

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

Financial Statements
Years Ended December 31, 2020 and 2019



1835 Market Street, 3rd Floor
Philadelphia, PA 19103

215/567-7770 | bbdcpa.com

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

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
<i>Statements of Financial Position</i>	2
<i>Statements of Activities</i>	3
<i>Statements of Functional Expenses</i>	4
<i>Statements of Cash Flows</i>	5
<i>Notes to Financial Statements</i>	6



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, 2020 and 2019, 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, 2020 and 2019, 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 7, 2021**

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 141,212	\$ 125,777
Investments	1,573,143	1,263,449
Investments managed on behalf of others	169,013,173	153,317,697
Prepaid expenses	<u>5,520</u>	<u>3,029</u>
Total assets	<u>\$ 170,733,048</u>	<u>\$ 154,709,952</u>
LIABILITIES		
Accounts payable	\$ 18,927	\$ 20,470
Deferred compensation	9,944	15,176
Funds managed on behalf of others	<u>169,013,173</u>	<u>153,317,697</u>
Total liabilities	<u>169,042,044</u>	<u>153,353,343</u>
NET ASSETS		
Without donor restrictions	1,181,236	888,648
With donor restrictions	<u>509,768</u>	<u>467,961</u>
Total net assets	<u>1,691,004</u>	<u>1,356,609</u>
Total liabilities and net assets	<u>\$ 170,733,048</u>	<u>\$ 154,709,952</u>

See accompanying notes

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

STATEMENTS OF ACTIVITIES

Years ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Management fees	\$ 432,253	\$ -	\$ 432,253	\$ 431,330	\$ -	\$ 431,330
Investment income, net of fees	137,887	63,407	201,294	120,550	83,450	204,000
Contributions	81,252	-	81,252	70,087	-	70,087
Net assets released from restrictions	<u>21,600</u>	<u>(21,600)</u>	<u>-</u>	<u>25,000</u>	<u>(25,000)</u>	<u>-</u>
Total revenue and support	<u>672,992</u>	<u>41,807</u>	<u>714,799</u>	<u>646,967</u>	<u>58,450</u>	<u>705,417</u>
EXPENSES						
Program services						
Investment management expenses	228,173	-	228,173	241,664	-	241,664
Grants	70,844	-	70,844	95,002	-	95,002
General and administrative	<u>81,387</u>	<u>-</u>	<u>81,387</u>	<u>80,867</u>	<u>-</u>	<u>80,867</u>
Total expenses	<u>380,404</u>	<u>-</u>	<u>380,404</u>	<u>417,533</u>	<u>-</u>	<u>417,533</u>
CHANGE IN NET ASSETS	292,588	41,807	334,395	229,434	58,450	287,884
NET ASSETS						
Beginning of year	<u>888,648</u>	<u>467,961</u>	<u>1,356,609</u>	<u>659,214</u>	<u>409,511</u>	<u>1,068,725</u>
End of year	<u>\$ 1,181,236</u>	<u>\$ 509,768</u>	<u>\$ 1,691,004</u>	<u>\$ 888,648</u>	<u>\$ 467,961</u>	<u>\$ 1,356,609</u>

See accompanying notes

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

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended December 31, 2020 and 2019

	2020			2019		
	<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	\$ 78,758	\$ 26,252	\$ 105,010	\$ 71,916	\$ 23,972	\$ 95,888
Employee benefits	51,847	17,282	69,129	57,977	19,326	77,303
Grants	70,844	-	70,844	95,002	-	95,002
Insurance	2,069	689	2,758	6,107	2,035	8,142
Professional fees	83,507	26,802	110,309	81,051	25,777	106,828
Supplies	1,787	596	2,383	3,403	1,134	4,537
Miscellaneous	10,205	9,766	19,971	21,210	8,623	29,833
	<u>\$ 299,017</u>	<u>\$ 81,387</u>	<u>\$ 380,404</u>	<u>\$ 336,666</u>	<u>\$ 80,867</u>	<u>\$ 417,533</u>

See accompanying notes

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

STATEMENTS OF CASH FLOWS

Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$ 334,395	\$ 287,884
<i>Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities</i>		
Realized and unrealized gain on investments	(183,613)	(183,821)
(Increase) decrease in Prepaid expenses	(2,491)	17,043
Increase (decrease) in Accounts payable	(1,543)	(11,088)
Deferred compensation	<u>(5,232)</u>	<u>(4,928)</u>
Net cash provided by operating activities	<u>141,516</u>	<u>105,090</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(151,450)	(163,377)
Proceeds from sale of investments	<u>25,369</u>	<u>28,199</u>
Net cash used for investing activities	<u>(126,081)</u>	<u>(135,178)</u>
 Change in cash	 15,435	 (30,088)
CASH		
Beginning of year	<u>125,777</u>	<u>155,865</u>
End of year	<u>\$ 141,212</u>	<u>\$ 125,777</u>

See accompanying notes

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

(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:

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

(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, 2020 and 2019 was as follows:

	Fair Value	
	<u>2020</u>	<u>2019</u>
Money market funds and other short-term investments	\$ 3,665,316	\$ 249,950
Mutual funds		
Fixed income	46,583,484	44,712,065
Equity	119,437,516	108,719,131
Investment in real estate	<u>900,000</u>	<u>900,000</u>
	<u>\$170,586,316</u>	<u>\$154,581,146</u>

At December 31, 2020 and 2019, 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 statements of financial position.

	<u>2020</u>	<u>2019</u>
Church Foundation Pension Fund	\$ 80,595	\$ 70,439
Church Foundation Fund	444,575	254,656
Clergy Daughters' Fund	509,768	467,961
George Crout Fund	429,984	375,807
William Crout Fund	<u>108,221</u>	<u>94,586</u>
	<u>\$1,573,143</u>	<u>\$1,263,449</u>

Investment income for 2020 and 2019 was comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 21,450	\$ 23,377
Net realized and unrealized gain	183,613	183,821
Investment fees	<u>(3,769)</u>	<u>(3,198)</u>
	<u>\$ 201,294</u>	<u>\$ 204,000</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

(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 statements of activities, but is credited directly to the liability.

(5) PAYCHECK PROTECTION PROGRAM

The Foundation initially recorded a loan payable and subsequently recorded forgiveness when the loan obligation was legally released. The Foundation recognized \$32,000 of loan forgiveness income for the year ended December 31, 2020. The income is included in contributions on the statements of activities.

(6) 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 \$10,816 for 2020 and \$8,203 for 2019.

(7) 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 \$9,944 and \$15,176 at December 31, 2020 and 2019, respectively.

(8) NET ASSETS WITH DONOR RESTRICTIONS

	<u>Balance December 31, 2019</u>	<u>Investment Income</u>	<u>Transfer</u>	<u>Released from Restrictions</u>	<u>Balance December 31, 2020</u>
Subject to expenditure for specified purpose or period					
Education	\$ 17,639	\$ 705	\$ 16,852	\$(21,600)	\$ 13,596
Net assets to be maintained indefinitely					
Endowment	<u>450,322</u>	<u>62,702</u>	<u>(16,852)</u>	<u>-</u>	<u>496,172</u>
	<u>\$467,961</u>	<u>\$63,407</u>	<u>\$ -</u>	<u>\$(21,600)</u>	<u>\$509,768</u>
	<u>Balance December 31, 2018</u>	<u>Investment Income</u>	<u>Transfer</u>	<u>Released from Restrictions</u>	<u>Balance December 31, 2019</u>
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	<u>387,559</u>	<u>79,405</u>	<u>(16,642)</u>	<u>-</u>	<u>450,322</u>
	<u>\$409,511</u>	<u>\$83,450</u>	<u>\$ -</u>	<u>\$(25,000)</u>	<u>\$467,961</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

(9) 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 2020 spending policy is to distribute an amount equal to 4% of a moving 12 quarter average of the fair value of the endowment fund. The 2019 spending policy was to distribute an amount equal to 4.25% of a moving 12 quarter average of the fair value of the endowment fund.

Changes in the invested endowment assets for the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Invested endowment net assets, beginning of year	\$450,322	\$387,559
Investment income	62,702	79,405
Spending policy distribution	<u>(16,852)</u>	<u>(16,642)</u>
Invested endowment net assets, end of year	<u>\$496,172</u>	<u>\$450,322</u>

(10) RELATED PARTY TRANSACTIONS

During 2020 and 2019, the Foundation gave grants of \$49,244 and \$70,002 respectively, to the Diocese.

During 2020 and 2019, the Foundation charged the Consolidated Fund \$198,648 and \$207,280, respectively, in management fees related to the Diocese's units within the Consolidated Fund.

(11) 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.

	<u>2020</u>	<u>2019</u>
Cash	\$ 141,212	\$ 125,777
Investments	<u>170,586,316</u>	<u>154,581,146</u>
Total financial assets	170,727,528	154,706,923
Less: financial assets not available for general operations within one year		
Funds managed on behalf of others	(169,013,173)	(153,317,697)
Net assets with donor restrictions	<u>(509,768)</u>	<u>(467,961)</u>
Total financial assets available within one year	<u>\$ 1,204,587</u>	<u>\$ 921,265</u>

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

(12) SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 7, 2021, 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, 2020 that required recognition or disclosure in the financial statements.