The Church Pension Group Annual Report 2007

# A Blessing and a Responsibility

# Statistical Highlights

| *Cumulative Pension Fund Operations* | Since Inception (1917) |
|---|---|
| Total assessments and original pledges received | $1,808,296,168 |
| Investment income and gains* | 9,920,569,813 |
| Total income | 11,728,865,981 |
| Benefits paid for clergy and dependents | 2,795,049,056 |
| Transfers to special funds | 1,323,958,675 |
| March 31, 2007 Funded Reserve | $7,609,858,250 |

* Net of expenses and other deductions

| *Participant Statistics* | 2007 | 2004 | 2001 |
|---|---|---|---|
| **Active Fund Participants**† | | | |
| Number | | | |
| Male | 5,077 | 5,609 | 5,779 |
| Female | 2,331 | 2,277 | 1,907 |
| Total | 7,408 | 7,886 | 7,686 |
| Participants' Average Age | 53.3 | 53.1 | 52.4 |
| Average Compensation | $62,546 | $58,216 | $53,002 |
| **Those Receiving Benefits** | | | |
| Retirees | | | |
| Normal Retirement | 3,165 | 2,727 | 2,564 |
| Early Retirement | 2,947 | 2,840 | 2,575 |
| Disability Retirement | 420 | 372 | 376 |
| Total | 6,532 | 5,939 | 5,515 |
| Average Annual Pension Benefit | $26,387 | $19,925 | $17,844 |
| Average Age | 73.6 | 73.5 | 72.9 |
| Surviving Spouses | | | |
| Number | 2,535 | 2,516 | 2,461 |
| Average Benefit | $17,206 | $12,493 | $ 10,436 |
| Average Age | 77.8 | 77.4 | 76.9 |

| *Ordinations by Calendar Year* | 2006 | 2003 | 2000 |
|---|---|---|---|
| Number of Individuals Ordained* | 484‡ | 478 | 396 |
| Average Age at Ordination | 48 | 48 | 48.3 |

† Those for whom payments are made into plan. Participant statistics as of December 31, 2006.
Source: Buck Consultants, Inc. Actuarial Reports

* Includes both U.S. and non-U.S. ordinations under all canons.

‡ This figure may increase when additional information is received from dioceses.

This annual report is printed on Mohawk Via 100% PC Cool White paper, which is made with 100% post-consumer process chlorine-free waste fiber.
The electricity used to manufacture this paper is offset with 100% Green-e certified wind certificates. This paper is certified by Green Seal, and bySmartWood for FSC standards.

# A Blessing and a Responsibility

We are blessed with the opportunity to serve Episcopal clergy and lay workers — those who give so much to all of us — yet mindful of our tremendous responsibility to appropriately support their active ministries and their retirement years.

We are grateful that, by God's grace, total pension fund assets have exceeded $9 billion, another all-time high, yet humbled by our mission of preserving, managing, and employing those funds in the service of the Church.

Over the past year, in furtherance of our broad mission, the Church Pension Fund Trustees and senior staff adopted seven goals for this triennium, which reflect our gratitude for God's blessings and the concomitant responsibilities with which we have been entrusted on behalf of the Church:

- Maintain our commitment to strive for outstanding investment results consistent with actuarial needs, while continuing to engage in socially responsible investment practices
- Determine the best sources and uses of available resources in carrying out the Fund's mission, including implementing a trustee-approved external review of the pension plan, developing pension standards for clergy and lay programs, and enhancing benefits where justified
- Expand and deepen our support of the mission and ministry of the Episcopal Church, including the conducting of studies authorized by the 75th General Convention through Resolutions A125 (lay employee benefits) and A147 (healthcare coverage feasibility study). *(You will find more information about these resolutions and our work to date on pages 5 to 8.)*
- Increase the effectiveness of our affiliate companies and our customer service
- Strengthen CPG's commitment to diversity as a core value throughout the organization
- Enhance the ways we fulfill our responsibilities to CPG employees
- Attend to Board governance, succession, and development

As you read this annual report, I hope those goals will bring a perspective to the descriptions of our activities of the past year and our ongoing vision.

As we move into the future in support of The Episcopal Church, the core of our mission is always before us: *to fulfill our fiduciary responsibility by serving the clergy, lay workers, dependents, parishes, dioceses, and other institutions in the Episcopal Church through the provision of pensions and other benefits and services that will contribute to their lifetime economic, physical, emotional, and spiritual well-being.*

*The Board of Trustees*
*(back row) Sheridan C. Biggs, The Rev. M. L. Agnew, Jr., The Rt. Rev. Robert H. Johnson, D.D., David R. Pitts, The Rt. Rev. Wayne P. Wright, D.D., The Very Rev. George L. W. Werner, The Rev. Canon Carlson Gerdau, Katherine Tyler Scott, The Rt. Rev. Claude E. Payne, D.D., The Rt. Rev. Peter James Lee, D.D., Quintin E. Primo III (middle row) David L. Brigham, The Rt. Rev. Gayle E. Harris, D.D., Cecil Wray, Esq., The Rev. A. Thomas Blackmon, Deborah Harmon Hines, Ph.D., James E. Bayne, T. Dennis Sullivan (front row) Barbara B. Creed, Esq., Virginia A. Norman, Diane B. Pollard, The Rev. Dr. Randall Chase, Jr., Canon Joon D. Matsumura, Vincent C. Currie, Jr., The Rt. Rev. V. Gene Robinson, D.D.*

# Dear Friends,

The past year has seen a number of changes in the board as the result of the trustee elections at General Convention. In June 2006, the 75th General Convention reelected the board's nine incumbent trustees — the Rev. A. Thomas Blackmon, the Rev. Dr. Randall Chase, Jr., Barbara B. Creed, Esq., Deborah Harmon Hines, Ph.D., the Rt. Rev. Peter James Lee, D.D., the Rt. Rev. Claude E. Payne, D.D., Quintin E. Primo III, Katherine Tyler Scott, and Cecil Wray, Esq., as well as three new trustees (who are highly respected former trustees) — Vincent C. Currie, Jr., Diane B. Pollard, and the Very Rev. George L. W. Werner. At that same time, three trustees who had served the maximum terms allowed by the canons retired from the board — Amy L. Domini, the Rt. Rev. Chilton R. Knudsen, and Arthur K. Kusumoto.

This year also saw another new high in the level of total pension fund assets, the inception of two unprecedented CPG research studies authorized by resolutions of the 75th General Convention that are of vital importance to the Church, and a staff reorganization at the executive vice presidential level. We are pleased with what has been accomplished, and excited about the year to come.

The long-term efforts of the Investment Committee and staff have once again resulted in excellent investment returns. As of March 31, 2007, total pension fund assets stood at an all-time high of $9 billion, and the total return on our invested assets again outperformed the market. The CPF Board approved an annual pension benefit cost-of-living increase for the 28th consecutive year and a supplementary pension benefit increase of $10 per month for clergy plan participants, surviving spouses, and lay employees enrolled in the lay defined benefit plan. CPF's affiliate companies had productive years, as well.

This Management Letter provides an overview of the past year's enhancements and events, updated investment performance as of March 31, 2007, and information about our work in response to the two General Convention Resolutions mentioned above: A125 (research study of lay employees) and A147 (healthcare coverage feasibility study).

## Benefit Enhancements

The continued investment success of the past year and overall financial health of CPF supported a number of benefit enhancements:

***3.3% Cost-of-Living Increase plus $10 Per Month***: Effective January 1, 2007, the CPF Board approved a 3.3% cost-of-living increase to monthly pension benefits for retired clergy and surviving spouses participating in the clergy pension plan, dependent children receiving a benefit, and lay employees retired from the lay employees' defined benefit retirement plan. The board also approved a supplementary benefit increase of $10 per month for retired clergy, surviving spouses, and lay retirees in order to give proportionately more to those with the lowest benefits.

*Increase in Clergy Retiree "Allowed Earnings"*: Many clergy continue to serve the Church through temporary or part-time employment during retirement. Retired clergy can now earn up to $30,500 during 2007 and still receive full pension benefits.

### Puerto Rico Clergy Pension Plan Change

The Diocese of Puerto Rico was a constituent member of The Episcopal Church until January 1, 1980, when the diocese became autonomous, an extra-provincial diocese with metropolitical authority granted to the President and Synod of Province IX. At the General Convention in 2003, the Diocese of Puerto Rico was readmitted as a member of The Episcopal Church. In February 2007, in response to a request by the Rt. Rev. David Alvarez, Bishop of Puerto Rico, the CPF Board of Trustees approved the administration of a program which would provide the bishop and clergy of Puerto Rico with the same benefits that are provided to similarly situated participants in CPF's Clergy Pension Plan.

### Business Resumption Planning

As responsible stewards, and with the full support of the CPF Board, we have done considerable work in the areas of disaster recovery and business resumption, including addressing such issues as automatic back-up systems, remote worksites, and data recovery processes.

- Business resumption plan and testing: A detailed, multi-level business resumption plan is in place to ensure that essential business processes, including the processing of pension and other benefits, will continue. We conduct periodic tests of this multi-faceted plan, continuing to fine-tune it as necessary.
- Data recovery: Our data systems on-site server, which automatically updates every 24 hours, has an automatic "clone" on a separate server in a distant part of the country.
- Offsite "hot spot": A remote worksite where senior staff can gather and continue their work, as well as the provision of computers and data retrieval systems which will allow other essential staff to work from home, are essential parts of our disaster recovery plans.
- Flu pandemic: The same kinds of systems that will protect our data and continue our work in the case of a natural or national security disaster will also be activated to deal with a health-related disaster such as a flu pandemic.

# Investment Performance

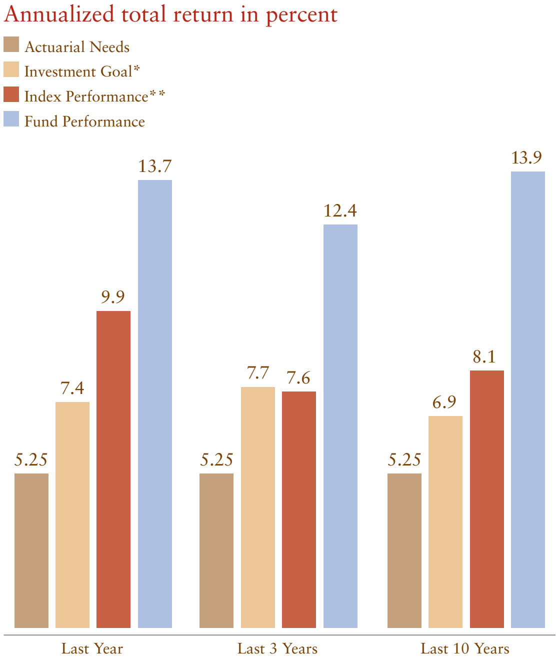
Financial markets performed well in fiscal 2007, with equities significantly outperforming bonds. While U.S. stocks did well, those outside the U.S. did especially well. CPF's investments did very well in fiscal 2007 due to the broad diversification of the investment portfolio, particularly in non-traditional assets such as non-U.S. equities, real estate, private equity, and specialized strategies such as hedge funds, risk arbitrage, and distressed debt.

The left-hand exhibit below shows CPF's investment performance over one-, three-, and ten-year periods through March 31, 2007. It compares the portfolio return to three key benchmarks: actuarial needs, investment goal, and an index portfolio of 65% S&P 500 stocks and 35% Lehman Brothers bonds. As you can see, CPF performance compares extremely favorably against all three indices in every time period. In fact, CPF has outperformed an all-stock portfolio as measured by the S&P 500 in each of these time periods.

The right-hand exhibit illustrates how that investment performance has impacted the growth of the fund's assets available for benefits, which stood at $8.7 billion as of 3/31/07, an all-time high. Required Reserves are the dollars required for paying pension and other benefit obligations; the Securities Valuation Reserve is an amount held as a provision against the possibility of a significant loss of value in the investment portfolio; and Additional Funds are assets available for benefits in excess of both the Required Reserves and the Securities Valuation Reserve.

The excellent investment performance of the past several years has been remarkable. We are not, however, immune from financial market volatility. Valuations are no longer cheap, and excess liquidity is flowing into non-traditional investment areas. As the right-hand exhibit shows, four years ago, Additional Funds were only $158 million. As fiduciaries and stewards of your pension assets, we will continue to balance the desire to further enhance benefits with the need to remain prudent and focused on the long term.

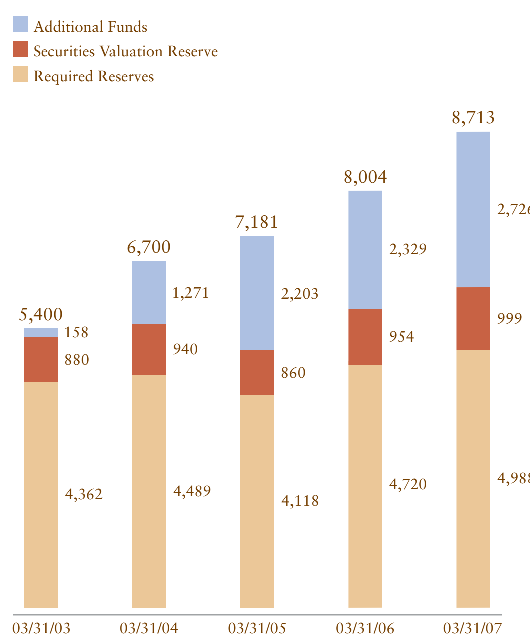
**Investment Performance for Periods Ending March 31, 2007**
Annualized total return in percent




*Investment Goal is a return of 4.5% over inflation.

**Composite performance of a portfolio weighted 65% in S&P 500 stocks, 35% in Lehman Brothers Government/Corporate bonds

**Assets Available for Benefits***
Dollars in millions




*Total assets excluding non-benefit liabilities, assets commingled for investment purposes, legacy and gift funds, investments in affiliated companies, and home office building

# Updates on Our Work in Support of Resolutions A125 and A147 of the 75th General Convention

## *Resolution A125: Employment Policies and Practices Task Force*
## Unprecedented Research into Episcopal Lay Employee Demographics, Compensation, Benefits, Employment Settings

As established by the 75th General Convention in Resolution A125, the Church Pension Group was authorized and requested to conduct this extensive research program. While the Church Pension Group's data on clergy is comprehensive, we had data only on lay employees participating in one of our plans or products. In order to reach as many lay employees as possible, we first had to know who they were.

A lay employee census form was sent to every Episcopal congregation in the U.S. in February. Episcopal dioceses and institutions were asked to complete the census during April and May. The census asked employers to provide lay employee demographics such as year of hire, year born, gender, preferred language, and marital status; where and how lay employees serve, number of hours worked; and compensation ranges and benefits. To provide a complete picture of the lay employee population, congregations, and institutions were also asked to reply to the census even if they did not currently have any lay employees.

We would like to express our appreciation to the congregations, dioceses, and institutions that completed the online and paper census forms. We believe that a better understanding of the Church's lay employees will make it possible for the Church as a whole to formulate policies that will enhance the welfare of those who serve the Church, strengthening the whole Church as it carries out its mission.

Having identified the lay employee population, we then selected The Gallup Organization to conduct the lay employee survey. Gallup offers a unique opportunity to look at lay employees in the Episcopal Church from

### *Resolution A125 Employment Policies and Practices Task Force*

***Resolved***, That the 75th General Convention of the Episcopal Church continue the Task Force to Study Employment Policies and Practices in the Episcopal Church during the coming triennium with the intention of offering a resolution to the 2009 General Convention that will address the issues of employment, striving to make the Episcopal Church a fair and just workplace; and be it further

***Resolved***, That the Convention authorize and request the Church Pension Group to conduct a survey of lay employees concentrating on employee demographics, the exercise of authority in the employment setting, and compensation and benefits. The Bishop or other ecclesiastical authority of each diocese shall be requested to supply relevant data for each employing unit in the diocese to the Church Pension Group. The findings of the survey and any recommendations for action, if appropriate, shall be reported to the 76th General Convention; and be it further

***Resolved***, That the Office of Ministry Development take the lead in determining the best way to conduct a feasibility study examining whether pension benefits for lay employees should be made compulsory and be administered by a single provider. The results of said study shall be reported, along with recommendations for action, if appropriate, to the 76th General Convention; and be it further

***Resolved***, That the attached statement on Workplace Values be commended to the Church as a worthy statement reflecting our values for work and the worker in the Church; and be it further

***Resolved***, That the General Convention request the Joint Standing Committee on Program, Budget and Finance to consider a budget allocation of $15,000 for the implementation of this resolution.

a comparative perspective through their many years of experience working with not-for-profit and faith-based organizations.

All lay employees for whom we had names were given the option of taking the survey online or on paper. Every effort was made to hear as many voices as possible. The survey looked at such data as family status, household income, overall financial situation, working conditions, previous work experience, and much more. All online and printed survey materials were provided in English and Spanish.

Overseas Episcopal dioceses will participate in the data-gathering this summer; both English and Spanish versions will be provided, with French and other language options available by telephone upon request.

In addition, dioceses and parishes that do not provide lay employee retirement plans through CPG are being asked to provide copies of their retirement plan documents. This part of our authorized study will help ensure that any lay employee retirement plan(s) that may ultimately be recommended as part of the feasibility study on lay employee retirement benefits described in Resolution A125 will take into account not only CPG's plans but the other plans currently in effect around the Church.

Data from the census, survey, and current lay employees' retirement plans research, will all support the work of the Task Force on Employment Policies and Practices in the Episcopal Church as well as the Episcopal Church's Office for Ministry Development in its leadership role in regard to that feasibility study. The findings of the study and any recommendations for action, if appropriate, will be reported by CPG to the 76th General Convention.

*We welcome your feedback and questions; please contact Linda Puckett at (800) 223-6602 x6260 or lpuckett@cpg.org.*

## *Resolution A147: Church-wide Healthcare Feasibility Study*

## Comprehensive Study of Costs and Issues Surrounding the Provision of Healthcare Benefits to All Active Clergy and Lay Employees

Through Resolution A147, the 75th General Convention authorized CPG to undertake a healthcare coverage feasibility study and report its findings and recommendations to General Convention in July 2009.

There are several reasons that make this unprecedented study both timely and important. First, the cost of healthcare benefits is high and rising rapidly, placing an increasingly difficult financial burden on many dioceses, parishes, and individuals. Second, there are justice issues around healthcare benefits for church employees, many of whom do not participate in diocesan-endorsed health benefit programs. Third, the economics of the U.S. healthcare environment are such that larger groups, with their greater purchasing power, are able to secure lower unit costs; purchasing healthcare benefits collectively rather than per-parish or per-diocese could help slow the growth of costs.

The feasibility study, a collaborative effort of the Church Pension Group and the Episcopal Church Medical Trust and involving the Episcopal Church Center, the House of Bishops, dioceses and parishes, Church leadership groups, and others across the Church, is now underway. It includes:

- Analysis of current healthcare industry economics
- Analysis of past, current, and projected future costs within the Church
- In-depth evaluation of the Church's current approach to providing healthcare benefits

In this regard, a number of information-gathering tools have already been disseminated to the Church:

- An online Awareness & Opinion Survey, available in both English and Spanish, was sent in April to all diocesan bishops, administrators, clergy, lay employees, and Deputies to the 75th General Convention
- All Church employers were asked to supply healthcare cost and benefit data this past spring.
- All clergy and lay employees were asked to complete a Healthcare Benefits Survey in June.

We are still collecting data. Those various data collections, as well as much other data and analysis, will help shape the recommended actions of this extensive, multifaceted study.

## *Resolution A147 Church-wide Healthcare Feasibility Study*

***Resolved***, That the 75th General Convention endorse the Church Pension Group's proposal to conduct a church-wide study of the costs and issues surrounding the provision of healthcare benefits to all clergy and lay employees serving churches, dioceses and other church institutions and to report their findings to the 76th General Convention; and be it further

***Resolved***, That all dioceses, parishes and other church institutions are urged to cooperate with the conduct of this study by responding to requests for data regarding employee census and healthcare costs; and be it further

***Resolved***, That this study will include an analysis of the potential for a mandated denominational healthcare benefits program and other viable alternatives, culminating in a recommended solution and an actionable implementation plan.

### Evaluation of Other Denominations' Experiences of Healthcare Coverage Provision

CPG is currently undertaking a Denominational Benchmark Study to evaluate the healthcare programs of the Presbyterian Church USA, the Evangelical Lutheran Church in America, the United Methodist Church, the Lutheran Church Missouri Synod, Guidestone Financial Resources (the pension and financial arm of the Southern Baptist Convention), and the United Church of Christ. We already know, for example, that the Presbyterian Church USA and the Evangelical Lutheran Church in America have national church plans that show promise in addressing the systemic problems of healthcare benefits delivery. Their experiences suggest that a carefully designed church-wide health benefits program might be a better alternative for the Episcopal Church than the decentralized model that exists today. However, this is only one of the possibilities being examined.

### Intentional Effort to Solicit Attitudes and Opinions in Regard to Plan Elements, Costs, and Cost-sharing to be Mounted in the Fall

In the fall, an opinion survey will be circulated to a representative sample of clergy and lay employees to help us understand what plan elements are deemed essential by our constituents. In November, another opinion survey will be circulated to a representative sample of clergy and lay employees to help us better understand how the Church feels about costs and cost-sharing.

The extensive data we collect, in conjunction with direct feedback from the Church, will be used in formulating a range of recommendations and analyzing their probable impact on individual church employers. Consensus will then be sought within the Church on the best long-term strategy for individuals and institutions prior to the report-back to the 76th General Convention.

### Timetable for This Unprecedented Study

This is a complex and wide-ranging effort that will take several years to complete. Information-gathering, analysis, and development of alternative solutions has already begun, and will continue into 2008. Finalization of the recommended solution and broad consensus-seeking with the Church will take place during 2008–2009. Finally, the recommendation and implementation program will be presented for approval at the 76th General Convention in July 2009.

### The Church's Involvement and Feedback are Essential

In addition to the various surveys and requests for information that have already been described, we are providing numerous other ways for two-way communication and information-sharing with the Church:

- Focus groups are being held in various parts of the country now and will continue throughout 2008, to allow direct, in-person feedback, helping us to better understand the mind of the Church.
- In-person presentations and conversations will be taking place with a wide range of Church leadership groups, and will include the House of Bishops, Executive Council, provincial caucuses, diocesan conventions, and various other leadership groups.
- Of course, we will continue to disseminate information to the Church on a regular basis via printed documents, web-based updates, and possibly webinars and teleconferences.
- In late 2008 and early 2009, Regional Forums will be held in various locations around the country.

*We welcome your feedback at any time throughout the process. We invite you to use the special A147 email address: A147info@cpg.org. If you prefer, you may call Tim Vanover at (800) 223-6602 x9405.*

# Affiliates

The past year has been a productive one for the affiliate companies as we continued to expand and improve the products and services we provide to individuals and institutions of the Episcopal Church.

***The Church Insurance Companies***[1] continued their practice of offering direct support to their clients, this year visiting over 2,300 clients in their locations. Directors & Officers coverage was added to the Church Insurance Company of Vermont policies to avoid the need for separate purchase of this coverage. The Episcopal Safety Program was expanded to 28 dioceses. Operational effectiveness was increased through the restructuring of the field office operation, which improved responsiveness and efficiency. A record number of 305 new package policy sales were completed this year, and the Church Insurance Company maintained its A.M. Best rating. We are very pleased to have retained 99% of our church clients.

***Church Life Insurance Corporation*** increased the number of individuals and institutions served again this year. The Church Life IncomeBuilder Annuity, which provides a stable value investment option and a guarantee of principal and tax-deferred interest for participants,[2] was added as an investment option in The Episcopal Church Lay Employees' Defined Contribution Plan (Lay DC plan) and The Episcopal Church Retirement Savings Plan (RSVP) during the year. In addition, in collaboration with the Church Pension Fund, Church Life launched *Income for Life*, an educational program providing enhanced financial information for participants in the Lay DC plan and RSVP who are planning for or approaching retirement. The Interest Accumulation Fund (IAF) was introduced to allow life insurance beneficiaries to deposit and earn interest on their Church Life insurance proceeds; the funds are fully accessible and earn a competitive interest rate. To better serve Episcopal churches and institutions by raising awareness of life insurance and retirement savings programs along with property and casualty products, Church Life began partnering with the Church Insurance Agency Corporation field representatives in two geographic regions.

***Church Publishing Incorporated*** (CPI) includes the imprints Church Publishing, Seabury Books, Morehouse Publishing, Morehouse Church Resources, Living the Good News, and Electronic Publishing. This last year has been one of financial challenges and strategic rebuilding. With the acquisition of Morehouse Publishing in October 2005, CPI set out on an ambitious path to integrate the six imprints, staff in three locations, and operations. As work continued on the many aspects of the transition, we have seen excellent progress in the development of an integrated, comprehensive publishing house for the Episcopal Church. During the past year, CPI published over 70 new titles, including *A Wing and a Prayer*, the first book by the Most Rev. Katharine Jefferts Schori, Presiding Bishop of the Episcopal Church. We also published the Revised Common Lectionary, the official publications of the 75th General Convention, *The Episcopal Church Annual* (known as The Red Book), and a wide variety of titles in the areas of liturgy, church leader resources, spirituality, music, bible study, curriculae for children and adults, and church resources. In March 2007, CPI concluded an agreement with Church House Publishing (CHP) to become their sole distributor in the U.S., including both trade and direct-to-church products. CHP is one of the leading religious publishers in the UK and the official publisher to the Archbishops' Council and the General Synod of the Church of England, publishing books on ministry and evangelism, church care and conservation, and liturgy, as well as educational publications and important reference materials.

[1] Collectively, The Church Insurance Agency Corporation, The Church Insurance Company, and The Church Insurance Company of Vermont

[2] The Church Life IncomeBuilder Annuity is a group annuity contract issued to the Church Pension Fund by Church Life Insurance Corporation.

***The Episcopal Church Medical Trust*** (Medical Trust) made significant progress in 2006 despite the unique and complex set of challenges presented to members, employers, and plan administrators by the current climate of employee healthcare benefits and administration. The Medical Trust saw positive operating results for 2006 and a significant improvement in its financial position. The number of those we serve rose again this year. We added three dioceses during 2006, for a total of 71 dioceses served, and currently serve over 2,800 parishes and missions. As of January 2007, we are providing healthcare benefits to more than 6,100 active and retired lay employees and 8,500 active and retired clergy. The continued growth of the Medical Trust over the past five years allows us to maximize benefits and services for members through risk diversification, economies of scale, and purchasing power. We continued to work to improve employee health by encouraging healthy living and illness prevention via monthly newsletters, health fair workshops, and plan designs. Benefits specialists and wellness professionals made visits to over 20 participating groups in 2006. This year, the Medical Trust began providing all Plan Documents electronically, and leveraged in-house technological expertise to create a web-based health benefits open enrollment for active members, thus improving the administration process while supporting environmental and financial stewardship initiatives.

# Significant Accomplishments

- CPG began unprecedented research studies and analyses as authorized by 75th General Convention Resolutions A125 (lay employee benefits) and A147 (church-wide healthcare feasibility study).
- Total fund assets exceeded $9 billion and assets available for benefits stood at $8.7 billion as of March 31, 2007.
- Retirement Savings Plan (RSVP) and Episcopal Church Lay Employees' Defined Contribution Plan (Lay DC plan) were enhanced with 2 new investment options: Church Life's IncomeBuilder Annuity, and The Fidelity Freedom Funds. Convenient web-based billing was pilot-tested for both of these retirement plans; full implementation planned for calendar 2007.
- CPG management reorganization established a single unit for oversight of all retirement programs and services.
- Over 70 new titles were published by Church Publishing Incorporated (CPI). CPI signed an exclusive U.S. distribution agreement with Church House Publishing, UK. CPI imprint Morehouse Publishing published *A Wing and a Prayer* by the Most Rev. Katharine Jefferts Schori, the first book by the Presiding Bishop; over 15,000 copies sold as of March 31.
- Underlying operating systems were enhanced for improved customer service and great efficiency.
- The Church Insurance Agency Corporation restructured field service operations to improve responsiveness and efficiency; representatives visited over 2,300 clients in their locations. Episcopal Safety Program expanded to 28 dioceses. Directors & Officers coverage added to The Church Insurance Company of Vermont package policies, eliminating the need for clients to purchase this coverage separately.
- The Episcopal Church Medical Trust hosted 9 health fairs and participated in 31 diocesan events. Work was completed for enhanced web self-service capabilities to be introduced for dioceses, parishes, and institutions in June 2007.
- Church Life Insurance Corporation introduced an on-line insurance calculator; the Interest Accumulation Fund Program was added as an option for life insurance beneficiaries.

***CREDO Institute, Inc.*** has as its mission to serve as a collaborative alliance providing resources for Episcopal leadership and wellness programs. The Church Pension Fund has been the principal supporter of this program since its inception in 2001, and throughout its development for several years prior to that date. In 2005 and early 2006, the Church Pension Fund Board of Trustees performed an extensive review of CREDO Institute, Inc., and approved continued funding of the CREDO benefit through 2012. In addition, the CPF Trustees granted funding for the continued development of collaborative partnerships such as Fresh Start, College for Bishops, and research into clergy wellness and Episcopal identity. Over the past year, CREDO continued to offer highly rated conferences, including the inaugural Spanish-language CREDO for clergy whose first language is Spanish, an eight-day conference for lay professionals, and the first CREDO II conferences for clergy who attended a CREDO conference 6 to 8 years ago. Working in collaboration with other entities in the Church, CREDO is engaged in research efforts which should offer informative data for the continued development of the health and well-being of the Episcopal Church and those who serve the Church so faithfully.

## Management Changes

During the past year, we implemented a series of organizational changes at the Executive Vice President level, intended to improve the overall effectiveness of the operations of the Church Pension Fund and its affiliated companies. The major goals of this restructuring were to better align our organizational structure with our mission and strategy; to establish one business unit which will be clearly responsible for all aspects of clergy and lay retirement programs; and to create a more efficient management reporting structure. Based on these objectives, a number of existing functions were grouped into three new departments: *Retirement Programs and Services* was established to administer all aspects of the clergy and lay retirement programs. The Rev. Canon Patricia M. Coller, Senior Executive Vice President, heads the department, which encompasses Pension Policy and Design, Pension Services and Administration, Pastoral Care and Education, Research and Recorder of Ordinations, CREDO, Companion Pension Plans, and Parish/Diocesan Services. The second new department, *Health, Life, and Risk Management Services*, is led by Jim Morrison, Executive Vice President, and encompasses Church Life Insurance Corporation, the Church Insurance Companies (Church Insurance of New York, Church Insurance of Vermont, and Church Insurance Agency Corporation), and the Episcopal Church Medical Trust. Maria E. Curatolo, Executive Vice President and Chief Administrative Officer, leads the newly-formed *Administrative Services* department.

As always, we thank you for your prayers and continued support as we pursue our ministry on your behalf.

Faithfully,

David R. Pitts
*Chair*

The Rt. Rev. Gayle E. Harris
*Vice Chair*

The Rt. Rev. Peter James Lee
*Vice Chair*

T. Dennis Sullivan
*President*

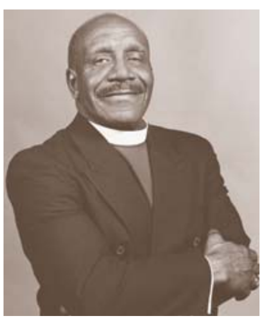
*Officers of the Board*
*(seated) David R. Pitts, T. Dennis Sullivan;*
*(standing) The Rt. Rev. Peter James Lee, The Rt. Rev. Gayle E. Harris*

# In Memoriam

*During the past fifteen months, the Church Pension Group lost two respected and beloved colleagues. We remember them here with admiration and affection.*

**The Rt. Rev. William A. Beckham**
*CPF Trustee, 1984–1997; Chair, 1991–1997*
*Bishop (retired), Diocese of Upper South Carolina*

A man of faith, love, and dedication, Bill led the Board and the Investment Committee at a critical time in CPF's history. With Alan Blanchard and Sam Pryor, he encouraged the Fund's shift toward broad diversification in the Fund's investment strategy, beginning in 1992, in order to enhance returns while reducing risk. The ability of the Fund to increase pensions to the extent that it has over the past ten years is due, in great measure, to his foresight. Although he experienced tragedy in his personal life, he was sustained by his faith, inspiring confidence and strengthening the faith of others. He had a wise and caring heart, and the ability of the parish priest to retire with dignity was primary to him. "We don't have anyone retired now who has less purchasing power than they did when they retired," he said in 1998. "It's great when you can make a difference."



**The Rt. Rev. Herbert Thompson, Jr.**
*CPF Trustee, 1991–2003; Vice Chair, 1997–2000; Chair, 2000–2003*
*Bishop (retired), Diocese of Southern Ohio*

A man of faith, compassion, and prayer, Herb held significant leadership roles in the Church on both the local and national levels. He served on numerous commissions, chaired the Presiding Bishop's Fund for World Relief, co-founded Global Episcopal Ministries, and was the first African-American to be nominated for Presiding Bishop, in 1997. In his various leadership roles on the CPF Board, he was committed to improving the lives and retirement of the Episcopal clergy, reminding trustees and staff of the days when priests had to sell newspapers to supplement their pensions. For the City of Cincinnati, Herb chaired the Mayor's Commission on Children, and was named a Great Living Cincinnatian by the Chamber of Commerce. His personal motto was: *To reconcile, to liberate, to heal, to serve.*

*Well done, thou good and faithful servants…*

## Statements of Assets, Liabilities and Fund Balances

| March 31 | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| ***Investments and Cash:*** | | |
| Equity securities, other than affiliated companies, at market (cost: 2007–$3,010,976,000; 2006–$2,683,530,000) | $3,823,611,638 | $3,468,342,635 |
| Fixed income securities, at amortized cost (market: 2007–$2,308,931,000; 2006–$2,273,160,000) | 2,242,310,664 | 2,244,866,927 |
| Limited partnerships and trust interests | 2,517,626,264 | 1,994,565,659 |
| Mortgage loans, at amortized cost | 33,254,640 | 40,271,928 |
| Affiliated companies, at equity in underlying net assets | 99,552,431 | 95,118,122 |
| Home office building and improvements, at cost less accumulated depreciation | 17,417,300 | 17,181,149 |
| Short-term securities, at cost which approximates market | 592,795,717 | 493,800,277 |
| Cash and cash equivalents | 1,617,268 | 30 |
| ***Total Investments and Cash*** | 9,328,185,922 | 8,354,146,727 |
| ***Receivables and Other Assets:*** | | |
| Receivables from brokers | 118,383,664 | 172,358,937 |
| Notes receivable | 2,105,524 | 2,150,885 |
| Assessments receivable, less allowance for doubtful accounts (2007–$1,819,000; 2006–$2,809,000) | 2,453,580 | 3,617,074 |
| Accrued investment income and other assets | 27,090,645 | 26,211,872 |
| ***Total Assets*** | $9,478,219,335 | $8,558,485,495 |
| **Liabilities and Fund Balances** | | |
| ***Liabilities:*** | | |
| Payable to brokers | $ 356,871,167 | $ 341,752,206 |
| Accrued expenses and other liabilities | 70,561,512 | 70,585,878 |
| ***Total Liabilities*** | 427,432,679 | 412,338,084 |
| ***Special Funds:*** | | |
| Major Medical Supplement Fund | 880,102,287 | 843,146,836 |
| Life Insurance Benefit Fund | 87,016,148 | 86,646,223 |
| International Clergy Pension Plan | 77,682,047 | 70,487,412 |
| The Episcopal Church Lay Employees' Retirement Plan | 109,500,031 | – |
| Staff Retirement Plan of The Church Pension Fund and Affiliates | 80,956,505 | – |
| Restricted Legacy and Gift Fund | 15,690,909 | 14,830,505 |
| Unrestricted Legacy and Gift Fund | 15,076,736 | 14,915,004 |
| Supplemental Pension Fund | 57,934,012 | 57,046,038 |
| ***Total Special Funds*** | 1,323,958,675 | 1,087,072,018 |
| ***Other Funds:*** | | |
| Investment in affiliated companies | 99,552,431 | 95,118,122 |
| Investment in home office building and improvements | 17,417,300 | 17,181,149 |
| ***Total Other Funds*** | 116,969,731 | 112,299,271 |
| ***Total Liabilities, Special Funds and Other Funds*** | 1,868,361,085 | 1,611,709,373 |
| ***Funded Reserve*** | 7,609,858,250 | 6,946,776,122 |
| Total Liabilities and Fund Balances | $9,478,219,335 | $8,558,485,495 |

See accompanying financial review.

# Statements of Changes in Funded Reserve

| Year Ended March 31 | 2007 | 2006 |
|---|---|---|
| **Additions** | | |
| *Revenues* | | |
| Assessments | $ 81,107,114 | $ 79,907,429 |
| Interest | 122,737,492 | 99,220,307 |
| Dividends and other income | 50,180,331 | 57,951,086 |
| *Total Revenues* | 254,024,937 | 237,078,822 |
| *Investment Gains and Losses* | | |
| Net gain on limited partnerships and trust interests | 327,882,014 | 275,027,247 |
| Net realized gain on sales of investments | 421,121,961 | 412,284,433 |
| Net gain from changes in unrealized appreciation and depreciation of equity securities | 26,272,088 | 207,244,660 |
| *Net Investment Gains* | 775,276,063 | 894,556,340 |
| *Total Additions* | 1,029,301,000 | 1,131,635,162 |
| **Deductions** | | |
| *Benefits and Expenses* | | |
| Pensions and other benefits | 216,621,149 | 204,448,517 |
| Medical supplement | 20,078,907 | 19,626,181 |
| Life insurance | 8,451,062 | 8,079,435 |
| Benefit payments | 245,151,118 | 232,154,133 |
| Investment management and custodial fees | 27,259,650 | 22,185,476 |
| General and administrative expenses | 40,295,781 | 32,349,261 |
| Enterprise-wide projects | 6,154,638 | 7,162,146 |
| *Total Benefits and Expenses* | 318,861,187 | 293,851,016 |
| *Other Deductions (Additions)* | | |
| Increase (decrease) in Major Medical Supplemental Fund | 36,955,451 | (81,414,903) |
| Increase (decrease) in Life Insurance Benefit Fund | 369,925 | (72,089) |
| Increase in International Clergy Pension Plan | 4,448,976 | 14,592,235 |
| Increase in Supplemental Pension Fund | 887,974 | 45,423,071 |
| Increase in home office building and improvements | 236,151 | 310,412 |
| Increase in non-admitted assets and other deductions | 4,459,208 | 17,104,405 |
| *Total Deductions* | 366,218,872 | 289,794,147 |
| *Net Increase in Funded Reserve* | 663,082,128 | 841,841,015 |
| *Funded Reserve at Beginning of Year* | 6,946,776,122 | 6,104,935,107 |
| *Funded Reserve at End of Year* | $7,609,858,250 | $6,946,776,122 |

See accompanying financial review.

# Financial Review

## Organization

The Church Pension Fund (the "Fund") is a corporation chartered in 1914 by the Legislature of the State of New York. Its incorporators and their successors are broadly authorized, as Trustees of the Fund, to establish and administer the clergy pension system of the Episcopal Church, including pensions, insurance, annuities, accident, health and other programs. The Fund was established by the General Convention of the Episcopal Church; the Fund and its affiliates are official agencies of the Episcopal Church for these purposes and operate under the Canons of the Episcopal Church.

The Fund began its operations on March 1, 1917. Subsequently, affiliates of the Fund were formed as its activities expanded. Major affiliates and their years of formation include: Church Publishing Incorporated, 1918; Church Life Insurance Corporation, 1922; The Church Insurance Company, 1929; The Church Insurance Agency Corporation, 1930; The Episcopal Church Clergy and Employees' Benefit Trust, 1978; The Church Insurance Company of Vermont, 1999, and CREDO Institute, Inc., 2001. All operations of the Fund and its affiliates, informally known as the Church Pension Group, are governed by the Fund's Board of Trustees or by subsidiary Boards including Fund Trustees. Except for the President, all Fund Trustees serve without compensation and are elected by the General Convention from a slate of nominees. In general, Fund Trustees serve for a maximum of two consecutive six year terms.

The Fund's Clergy Pension Plan (the "Plan") is a defined benefit pension plan, the assets of which are pooled for the benefit of all participants. As a church plan, it is exempt from Titles I and IV of the Employee Retirement Income Security Act of 1974 and, therefore, is not subject to Pension Benefit Guaranty Corporation requirements. The Plan and other plans sponsored by the Fund and its affiliates have long been recognized as exempt from federal income taxes. The Fund and certain of its affiliates are also exempt from certain federal, state and local income taxes.

The Fund maintains a master trust with an undivided ownership interest in the portion of the Fund's assets allocable to (1) the Plan benefits for retired participants and their dependents, (2) the benefits under The Episcopal Church Lay Employees' Retirement Plan (the "Lay Plan"), and (3) the benefits under the Staff Retirement Plan of The Church Pension Fund and Affiliates (the "Staff Plan"). The master trust agreement names the Fund as trustee and the Northern Trust Company as custodian. The portion of the master trust (1) attributable to the Plan is funded, as necessary, to at least equal the actuarial liability of the Plan benefits for retired participants and their dependents on an annual basis, and (2) attributable to the Lay Plan and the Staff Plan is funded at the discretion of the respective plan sponsor. As of March 31, 2007, master trust assets, which are included in the statements of assets, liabilities and fund balances, relating to the plan benefits described above, amounted to \$2.4 billion. Prior to June 30, 2006, the master trust held only assets attributable to the Plan benefits for retired participants and their dependents. Master trust assets amounted to \$2.1 billion, as of March 31, 2006.

## Basis of Presentation and Significant Accounting Practices

Since 1914, the Fund has elected to be examined by the New York Insurance Department. As a result, the Fund's statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the State of New York Insurance Department ("NY SAP"). The State of New York Insurance Department recognizes only NY SAP for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under the New York State Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual, effective January 1, 2001, ("NAIC SAP") has been adopted as a component of NY SAP. The State of New York has also adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, certain EDP equipment, software, furniture and fixtures and leasehold improvements are non-admitted assets under New York State Insurance Law.

Accounting practices of NY SAP are a comprehensive basis of accounting that differs from accounting principles generally accepted in the United States of America ("GAAP"). The more significant variances from GAAP, the effects of which have not been determined but are presumed to be material, are as follows:

- Rather than valuing all of its fixed income securities at fair value, the Fund values these investments at amortized cost. Common shares of its affiliates are recorded at the Fund's equity in the affiliates' net assets rather than consolidated.
- Clergy pension obligations and the major medical supplement fund are computed assuming a 5.25% interest rate, projections of future service and earned benefits and the assumption that clergy salaries will increase in future years. Under GAAP, the present value of these obligations would likely be lower because a higher interest rate might be used and future service, earned benefits and salary increases would not be anticipated.
- Under NY SAP, an asset valuation reserve is required for life and annuity insurers to stabilize surplus against investment declines. Similar to this treatment, although not required, the Fund has established a securities valuation reserve which is described in the section marked "components of funded pension reserve" below. No such reserves are permitted under GAAP.
- Certain assets designated as "non-admitted" are excluded from the accompanying statements of assets, liabilities and fund balances and are charged directly to the funded reserve.

The preparation of the Fund's financial statements requires management to make estimates and assumptions that affect the financial statements and accompanying notes. Actual results could differ significantly from these estimates.

Certain amounts in the March 31, 2006 financial statements have been reclassified to conform to the March 31, 2007 presentation.

### Investments in Equities

The Fund has direct investments in the common stocks of a wide range of unaffiliated companies, which are carried at quoted market value. Included are investments in common stocks of domestic and foreign corporations and holdings in large as well as midsize and small companies. Realized gains and losses on the sales of common stocks are computed on the first-in, first-out basis. The gross unrealized gains and losses on, and the cost and market value of the Fund's investments in, common stocks are summarized as follows:

| March 31 (in thousands) | 2007 | 2006 |
|---|---|---|
| Cost | $3,010,976 | $2,683,530 |
| Gross unrealized | | |
| Gains | 872,032 | 835,891 |
| Losses | (59,396) | (51,078) |
| **Market Value** | $3,823,612 | $3,468,343 |

### Investments in Fixed Income Securities

The Fund's investments in fixed income securities are carried at amortized cost. The Fund recognizes interest income on the accrual method. Amortization of premium and accretion of discount are calculated using the interest method. In addition, this calculation uses the retrospective method, based on anticipated prepayments, for loan-backed securities. Realized gains and losses on the sales of fixed income securities are computed on the first-in, first-out basis.

The amortized cost and estimated market value of fixed income securities, by contractual maturity, are as shown below. Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

| March 31, 2007 (in thousands) | Amortized Cost | Estimated Market Value |
|---|---|---|
| Due in 1 year or less | $ 30,279 | $ 30,067 |
| Due after 1 through 5 years | 402,087 | 421,047 |
| Due after 5 through 10 years | 386,692 | 402,099 |
| Due after 10 years | 1,423,253 | 1,455,718 |
| **Total** | $2,242,311 | $2,308,931 |

The amortized cost and estimated market value of investments in fixed income securities are summarized as follows:

| March 31, 2007 (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| U.S. Treasury and obligations of U.S. government corporations and agencies | $1,230,730 | $59,577 | $ (6,746) | $1,283,561 |
| Corporate | 681,819 | 16,744 | (9,443) | 689,120 |
| Loan-backed | 142,909 | 599 | (1,450) | 142,058 |
| Foreign governments | 99,514 | 7,934 | (93) | 107,355 |
| Asset-backed | 87,339 | 313 | (815) | 86,837 |
| **Totals** | $2,242,311 | $85,167 | $(18,547) | $2,308,931 |

| March 31, 2006 (in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| U.S. Treasury and obligations of U.S. government corporations and agencies | $1,175,398 | $48,928 | $(13,337) | $1,210,989 |
| Corporate | 714,666 | 14,774 | (19,932) | 709,508 |
| Loan-backed | 140,960 | 142 | (2,158) | 138,944 |
| Foreign governments | 112,534 | 4,165 | (3,158) | 113,541 |
| Asset-backed | 101,309 | 146 | (1,277) | 100,178 |
| **Totals** | $2,244,867 | $68,155 | $(39,862) | $2,273,160 |

During the years ended March 31, 2007 and 2006, proceeds from the sales of investments in fixed income securities were $6.0 billion and $7.1 billion, respectively. Gross gains of $50.4 million and $34.3 million and gross losses of $27.1 million and $26.2 million were realized on those sales during the years ended March 31, 2007 and 2006, respectively.

### Impairment

The values of equities, fixed income securities and real estate limited partnerships are adjusted for impairments in value deemed to be other than temporary. The Fund considers the following factors in the evaluation of whether a decline in value is other than temporary: (a) general economic conditions; (b) the financial condition and near-term prospects of the issuer; (c) the Fund's ability and intent to retain the investment for a period of time sufficient to allow an anticipated recovery in value; and (d) the period and degree to which the market has been below cost. This evaluation is a quantative and qualitative process subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. If the impairment is other than temporary, a direct write-down is recognized in the statement of changes in funded reserve as a realized capital loss and a new cost basis is established.

The unrealized losses on equities in an unrealized loss position for less than twelve months were $25.6 million and for twelve months or longer were $33.8 million. The unrealized losses on fixed income securities in an unrealized loss position for less than twelve months were $18.5 million. Unrealized losses of $49.4 million related to securities with an unrealized loss position of less than 20% of cost or amortized cost represented 3% of the cost of such securities while unrealized losses of $28.2 million of unrealized losses related to securities with an unrealized loss position of more than 20% of cost or amortized cost represented 37% of the cost of such securities. As part of an ongoing investment monitoring process, the Fund has reviewed its investment portfolio and concluded, as of March 31, 2007, that there were only temporary impairments which had not been recognized.

### Derivative Financial Investments

The Fund uses futures contracts primarily to maintain its asset allocation within ranges determined by the Investment Committee. Such futures contracts trade on recognized exchanges and margin requirements are met by pledging cash and cash equivalents. The contractual amount of the open futures contracts aggregated approximately $224 million and $87 million at March 31, 2007 and March 31, 2006, respectively.

The contractual amounts of these instruments are indications of the open transactions and do not represent the level of market or credit risk to the portfolio. Since some of the futures held by the Fund are adjusting market risk elsewhere in the portfolio, the measurement of the risks associated with these instruments is meaningful only when all related and offsetting transactions are considered. Market risks to the portfolio are caused primarily by changes in U.S. interest rates or in the value of U.S. equity markets.

With respect to credit risk, futures contracts entail daily cash settlement, thus limiting the cash receipt or payment to the change in market value of the underlying instrument. Accordingly, the amount of credit risk represents a one-day receivable. Settlements, which amounted to $8 million and $8 million for the years ended March 31, 2007 and 2006, respectively, are recorded in the accompanying financial statements as a component of realized gains and losses.

### Investments in Limited Partnerships and Trust Interests

Certain financial information for fiscal 2007 and 2006 and the carrying values of investments in limited partnerships and trust interests are summarized as follows:

| 2007 (in thousands) | Beginning Balance | Contributions | Operating Results & Net Capital Gains | Distributions | March 31 Balance |
|---|---|---|---|---|---|
| Venture capital | $ 225,844 | $ 78,244 | $ 58,000 | $ (49,275) | $ 312,813 |
| Public equities | 836,205 | 301,217 | 129,231 | (40,088) | 1,226,565 |
| Real estate and REITs | 736,019 | 239,876 | 103,012 | (387,236) | 691,671 |
| Private equity | 196,498 | 96,224 | 79,011 | (85,156) | 286,577 |
| Totals | $1,994,566 | $715,561 | $369,254 | $(561,755) | $2,517,626 |

| 2006 (in thousands) | | | | | |
|---|---|---|---|---|---|
| Venture capital | $ 252,595 | $ 47,984 | $ 20,514 | $ (95,249) | $ 225,844 |
| Public equities | 652,365 | 130,553 | 89,113 | (35,826) | 836,205 |
| Real estate and REITs | 473,051 | 321,466 | 142,659 | (201,157) | 736,019 |
| Private equity | 134,118 | 115,483 | 43,587 | (96,690) | 196,498 |
| **Totals** | $1,512,129 | $615,486 | $295,873 | $(428,922) | $1,994,566 |

Investments in partnerships and trusts include participation in real estate partnerships and trusts, partnerships owning publicly-traded securities, and partnerships with venture capital and private equity holdings. The carrying values of these investments are based upon the Fund's equity in the partnerships' net assets as reported in their respective annual audited financial statements and the Fund's contributions made and distributions received through March 31, 2007 and March 31, 2006, respectively.

The investments of real estate partnerships are generally carried at cost or at cost less depreciation as reported in the partnerships' financial statements. The Fund's share of the net assets of such partnerships on an estimated market value basis is approximately $242 million and $38 million higher than the March 31, 2007 and 2006 carrying values, respectively. Investments in real estate investment trusts ("REITs") approximated $230 million and $44 million at March 31, 2007 and 2006, respectively, and are carried at estimated market value. Partnerships investing in publicly-traded equities are carried at the Fund's interest in the market value of the underlying securities based on their quoted values.

The net assets of venture capital and private equity limited partnerships are carried at market value as estimated by the respective general partners at December 31, 2006 and 2005, adjusted for the Fund's contributions made and distributions received through March 31, 2007 and 2006, respectively. For this intervening period, the changes in the unrealized appreciation or depreciation for these investments have not been reflected in the accompanying financial statements. Because of the inherent uncertainty of the valuations, however, those estimated market values may differ, perhaps materially, from the values that would have been used had a ready market for the investments existed.

The net gain on limited partnerships and trust interests for the fiscal years ended March 31, 2007 and 2006 include realized and unrealized gains and losses, operating results, dividends and interest, less investment management fees and other expenses, and are summarized in the following table:

| March 31 (in thousands) | 2007 | 2006 |
|---|---|---|
| Net realized capital gains | $ 67,214 | $ 36,335 |
| Net unrealized capital gains | 300,576 | 141,057 |
| Operating results | 1,464 | 118,481 |
| Operating results and net capital gains | 369,254 | 295,873 |
| Dividends and interest | – | – |
| Direct fees and other expenses | (41,372) | (20,846) |
| Net gain on limited partnerships and trust interests | $327,882 | $275,027 |

At March 31, 2007, the Fund had open investment commitments to partnerships of $1.5 billion which are expected to be funded during future years. In this regard, from April 1, 2007 through April 30, 2007, the Fund invested an additional $45 million and made additional commitments of $13 million in limited partnerships and trust interests. Although there is a secondary market in partnerships, most of these investments are illiquid and there may be penalties should the Fund not fulfill its funding and holding period commitments.

## Other Assets

The Fund's investments in mortgage loans are carried at amortized cost. The estimated market value of these loans is determined by the discounted cash flow method, taking into account prepayment risk. At March 31, 2007 and 2006, the estimated market value of mortgage loans was approximately $34.3 million and $41.8 million, respectively.

The investment in the organization's home office building and improvements is carried at cost less accumulated depreciation of $7.6 million and $6.7 million at March 31, 2007 and 2006, respectively. The home office building and improvements are depreciated on a straight-line basis over their estimated useful lives.

Investments with original maturities of one year or less are classified as short-term investments and are carried at cost, which approximates market value.

Cash and cash equivalents represent short-term highly liquid investments with original maturities of three months or less and are carried at cost, which approximates market value.

## Investments in Affiliated Companies

Investments in affiliated companies represent an important use of the Fund's assets. The wholly-owned affiliated companies carry out significant activities that the Trustees, upon the advice and request of the Episcopal Church, have concluded further the Fund's mission. The carrying values of affiliated companies are determined using the equity method of accounting. Changes in the carrying values are credited or charged to other deductions and dividends received are included with the Fund's revenue under dividends.

The accounts of Church Insurance Company and Church Life Insurance Corporation are maintained in accordance with NY SAP. The other affiliates follow GAAP. The primary activities and financial status of each of the major affiliates are described in the sections below for calendar years 2006 and 2005.

## The Church Insurance Companies[1]

Today, more than 75% of Episcopal Church institutions rely on the Church Insurance Companies for their commercial package coverage. The Church Insurance Agency Corporation provides insurance products and risk-management services to Episcopal institutions. The agency accesses a broad range of products tailored for the special needs of Episcopal institutions through its sister companies or through its product partners, which include Liberty Mutual, Chubb, Travelers, Zurich and Markel. The Church Insurance Company has provided property and liability coverage for church institutions since 1929. The Church Insurance Company of Vermont is a single-parent captive insurance company incorporated in 1999 to allow church institutions to benefit from the coverage flexibility and potential cost advantages of this risk-financing approach. T. Dennis Sullivan is the President and D. Roderick Webster is Senior Vice President and General Manager of the Church Insurance Companies.

In 2006, the Church Insurance Companies' combined operations had a net income of $1.5 million.

### Financial Summary

| December 31 (in thousands) | 2006 | 2005 |
|---|---|---|
| Admitted assets | $173,901 | $173,126 |
| Liabilities | 125,458 | 126,405 |
| Capital and surplus | 48,443 | 46,721 |
| Written premiums | 37,893 | 39,286 |
| Net income (loss) | 1,451 | (5,055) |

## Church Life Insurance Corporation

Since 1922, Church Life Insurance Corporation ("Church Life") has provided life insurance protection and retirement savings plans to clergy and lay workers who serve the Episcopal Church and to their families. The products Church Life offers include individual and group annuities, IRAs and life insurance coverage. T. Dennis Sullivan is the President and James E. Thomas is Senior Vice President and General Manager of Church Life.

At the end of 2006, Church Life maintained $944.7 million of in-force insurance for its clergy and lay beneficiaries; assets totaled $199.4 million; and the net income for the year was $4.2 million.

[1] "The Church Insurance Companies" means, collectively, The Church Insurance Agency Corporation, The Church Insurance Company and The Church Insurance Company of Vermont.

### Financial Summary

| December 31 (in thousands) | 2006 | 2005 |
|---|---|---|
| Admitted assets | $199,385 | $201,709 |
| Liabilities | 164,424 | 172,150 |
| Capital and surplus | 34,961 | 29,559 |
| Insurance in force | 944,707 | 913,496 |
| Earned premiums | 40,405 | 40,947 |
| Statutory net income (loss) | 4,177 | (47) |

### Church Publishing Incorporated

Since 1918, Church Publishing Incorporated ("Church Publishing") has produced the official worship materials of the Episcopal Church. In addition to basic and gift editions of prayer books and hymnals, Church Publishing now has an extensive title list in the fields of liturgy, theology, church history, homiletics and Anglican spirituality. Church Publishing also offers a growing list of recorded music products, pioneering liturgical and musical software and new on-line services. During 2005, the assets of Morehouse Publishing and Living the Good News were purchased for $10.25 million and became part of Church Publishing. The purchase of these assets was funded by a capital contribution from the Fund. T. Dennis Sullivan is the President of Church Publishing.

In 2006, total revenues were $9.0 million and Church Publishing had a net loss of $3.5 million.

### Financial Summary

| December 31 (in thousands) | 2006 | 2005 |
|---|---|---|
| Assets | $14,758 | $18,305 |
| Liabilities | 4,896 | 4,940 |
| Capital | 9,862 | 13,365 |
| Revenue | 8,953 | 4,792 |
| Net loss | (3,503) | (2,198) |
| Capital contributions received from the Fund | – | 14,500 |

### CREDO Institute, Inc.

Since 2001, CREDO Institute, Inc. ("CREDO") has provided opportunities for Episcopal clergy to examine significant areas of their lives and to discern prayerfully the future direction of their vocations as they respond to God's call in a lifelong process of practice and transformation. CREDO accomplishes this by organizing conferences led by prominent clergy and lay individuals from around the country that provide clergy and lay participants the opportunity to reflect on spiritual, vocational, health and financial aspects of their lives. CREDO receives substantially all of its funding from the Fund. William S. Craddock, Jr., is the Managing Director of CREDO.

| December 31 (in thousands) | 2006 | 2005 |
|---|---|---|
| Assets | $24,270 | $26,107 |
| Liabilities | 511 | 463 |
| Net assets | 23,759 | 25,644 |
| Support and revenue | 3,359 | 20,643 |
| Change in net assets | (1,884) | 17,279 |
| Capital contributions received from the Fund | 3,294 | 2,649 |

### The Episcopal Church Clergy and Employees' Benefit Trust ("The Benefit Trust")

The Benefit Trust, now in its twenty-ninth year, funds the health plan options that are offered by The Episcopal Church Medical Trust. The Episcopal Church Medical Trust provides active and retired clergy and employees of the Episcopal Church and their dependents with a broad array of health plan options and serves as the plan sponsor and administrator of such plans. The Episcopal Church Medical Trust offers a wide variety of managed care plans, self-funded preferred provider and indemnity plans and mental health and dental care plans. For retired participants, The Episcopal Church Medical Trust offers Medicare supplement plans, as well as Medicare HMOs in selected regions of the country.

The Episcopal Church Medical Trust has experienced challenges similar to those faced by other healthcare organizations in achieving positive operating results. However, since 2002, operating results have been positive and have improved The Benefit Trust's financial position significantly over the prior years. The accumulated surplus, as of December 31, 2006, was $289 thousand.

The Benefit Trust is not a subsidiary of the Fund. Accordingly, its assets, liabilities and financial results are not included in the Fund's financial statements. T. Dennis Sullivan is the President and Paul A. Calio is Senior Vice President and General Manager of The Episcopal Church Medical Trust.

### Financial Summary

| December 31 (in thousands) | 2006 | 2005 |
|---|---|---|
| Assets | $15,650 | $ 9,770 |
| Liabilities | 15,361 | 12,161 |
| Accumulated surplus (deficit) | 289 | (2,391) |
| Revenues | 107,046 | 96,107 |
| Benefits provided | 104,367 | 95,325 |
| Net income | 2,680 | 782 |

### Assessments and Benefit Payments

The Fund levies assessments at the rate of 18% of participants' compensation, which includes salaries, other cash compensation and the value of housing.

Assessments were $81.1 million and $79.9 million for the years ended March 31, 2007 and 2006, respectively.

The 18% assessment is allocated as follows in the actuarial valuation of the Fund's obligations:

| March 31 | 2007 | 2006 |
|---|---|---|
| Future service credit | 15.55% | 15.55% |
| Life insurance benefits | 1.30% | 1.30% |
| Expenses | 1.15% | 1.15% |
| | 18.00% | 18.00% |

Assessments, together with interest, dividends, realized gains or losses from transactions in the investment portfolio, and gains or losses on partnership and trust investments, provide the funds for benefit payments, expenses and changes in investments and other assets. For the years ended March 31, 2007 and 2006, pension, life, major medical and other benefit payments on behalf of beneficiaries were $245.2 million and $232.2 million, respectively.

## Clergy Pension Plan Obligations

Buck Consultants, an ACS Company, conducts annual actuarial valuations of the Fund's pension liabilities based on assumptions for future compensation levels, rates of mortality and disability, and other factors. The significant actuarial assumptions are as follows:

- Interest rate: 5.25% per annum, compounded annually.
- Vesting: After five years of credited service.
- Compensation: An age-related compensation increase assumption that approximates 4.5% per year over a typical average career.
- Retirement: Normal, at age 65 and after; early, with no reduction at 55 and after 30 years of credited service; reduced benefits at age 60 with less than 30 years credited service; compulsory, at age 72.
- The George B. Buck 1995 Mortality Table is used for clergy born before 1930 and for spouses and beneficiaries. The George B. Buck 1995 Mortality Table set back 3 years is used for clergy born after 1929. Special mortality tables are used for disability retirements and pensioned children over age 25. No mortality is assumed for pensioned children under age 25.

## Components of Funded Pension Reserve

| March 31 (in thousands) | 2007 | 2006 |
|---|---|---|
| Actuarial Liability for Benefits of: | | |
| Retired participants and their dependents | $2,150,875 | $2,019,280 |
| Participants not yet retired and their dependents | 1,734,691 | 1,643,640 |
| | 3,885,566 | 3,662,920 |
| Securities valuation reserve | 999,000 | 954,000 |
| Additional funds | 2,725,292 | 2,329,856 |
| | 3,724,292 | 3,283,856 |
| Funded Reserve | $7,609,858 | $6,946,776 |

The liability for benefits of retired participants and their dependents represents the actuarial present value of benefits to pensioners and contingent benefits to dependents for those already retired. The liability for benefits of participants not yet retired and their dependents represents the actuarial present value of future benefits for active and inactive clergy and their dependents, less the present value of future assessments. The $223 million increase in the liability for benefits in the current fiscal year is attributable to regular growth, Plan experience and Plan benefit enhancements effective during the fiscal year.

The securities valuation reserve of $999 million at March 31, 2007 and $954 million at March 31, 2006 is a provision against the possibility of a significant loss of value in the Fund's investment portfolio. The amount is annually determined based on a conservative formula and reviewed by the Investment Committee. It considers (a) the Fund's actuarial liability for future pension benefits and the Special Funds that have been set aside for major medical, life insurance and supplemental pension benefits, and (b) the historic volatility of investment portfolios similar to the Fund's. This reserve is discretionary in nature and has no specific assets associated with it. The additional funds represent the residual amount by which the Funded Reserve exceeds the total amount of the liability for benefits and reserves described above.

## Special Funds

The Major Medical Supplement Fund, the Life Insurance Benefit Fund and the Supplemental Pension Fund are entirely discretionary and no specific assets are designated against them. The Trustees have reserved the right, at their discretion, to change or discontinue the benefits provided by these discretionary funds depending on future financial and economic conditions and investment performance. The largest of these funds, the Major Medical Supplement Fund, now equals 18% of the Fund's actuarially determined liabilities for medical and pension benefits and 9% of the total assets of the Fund.

The Major Medical Supplement Fund was established in 1987 in recognition of the rising costs of medical care for pension beneficiaries. In its early years, this program provided eligible beneficiaries enrolled in Medicare with a major medical supplement to that government program. As medical care for retirement age individuals increased in complexity and expense, the Trustees' approach to this entirely discretionary benefit has moved towards making a specific dollar contribution for each eligible plan member. This dollar contribution can be used to cover some or all of the cost of a Medicare supplement program offered by The Medical Trust.

The amount of the Major Medical Supplement Fund is based upon an actuarial analysis performed by Hewitt Associates LLC, healthcare actuaries to the fund. Hewitt's calculation is based on the current dollar amount provided for each eligible plan member and the Fund's goal of increasing the dollar amount of this discretionary subsidy to reflect increases in medical costs. The calculation uses an increased medical inflation rate assumption for future years. Additionally, it uses an interest rate of 5.25% which is the same rate as is used in calculating the Plan's pension benefit liability.

The Medical Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted on December 8, 2003. The Act introduced a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit that is at least equivalent to Medicare. Final regulations governing key elements the Act were released in January 2005 and the calculation of the Major Medical Supplement Fund reflects the effect of the Act.

The Life Insurance Benefit Fund was established to provide for the estimated annual insurance premiums of participants. The fund provides eligible beneficiaries with life insurance during active service and when retired.

The International Clergy Pension Plan (ICPP) is a non-qualified, multiple-employer plan administered by the Fund on behalf of the retirement plans of certain Anglican churches outside the fifty United States that were previously part of the Episcopal Church and overseas dioceses of the Episcopal Church. Nonqualified plans are not subject to Section 401(a) of the Internal Revenue Code which, among other things, requires that the assets be held in a trust.

In 2004 and 2005, the Church Pension Fund entered into administrative and investment agreements with The Episcopal Church of Liberia, Iglesia Anglicana de México and Iglesia Episcopal Puertorriqueña, each of which sponsors its respective portion of the ICPP. The Fund also administers and invests the assets of the retirement plans sponsored by overseas dioceses of the Episcopal Church. The assets of the ICPP are held by the Fund, outside the master trust (see page 15). The actuarial liabilities of all plans included in the ICPP are determined annually by Buck Consultants and total $65.2 million and $60.2 million at March 31, 2007 and March 31, 2006, respectively.

The Lay Plan is a defined benefit plan providing retirement, death and disability benefits to employees of participating employers of the Episcopal Church. Effective June 30, 2006, the trust for the assets of the Lay Plan was merged into the master trust (see page 15), and the assets of the Lay Plan were commingled with the assets of the Fund for investment purposes.

The Staff Plan is a defined benefit plan providing retirement, death and disability benefits to substantially all employees of the Fund and its affiliates. Effective June 30, 2006, the trust for the assets of the Staff Plan was merged into the master trust (see page 15), and the assets of the Staff Plan were commingled with the assets of the Fund for investment purposes.

The Restricted and Unrestricted Legacy and Gift Funds stem from bequests and contributions received by the Fund from individuals for the purpose of supporting the tax-exempt purposes of the Fund. The principal balance of the unrestricted account is available for use at the discretion of the Trustees; the principal balance of the restricted account must be maintained as an endowment fund in accordance with the wishes of the benefactors.

The Supplemental Pension Fund is a provision for benefits to those participants whose pension payments would be limited by certain sections of the Internal Revenue Code (the "Code") to an amount below their entitlement under the present benefit formula. Subject to certain other provisions of the Code, the supplemental provision provides for payment of the difference between the Code limitation and the participant's earned benefit.

The following charts summarize the activities of the Special Funds for the years ended March 31, 2007 and 2006.

| | Increase/(Decrease) in Special Funds | | | | |
|---|---|---|---|---|---|
| **2007 (in thousands)** | **Beginning Balance** | **Income** | **Benefits, & Expenses** | **Transfers From/(To) Funded Reserve** | **March 31 Balance** |
| Major Medical Supplement | $ 843,147 | $ - | $(20,080) | $ 57,035 | $ 880,102 |
| Life Insurance Benefit | 86,646 | - | (8,451) | 8,821 | 87,016 |
| International Clergy Pension Plan | 70,487 | 2,972 | (226) | 4,449 | 77,682 |
| The Episcopal Church Lay Employees' Retirement Plan | – | 9,088 | (2,593) | 103,005 | 109,500 |
| Staff Retirement Plan of The Church Pension Fund and Affiliates | – | 11,358 | (1,493) | 71,092 | 80,957 |
| Restricted Legacy & Gifts | 14,831 | 860 | – | – | 15,691 |
| Unrestricted Legacy & Gifts | 14,915 | 1,039 | (877) | – | 15,077 |
| Supplemental Pension | 57,046 | – | (615) | 1,503 | 57,934 |
| **Total Special Funds** | $1,087,072 | $25,317 | $(34,335) | $245,905 | $1,323,959 |

| **2006 (in thousands)** | | | | | |
|---|---|---|---|---|---|
| Major Medical Supplement | $ 924,562 | $ – | $(19,626) | $(61,789) | $ 843,147 |
| Life Insurance Benefit | 86,718 | – | (8,079) | 8,007 | 86,646 |
| International Clergy Pension Plan | 52,670 | 3,348 | (123) | 14,592 | 70,487 |
| Restricted Legacy & Gifts | 14,040 | 791 | – | – | 14,831 |
| Unrestricted Legacy & Gifts | 14,699 | 1,037 | (821) | – | 14,915 |
| Supplemental Pension | 11,623 | – | (491) | 45,914 | 57,046 |
| **Total Special Funds** | $1,104,312 | $ 5,176 | $(29,140) | $ 6,724 | $1,087,072 |

## Expenses

The Fund shares many of its expenses, including staff compensation, with its affiliates on the basis of allocations reviewed with the Board of Trustees. The accompanying financial statements for the Fund for the years ended March 31, 2007 and 2006, respectively, include cash compensation expenses of $23.3 million and $20.7 million, respectively. In the same respective years, an additional $11.9 million and $10.5 million in cash compensation expenses were incurred by affiliates of the Fund.

Compensation of the officers of the Church Pension Group is established by the Compensation Committee of the Board of Trustees and approved by the full Board. The rationale for compensation involves three elements: (1) typical compensation nationally for positions of comparable responsibility; (2) typical compensation in New York City for similar positions; and (3) individual and corporate performance. Supplemental retirement and life insurance benefits are provided to certain officers under the terms of individual agreements. The accompanying financial statements of the Fund include officers' cash compensation, totaling $9.2 million and $8.5 million for the fiscal years ended March 31, 2007 and 2006, respectively. In the same respective years, an additional $6.9 million and $6.0 million in officers' cash compensation expenses were incurred by affiliates of the Fund.

The cash compensation for the five current Church Pension Group officers receiving the highest total cash compensation for the year ended March 31, 2007 was as follows:

| | |
|---|---|
| T. Dennis Sullivan, President | $828,000 |
| Executive Vice Presidents: | |
| William L. Cobb, Jr., Chief Investment Officer | $770,000 |
| Daniel A. Kasle, Chief Financial Officer | $547,000 |
| Jim Morrison, Affiliate Operations | $470,000 |
| Senior Vice President: | |
| Helen Fox-O'Brien, Investments Department | $516,000 |

In 2004, the Board of Trustees, having reviewed data from several compensation consultants, including KPMG LLP and Pearl Meyer & Partners Inc., provided Alan F. Blanchard with a supplemental pension, based upon service and performance, which is comparable and competitive with the benefits of chief executives of similar non-profit organizations. As has been done for prior retiring Presidents of the Fund, Mr. Blanchard has been provided an office in New York apart from the Fund headquarters, for a period of time through September 30, 2009.

The Fund and its affiliated companies have a non-contributory defined benefit staff retirement plan, described above as the Staff Plan (see page 15), covering substantially all of its lay employees. The Staff Plan is reviewed annually by Hay Group, Inc., consulting actuaries. As of January 1, 2006, the date of the most recent valuation, the actuarial present value of accumulated plan benefits was $49.2 million and $2.3 million for vested and non-vested participants, respectively. The assumed rate of return used in the above calculations was 5.25%. The net assets available for plan benefits as of January 1, 2006, were $68.4 million. The excess of the plan net assets over the vested accumulated plan benefit obligations was recorded as a non-admitted asset and was excluded from the accompanying statement of assets, liabilities and fund balances and was charged directly to the funded reserve. The Fund made a contribution of $7,089,000 to the Staff Plan in the fiscal year ended 2007 and no contribution to the Staff Plan in the fiscal year ended 2006.

The Fund and its affiliated companies have a defined contribution investment participation plan for eligible employees, under which employees may contribute up to 100% of their salaries, subject to federal limitations. The first 6% of their contributions is matched 75% by the Fund. Total expenses under this plan were $1,229,000 and $1,036,000 for the years ended March 31, 2007 and 2006, respectively.

The Fund and its affiliated companies also provide health care and life insurance benefits for their retired employees. The Fund has adopted the NAIC model law relating to accounting for post-retirement benefits other than pensions, and accrues the cost of providing these benefits during the active service period of the employee. For the years ended March 31, 2007 and 2006, the Fund and its affiliates recorded expenses of $1,620,000 and $1,101,000, respectively, for benefits and interest expense net of interest income. The Fund has initiated a program to fund its obligation for this benefit by contributing to a post-retirement benefit investment account. At March 31, 2007, contributions and earnings had accumulated in this account to $16.2 million to fund obligations of $21.9 million.

For measuring the expected post-retirement benefit obligation, average annual rates of increase in the per capita claims cost were assumed for the fiscal years beginning April 1, 2007 and 2006 for medical costs of 9.0% and 9.5%, respectively. The medical rates of increase were assumed to decrease annually to 3% in the fiscal year beginning April 1, 2019 and remain at that level thereafter. The weighted average discount rates used in determining the accumulated post-retirement benefit obligation were 5.25% at March 31, 2007 and 2006, respectively. If the health care cost trend rate were increased by 1%, the accumulated post-retirement benefit obligation as of March 31, 2007 would increase by approximately $2,094,000.

# Report of Independent Auditors

**Board of Trustees**
**The Church Pension Fund**

We have audited the accompanying statutory-basis statements of assets, liabilities and fund balances of The Church Pension Fund ("the Fund") as of March 31, 2007 and 2006, and the related statutory-basis statements of changes in funded reserve for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain limited partnerships and trusts. The Fund's investment in these partnerships and trusts constitutes approximately 25% and 20% of the Fund's total assets as of March 31, 2007 and 2006 and the Fund's net gain in these partnerships constitutes approximately 30% and 19% of its total additions in the funded reserve for the years then ended. The financial statements of these limited partnerships and trusts were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these limited partnerships and trusts, is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 and the reports of other auditors provide a reasonable basis for our opinion.

As described more fully in the Financial Review, the Fund has prepared these financial statements using accounting practices prescribed or permitted by the New York Insurance Department, and such practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America have not been determined, but are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the assets, liabilities and fund balances of the Fund at March 31, 2007 and 2006, or the changes in its funded reserve for the years then ended.

However, in our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Fund at March 31, 2007 and 2006, and the changes in its funded reserve for the years then ended, on the basis of accounting described in the Financial Review.

Deloitte & Touche LLP

New York, New York
June 26, 2007

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As of March 31, 2007

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