See accompanying notes***

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

### *STATEMENTS OF FUNCTIONAL EXPENSES*

**Years ended December 31, 2019 and 2018**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Program Services | General and Administrative | Total | Program Services | General and Administrative | Total |
| Salaries | $ 71,916 | $ 23,972 | $ 95,888 | $ 89,529 | $ 29,843 | $ 119,372 |
| Employee benefits | 57,977 | 19,326 | 77,303 | 61,753 | 20,584 | 82,337 |
| Grants | 95,002 | - | 95,002 | 65,155 | - | 65,155 |
| Insurance | 6,107 | 2,035 | 8,142 | 8,700 | 2,900 | 11,600 |
| Professional fees | 81,051 | 25,777 | 106,828 | 81,106 | 26,697 | 107,803 |
| Supplies | 3,403 | 1,134 | 4,537 | 7,458 | 2,252 | 9,710 |
| Miscellaneous | 21,210 | 8,623 | 29,833 | 14,858 | 15,951 | 30,809 |
| | $ 336,666 | $ 80,867 | $ 417,533 | $ 328,559 | $ 98,227 | $ 426,786 |

*See accompanying notes*

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

***STATEMENTS OF CASH FLOWS***

**Years ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| ***Change in net assets*** | $ 287,884 | $ 22,478 |
| ***Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities*** | | |
| Realized and unrealized (gain) loss on investments | (183,821) | 69,413 |
| (Increase) decrease in | | |
| Prepaid expenses and other | 17,043 | (4,883) |
| Increase (decrease) in | | |
| Accounts payable | (11,088) | 1,123 |
| Deferred compensation | (4,928) | (4,641) |
| **Net cash provided by operating activities** | 105,090 | 83,490 |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | |
| Purchases of investments | (163,377) | (96,264) |
| Proceeds from sale of investments | 28,199 | 128,516 |
| **Net cash provided by (used for) investing activities** | (135,178) | 32,252 |
| **Change in cash** | (30,088) | 115,742 |
| ***CASH*** | | |
| Beginning of year | 155,865 | 40,123 |
| **End of year** | $ 125,777 | $ 155,865 |

***See accompanying notes***

## (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 equity 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 statements 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 classes of net assets:

#### *Without donor restrictions*

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

#### *With donor restrictions*

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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Also included in this category are net assets that are subject to donor-imposed restrictions that require the net assets be maintained indefinitely while permitting the Foundation to expend the income generated in accordance with the provisions of the contribution.

### ***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:

***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 net assets without donor restrictions.

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. Management fees are recognized over the course of the year in which the related services are provided.

***Contributions***

Contributions received are recorded as net assets without donor restrictions and net assets with donor restrictions depending on the absence or existence and nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as net assets without donor restrictions.

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 various program and supporting services have been presented on a functional basis in the statement of activities and functional expenses. Expenses directly attributable to a specific functional area are reported as expenses of that functional area. Expenses not directly attributable to a specific functional area are allocated. Significant expenses that are allocated include salaries and benefits that are allocated to functional areas based on estimates of time and effort.

***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.

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.

***Accounting Pronouncements Adopted***

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Foundation adopted ASU 2014-09 on January 1, 2019 using the modified retrospective method approach.

The Foundation performed an analysis of revenue streams and transactions under ASU 2014-09, including applying the portfolio approach as a practical expedient to group contracts with similar characteristics such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. The impact of adopting ASU 2014-09 was not material to total revenues without donor restrictions, excess of revenues and gains over expenses and losses, or total net assets. The Foundation's revenue recognition policies are detailed within Note 2.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and accounting guidance for contributions received and made and assists entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to other guidance, and in determining whether a contribution is conditional. The Foundation adopted ASU 2018-08 on January 1, 2019

## (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 and in an investment in real estate. The composition of the investments at December 31, 2019 and 2018 was as follows:

| | Fair Value | |
|---|---|---|
| | **2019** | **2018** |
| Money market funds and other short-term investments | $ 249,950 | $ 288,997 |
| Mutual funds | | |
| Fixed income | 44,712,065 | 44,127,957 |
| Equity | 108,719,131 | 89,450,319 |
| Investment in real estate | 900,000 | 900,000 |
| | $154,581,146 | $134,767,273 |

At December 31, 2019 and 2018, the Foundation determined that valuation inputs used to determine the fair value of investments in the Consolidated Fund were Level 1 and the investment in real estate used Level 2 valuation inputs.

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

| | 2019 | 2018 |
|---|---|---|
| Church Foundation Pension Fund | $ 70,439 | $ 58,314 |
| Church Foundation Fund | 254,656 | 87,200 |
| Clergy Daughters' Fund | 467,961 | 409,513 |
| George Crout Fund | 375,807 | 311,118 |
| William Crout Fund | 94,586 | 78,305 |
| | $1,263,449 | $944,450 |

Investment income (loss) for 2019 and 2018 was comprised of the following:

| | 2019 | 2018 |
|---|---|---|
| Interest and dividends | $ 23,377 | $ 20,343 |
| Net realized and unrealized gain (loss) | 183,821 | (69,413) |
| Investment fees | (3,198) | (3,730) |
| | $ 204,000 | $ (52,800) |

## (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 $8,203 for 2019 and $11,890 for 2018.

## (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 $15,176 and $20,104 at December 31, 2019 and 2018, respectively.

## (7) NET ASSETS WITH DONOR RESTRICTIONS

| | Balance December 31, 2018 | Investment Income | Transfer | Released from Restrictions | Balance December 31, 2019 |
|---|---|---|---|---|---|
| Subject to expenditure for specified purpose or period | | | | | |
| Education | $ 21,952 | $ 4,045 | $ 16,642 | $(25,000) | $ 17,639 |
| Net assets to be maintained indefinitely | | | | | |
| Endowment | 387,559 | 79,405 | (16,642) | - | 450,322 |
| | $409,511 | $83,450 | $ - | $(25,000) | $467,961 |

| | Balance December 31, 2017 | Additions | Transfer | Released from Restrictions | Balance December 31, 2018 |
|---|---|---|---|---|---|
| Subject to expenditure for specified purpose or period | | | | | |
| Education | $ 9,475 | $ (1,085) | $ 20,762 | $(7,200) | $ 21,952 |
| Net assets to be maintained indefinitely | | | | | |
| Endowment | 429,380 | (21,059) | (20,762) | - | 387,559 |
| | $438,855 | $(22,144) | $ - | $(7,200) | $409,511 |

Net assets with donor restrictions consist of an endowment (Clergy Daughters' Fund). Income from this fund 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 endowment fund to support various programs. The 2019 spending policy is to distribute an amount equal to 4.25% of a moving 12 quarter average of the fair value of the endowment fund. The 2018 spending policy was to distribute an amount equal to 4.44% of a moving three-year average of the fair value of the endowment fund.

Changes in the invested endowment assets for the years ended December 31, 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Invested endowment net assets, beginning of year | $387,559 | $429,380 |
| Investment income (loss) | 79,405 | (21,059) |
| Spending policy distribution | (16,642) | (20,762) |
| Invested endowment net assets, end of year | $450,322 | $387,559 |

## (9) RELATED PARTY TRANSACTIONS

During 2019 and 2018, the Foundation gave grants of $70,002 and $57,955 respectively, to the Diocese.

During 2019 and 2018, the Foundation charged the Consolidated Fund $207,280 and $217,934, respectively, in management fees related to the Diocese's units within the Consolidated Fund.

## (10) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Foundation's financial assets as of the statements of financial position date, which has been reduced by financial assets not available within one year.

| | 2019 | 2018 |
|---|---|---|
| Cash | $ 125,777 | $ 155,865 |
| Investments | 154,581,146 | 134,767,273 |
| Total financial assets | 154,706,923 | 134,923,138 |
| Less: financial assets not available for general operations within one year | | |
| Funds managed on behalf of others | (153,317,697) | (133,822,823) |
| Net assets with donor restrictions | (467,961) | (409,511) |
| Total financial assets available within one year | $ 921,265 | $ 690,804 |

***Liquidity Management***

As part of the Foundation's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically money market funds.

## (11) 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 Foundation'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.