

**CONSOLIDATED FUND
OF THE CHURCH FOUNDATION**

***FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT***

YEARS ENDED DECEMBER 31, 2010 AND 2009

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 statements of assets and liabilities of the Consolidated Fund of The Church Foundation as of December 31, 2010 and 2009, the related statements of operations and changes in net assets for the years then ended, and the schedule of investments as of December 31, 2010. These financial statements are the responsibility of The Church Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the results of its operations and changes in its net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

BBD, LLP

**Philadelphia, Pennsylvania
April 27, 2011**

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

STATEMENTS OF ASSETS AND LIABILITIES

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Investments, at fair value		
Short term investments	\$ 2,425	\$ 2,621,810
Mutual funds	<u>104,648,610</u>	<u>94,166,222</u>
	104,651,035	96,788,032
Other	<u>15,313</u>	<u>15,315</u>
Total assets	<u>104,666,348</u>	<u>96,803,347</u>
LIABILITIES		
Accounts payable	81,459	82,706
Distributions payable	1,627,618	1,525,376
Assets held on account for participants	<u>279,419</u>	<u>926,635</u>
Total liabilities	<u>1,988,496</u>	<u>2,534,717</u>
NET ASSETS (Equivalent to \$117.88 per unit based upon 871,021 units outstanding in 2010. Equivalent to \$105.84 per unit based upon 890,691 units outstanding in 2009)	<u>\$102,677,852</u>	<u>\$94,268,630</u>

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

STATEMENTS OF OPERATIONS

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
INVESTMENT INCOME		
Income		
Interest and dividends	\$ 2,872,314	\$ 1,936,106
Expenses		
Administrative fees	<u>240,708</u>	<u>250,818</u>
NET INVESTMENT INCOME	<u>2,631,606</u>	<u>1,685,288</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized loss on investments	(639,159)	(3,533,892)
Net unrealized gain (loss) on investments	<u>10,570,043</u>	<u>26,286,759</u>
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS	<u>9,930,884</u>	<u>22,752,867</u>
NET INCREASE IN NET ASSETS FROM OPERATIONS	<u>\$12,562,490</u>	<u>\$24,438,155</u>

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

STATEMENTS OF CHANGES IN NET ASSETS

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATIONS		
Net investment income	\$ 2,631,606	\$ 1,685,288
Net realized loss on investments	(639,159)	(3,533,892)
Net unrealized gain (loss) on investments	<u>10,570,043</u>	<u>26,286,759</u>
Net increase in net assets resulting from operations	<u>12,562,490</u>	<u>24,438,155</u>
DISTRIBUTIONS TO PARTICIPANTS	<u>(2,002,272)</u>	<u>(1,651,189)</u>
CAPITAL TRANSACTIONS		
Proceeds from units issued	1,353,491	1,346,910
Payments for units redeemed	<u>(3,504,487)</u>	<u>(4,141,303)</u>
Net decrease in net assets from capital transactions	<u>(2,150,996)</u>	<u>(2,794,393)</u>
Total increase in net assets	8,409,222	19,992,573
NET ASSETS		
Beginning of year	<u>94,268,630</u>	<u>74,276,057</u>
End of year	<u>\$102,677,852</u>	<u>\$94,268,630</u>

A summary of unit transactions is as follows:

Units issued	12,817	16,607
Units redeemed	<u>(32,487)</u>	<u>(46,009)</u>
	(19,670)	(29,402)
Units outstanding at beginning of the year	<u>890,691</u>	<u>920,093</u>
Units outstanding at end of the year	<u>871,021</u>	<u>890,691</u>

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

SCHEDULE OF INVESTMENTS

December 31, 2010

<u>Shares</u>		<u>Cost</u>	<u>Fair Value</u>
<u>SHORT-TERM INVESTMENTS: 6%</u>			
2,425	SSGA Money Market Fund	\$ 2,425	\$ 2,425
<u>MUTUAL FUNDS: 94%</u>			
<u>Domestic Equity – 55%</u>			
54,924	T. Rowe Price Institutional Mid Cap Equity Growth Fund	1,468,482	1,528,530
2,088,198	T. Rowe Price Institutional Large Cap Value Fund	27,965,695	26,353,058
272,819	T. Rowe Price Institutional Small Cap Stock Fund	3,275,129	3,865,842
1,567,385	T. Rowe Price Institutional Large Cap Growth Fund	24,682,163	25,673,772
435,316	T. Rowe Price International Growth & Income Fund	7,222,915	5,794,053
62,315	T. Rowe Price Institutional Mid-Cap Value Fund	<u>1,447,364</u>	<u>1,477,477</u>
		<u>66,061,748</u>	<u>64,692,732</u>
<u>International Equity – 8%</u>			
326,907	T. Rowe Price Institutional Foreign Equity Fund	6,801,124	6,257,002
74,077	T. Rowe Price Institutional Emerging Markets Equity Fund	<u>2,503,821</u>	<u>2,383,795</u>
		<u>9,304,945</u>	<u>8,640,797</u>
<u>Fixed Income – 31%</u>			
2,993,794	T. Rowe Price Institutional Core Plus Fund	<u>30,064,194</u>	<u>31,315,081</u>
	Total mutual funds	<u>105,430,887</u>	<u>104,648,610</u>
	TOTAL INVESTMENTS – 100%	<u>\$105,433,312</u>	<u>\$104,651,035</u>

See accompanying notes

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

(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 interest income equivalent to the interest that would have been earned had the account been deposited in a money market account administered by State Street Bank and Trust ("**State Street**"). The aggregate balance of the Income Fund does not equal the actual cash on deposit in the State Street money market account. Money market interest income is credited to each individual Income Fund account based on what it would have earned had its balance actually been on deposit in the money market account, with any difference equalized by charge or credit to the aggregate of the Principal Fund.

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

(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 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. Short-term investments are carried at cost which approximates fair value.

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 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 Consolidated Fund's own assumptions.

Distributions to Participants

Distributions for both 2010 and 2009 were based on a spending rate of 4.75% 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.

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Reclassifications

Certain items in the 2009 financial statements have been reclassified to conform to the 2010 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, 2010	\$109.70	\$.29	888,029	\$ 257,787
June 30, 2010	\$101.26	.32	881,310	279,569
September 30, 2010	\$111.24	.30	874,075	263,760
December 31, 2010	\$117.91	<u>2.10</u>	871,021	<u>1,830,490</u>
Total		<u>\$3.01</u>		<u>\$2,631,606</u>
<u>Quarter Ended</u>				
March 31, 2009	\$ 77.30	\$.27	918,245	\$ 249,732
June 30, 2009	\$ 90.05	.26	905,585	236,543
September 30, 2009	\$102.32	.27	894,183	242,268
December 31, 2009	\$105.84	<u>1.08</u>	890,691	<u>956,745</u>
Total		<u>\$1.88</u>		<u>\$1,685,288</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, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Net unit value, beginning of year	<u>\$ 105.84</u>	<u>\$ 80.73</u>
Net investment income	3.01	1.88
Net realized and unrealized gains (losses)	<u>11.32</u>	<u>25.07</u>
Total from operations	<u>14.33</u>	<u>26.95</u>
Distributions	<u>(2.29)</u>	<u>(1.84)</u>
Net unit value, end of year	<u>\$ 117.88</u>	<u>\$ 105.84</u>
Total return	<u>13.64 %</u>	<u>33.59 %</u>

CONSOLIDATED FUND OF THE CHURCH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

The ratios of expenses to average net assets and net investment income to average net assets for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Expenses	.25%	.30 %
Net investment income	2.74%	2.04 %

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 \$240,708 for 2010 and \$250,818 for 2009 paid to The Church Foundation, which were charged at the rate of 5.50% of income distributions. 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 April 27, 2011, the date on which the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2010 that required recognition or disclosure in the financial statements.

May 24, 2011

Mr. R. Alan Lindsay
The Church Foundation
240 South Fourth Street
Philadelphia, Pennsylvania 19106

Dear Alan:

Enclosed are 25 copies each of the following December 31, 2010 reports for The Consolidated Fund of The Church Foundation:

- Financial Statements
- Professional Standards Letter
- Internal Control Letter

If you need additional copies, please call. We sincerely appreciate the opportunity to provide you with our services.

Sincerely,

Ronald T. Scaramuzza

RTS/ms

Enclosures