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TANNER

BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS

CRITICAL KNOWLEDGE



PROACTIVE INSIGHT



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL

Financial Statements
As of and for the Years Ended December 31, 2013 and 2012

Together with Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of The Perpetual Trust of St. Peter and St. Paul

We have audited the accompanying financial statements of The Perpetual Trust of St. Peter and St. Paul (the Trust), a nonprofit organization, which comprise the statements of financial position as of December 31, 2013 and 2012, the related statements of activities and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Perpetual Trust of St. Peter and St. Paul as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows, for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Tanner LLC

May 12, 2014



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Statements of Financial Position

As of December 31,

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| <u>Assets</u> | | |
| Cash | \$ 50,076 | \$ 82,538 |
| Interest and dividends receivable | 484 | 481 |
| Investments | <u>83,742,480</u> | <u>76,556,376</u> |
| Total assets | <u>\$ 83,793,040</u> | <u>\$ 76,639,395</u> |
| <u>Liabilities and Net Assets</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 94,134 | \$ 112,343 |
| Interest payable | 578,783 | 580,081 |
| Notes payable | <u>31,832,382</u> | <u>32,817,471</u> |
| Total liabilities | <u>32,505,299</u> | <u>33,509,895</u> |
| Net assets - temporarily restricted | <u>51,287,741</u> | <u>43,129,500</u> |
| Total liabilities and net assets | <u>\$ 83,793,040</u> | <u>\$ 76,639,395</u> |



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Statements of Activities

For the Years Ended December 31,

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Change in unrestricted net assets: | | |
| Revenues and reclassifications: | | |
| Net assets released from restrictions | \$ 5,744,353 | \$ 6,138,550 |
| Expenses: | | |
| Distributions to a beneficiary | 3,741,372 | 4,063,259 |
| Interest expense | 1,502,950 | 1,505,044 |
| Investment management fees | 238,515 | 235,045 |
| Professional and trustee fees | 101,392 | 102,128 |
| Custodial fees | 95,721 | 95,622 |
| Legal fees | 60,849 | 59,072 |
| Bank fees | 126 | 75,065 |
| Other | 3,428 | 3,315 |
| Total expenses | <u>5,744,353</u> | <u>6,138,550</u> |
| Change in unrestricted net assets | <u>-</u> | <u>-</u> |
| Change in temporarily restricted net assets: | | |
| Net portfolio gain | 13,902,594 | 10,310,508 |
| Net assets released from restrictions | <u>(5,744,353)</u> | <u>(6,138,550)</u> |
| Increase in temporarily restricted net assets | <u>8,158,241</u> | <u>4,171,958</u> |
| Increase in net assets | 8,158,241 | 4,171,958 |
| Net assets, beginning of year | <u>43,129,500</u> | <u>38,957,542</u> |
| Net assets, end of year | <u>\$ 51,287,741</u> | <u>\$ 43,129,500</u> |



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Statements of Cash Flows

For the Years Ended December 31,

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 8,158,241 | \$ 4,171,958 |
| Adjustments to reconcile increase in net assets to net cash used in operating activities: | | |
| Unrealized gains on investments | (6,437,099) | (5,517,981) |
| Realized gains on investments | (5,153,938) | (3,550,137) |
| Gains on interest rate swaps | (985,089) | (156,848) |
| Increase in interest and dividends receivable | (3) | (2) |
| Increase (decrease) in: | | |
| Accounts payable | (18,209) | (53,589) |
| Interest payable | (1,298) | 19,463 |
| Net cash used in operating activities | <u>(4,437,395)</u> | <u>(5,087,136)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales of investments | <u>4,404,933</u> | <u>7,652,765</u> |
| Cash flows from financing activities: | | |
| Payment on notes payable | <u>-</u> | <u>(2,500,000)</u> |
| Net cash used in financing activities | <u>-</u> | <u>(2,500,000)</u> |
| Net change in cash | (32,462) | 65,629 |
| Cash, beginning of year | <u>82,538</u> | <u>16,909</u> |
| Cash, end of year | <u>\$ 50,076</u> | <u>\$ 82,538</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | <u>\$ 1,504,248</u> | <u>\$ 1,485,581</u> |
| Income taxes | <u>\$ -</u> | <u>\$ -</u> |



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL

Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization

The Perpetual Trust of St. Peter and St. Paul (the Trust or the Organization) was created to receive and invest gifts, bequests, grants, and contributions in order to provide an endowment fund for The Episcopal Diocese of Utah (the Diocese) and/or The Corporation of the Episcopal Church in Utah (CECU).

Financial Statement Presentation

The Trust reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Estimates in Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations

The Trust maintains cash in deposit accounts which, at times, may exceed the insured limit. To date, the Trust has not experienced any losses related to such accounts; however, no assurance can be provided that access to the Trust's cash will not be impacted by adverse conditions in the financial markets.

All of the Trust's interest rate derivative instruments involve elements of credit and market risk in excess of the amounts recognized in the financial statements. The Trust does not anticipate nonperformance by any of the counterparties to these financial instruments.

In addition, the Trust holds a significant amount of investments that are subject to market fluctuations.

Cash Equivalents

The Trust considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

1. Organization and Summary of Significant Accounting Policies
Continued

Investments

Investments in marketable securities and limited partnerships are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Net asset values are used for estimating fair value of the Trust's interests in limited partnerships and certain index mutual funds that do not have readily determinable fair values.

Contributions and Investment Income

Contributions received and investment income are recorded as temporarily restricted due to the terms of the Resolution and Declaration of Trust, which requires all funds received or earned to be used exclusively for the benefit of CECU and / or the Diocese or to pay authorized Trust expenses. Contributions received with permanent restrictions, if any, are classified as increases in permanently restricted net assets. When a restriction expires through contributions to the required beneficiaries or through payment of authorized Trust expenses, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Interest Rate Swap Arrangements

The Trust has entered into interest rate swap arrangements to modify the interest characteristics of a portion of its outstanding notes payable in an effort to hedge against interest rate fluctuations. The swaps involve the exchange of amounts based on a variable interest rate for amounts based on a fixed interest rate over the life of the swaps without an exchange of the notional amounts upon which the payments are based. The interest rate swap arrangements are recorded at their fair values and are included with notes payable in the accompanying statements of financial position.

Income Taxes

The Trust is exempt from income taxes under Internal Revenue Code Section 501(c)(3) on income earned from activities related to its exempt purpose. The Trust is subject to income taxes on unrelated business income, if any. Management has determined that the Trust has no uncertain tax positions that require either recognition or disclosure in the financial statements. The Internal Revenue Service has determined that the Trust is not required to file a Form 990 tax return. No tax examinations are currently in progress.

Subsequent Events

The Trust has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

2. Investments Investments consist of the following as of December 31:

| | <u>2013</u> | | |
|----------------------|----------------------|----------------------|------------------------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Appreciation</u> |
| Mutual funds | \$ 63,387,351 | \$ 74,371,070 | \$ 10,983,719 |
| Limited partnerships | 6,460,802 | 9,298,517 | 2,837,715 |
| Money market funds | 72,893 | 72,893 | - |
| | <u>\$ 69,921,046</u> | <u>\$ 83,742,480</u> | <u>\$ 13,821,434</u> |

| | <u>2012</u> | | |
|----------------------|----------------------|----------------------|------------------------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Appreciation</u> |
| Mutual funds | \$ 62,709,651 | \$ 68,551,957 | \$ 5,842,306 |
| Limited partnerships | 6,460,802 | 8,002,827 | 1,542,025 |
| Money market funds | 1,592 | 1,592 | - |
| | <u>\$ 69,172,045</u> | <u>\$ 76,556,376</u> | <u>\$ 7,384,331</u> |

3. Accounts Payable Accounts payable consists of the following as of December 31:

| | <u>2013</u> | <u>2012</u> |
|------------------------|------------------|-------------------|
| Management fees | \$ 84,557 | \$ 84,686 |
| Legal and trustee fees | 7,451 | 20,100 |
| Other | 2,126 | 7,557 |
| | <u>\$ 94,134</u> | <u>\$ 112,343</u> |



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

4. Notes Payable

As of December 31, 2013, notes payable consist of three notes payable to a bank. As of December 31, 2012, notes payable consisted of two notes payable and a line of credit due to a bank. The line of credit was converted to a term note payable on December 12, 2012. Total outstanding amounts due on these loans were as follows as of December 31:

| | <u>2013</u> | <u>2012</u> |
|-----------------------------------|----------------------|----------------------|
| Note payable 1 | \$ 13,000,000 | \$ 13,000,000 |
| Note payable 2 | 12,000,000 | 12,000,000 |
| Note payable 3 | <u>5,000,000</u> | <u>5,000,000</u> |
| | 30,000,000 | 30,000,000 |
| Fair value of interest rate swaps | <u>1,832,382</u> | <u>2,817,471</u> |
| | <u>\$ 31,832,382</u> | <u>\$ 32,817,471</u> |

Accrued unpaid interest on notes payable as of December 31, 2013 and 2012 totaled \$578,783 and \$580,081, respectively.

The Trust is required to make semi-annual interest-only payments on the notes payable through August 12, 2022. Beginning February 12, 2023, the Trust is to make semi-annual principal and interest payments. The final payment of all outstanding principal and interest due on the notes is to be made on February 12, 2032.

Collateral for this debt includes all securities and assets owned by the Trust. The interest rate on all of these financing agreements is based on the 180-day LIBOR rate plus 1.70% (2.10% as of December 31, 2013). A total of \$25,000,000 of these notes payable are subject to interest rate swaps with fixed rates of 4.48% and 5.81% as of December 31, 2013 (see Note 5).

Future maturities of the principal on the notes payable are as follows:

Years Ending December 31:

| | |
|-------------|----------------------|
| 2014 - 2022 | \$ - |
| Thereafter | <u>30,000,000</u> |
| | <u>\$ 30,000,000</u> |



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

- 5. Interest Rate Swap Arrangements** The Trust has entered into two interest rate swap arrangements. Certain key information regarding the interest rate swap arrangements is as follows as of December 31:

| | <u>2013</u> | <u>2012</u> |
|--|---------------|---------------|
| First interest rate swap: | | |
| Notional amount | \$ 15,000,000 | \$ 15,000,000 |
| Variable rate hedged (6-month LIBOR plus 1.7%) | 2.10% | 2.42% |
| Fixed rate obligation | 4.48% | 4.48% |
| Fair value cost to terminate the swap | \$ 995,072 | \$ 1,606,687 |
| Expires February 12, 2019 | | |
| Second interest rate swap: | | |
| Notional amount | \$ 10,000,000 | \$ 10,000,000 |
| Variable rate hedged (6-month LIBOR plus 1.7%) | 2.10% | 2.42% |
| Fixed rate obligation | 5.81% | 5.81% |
| Fair value cost to terminate the swap | \$ 837,310 | \$ 1,210,784 |
| Expires August 12, 2015 | | |

During the years ended December 31, 2013 and 2012, the Trust recognized non-cash gains of \$985,089 and \$156,848, respectively, on the interest rate swap arrangements.

- 6. Fair Value Measurements** 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. In order to increase consistency and comparability in fair value measurements, a three-level hierarchy prioritizes observable and unobservable inputs into three broad levels. The three levels, in order of highest priority to lowest priority, of the hierarchy are defined as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Inputs to the valuation technique are other than quoted prices in active markets for identical assets or liabilities, but are observable either directly or indirectly.

Level 3: Inputs to the valuation technique are unobservable for the assets or liabilities.



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

6. Fair Value Measurements
Continued

Assets and liabilities measured at fair value on a recurring basis are required to be categorized according to the lowest level of the input significant to the fair value measurement.

The following table summarizes the Organization's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2013 and 2012, and the fair value input hierarchy level that the Organization has determined applies to each asset and liability category:

| | <u>2013</u> | <u>2012</u> | <u>Input Hierarchy Level</u> |
|---|----------------------|----------------------|--------------------------------------|
| Assets: | | | |
| International equity funds | \$ 23,034,383 | \$ 13,617,207 | 1 |
| Large cap equity funds | 15,407,821 | 13,938,845 | 1 |
| US fixed income index funds | 10,899,302 | 13,581,836 | 2 |
| US equity index funds | 9,865,660 | 9,228,614 | 2 |
| Multi-sector hedge funds | 4,177,678 | 3,491,020 | 3 |
| International and global active quantitative funds | 4,081,751 | 5,999,488 | 2 |
| Multi-strategy hedge funds | 3,751,570 | 3,226,060 | 3 |
| Global equity index funds | 3,686,420 | 3,029,817 | 2 |
| Small cap equity funds | 2,978,588 | 1,897,791 | 1 |
| US high yield bond funds | 2,462,656 | 4,594,912 | 1 |
| Commodity index funds | 1,463,226 | 1,517,360 | 2 |
| Multi-manager hedge funds | 1,369,270 | 1,285,747 | 3 |
| International emerging markets funds | 398,264 | - | 1 |
| Gold exchange traded funds | 165,891 | 1,147,679 | 1 |
| Total assets | <u>\$ 83,742,480</u> | <u>\$ 76,556,376</u> | |
| Liabilities: | | | |
| Interest rate swaps | <u>\$ 1,832,382</u> | <u>\$ 2,817,471</u> | 2 |

During the year ended December 31, 2013, there were no changes to the input hierarchy levels assigned to the assets and liabilities above.



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

6. Fair Value Measurements
Continued

The following table sets forth information summarizing the changes in fair value of the Trust's level 3 assets for the years ended December 31, 2013 and 2012:

| | <u>Hedge Funds</u> |
|---|---------------------|
| Beginning balance, January 1, 2012 | \$ 8,166,162 |
| Unrealized losses included in changes in net assets | <u>(163,335)</u> |
| Ending balance, December 31, 2012 | 8,002,827 |
| Unrealized gains included in changes in net assets | <u>1,295,691</u> |
| Ending balance, December 31, 2013 | <u>\$ 9,298,518</u> |

The following table summarizes the Organization's investments in entities that calculate net asset value per share as of December 31, 2013 and 2012:

| <u>Category</u> | <u>2013</u> | <u>2012</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|--|----------------------|---------------------|-----------------------------|---------------------------------|
| U.S. fixed income index funds (a) | \$ 10,899,302 | \$13,581,836 | Daily | Not applicable |
| Multi-sector hedge funds (b) | 4,177,678 | 3,491,020 | Quarterly | 45 days |
| Multi-strategy hedge funds (c) | 3,751,570 | 3,226,060 | Quarterly | 90 days |
| International and global active quantitative funds (d) | 4,081,751 | 5,999,488 | Daily | Not applicable |
| Commodity index fund (e) | 1,463,226 | 1,517,360 | Daily | Not applicable |
| Global equity index funds (f) | 3,686,420 | 3,029,817 | Daily | Not applicable |
| Multi-manager hedge funds (g) | 1,369,270 | 1,285,747 | Quarterly | 45 days |
| U.S. Equity Index Funds (h) | <u>9,865,660</u> | <u>9,228,614</u> | Daily | Not applicable |
| Total | <u>\$ 39,294,877</u> | <u>\$41,359,942</u> | | |



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

**6. Fair Value
Measurements**
Continued

- (a) This category includes several passively managed fixed income index funds that invest primarily in fixed income and other debt securities included in applicable benchmark indices. These funds may also participate in securities lending transactions. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Trust has no unfunded commitments related to investments in this category as of December 31, 2013 and 2012. Investments in this category may be redeemed at any time.
- (b) This category invests in hedge funds that invest primarily in equity and equity related securities of companies in certain targeted sectors. Assets invested in these funds may be allocated to strategies that include the use of leverage (including margin borrowing), short sales, commodities and futures, investing in exchange-traded and over-the-counter derivatives (including but not limited to futures, swaps, options, warrants, forwards and other instruments on equities, commodities, bonds, interest rates, credits, other fixed income, currencies indices and other baskets of securities) and writing options. These funds may also establish long or short positions on exchange-traded funds, special purpose vehicles, convertible and non-convertible preferred and other debt securities, mortgage-backed and other asset-backed securities, cash equivalent investments and other types of securities and financial instruments. Management uses the market approach valuation technique to value the Fund. The inputs include assumptions that market participants use to make valuation decisions, including assumptions about risk. Management has adopted the authoritative guidance that allows it to estimate the fair value of an investment using the net asset value. The categorization within the hierarchy is generally based upon the redemption terms of the investment and does not necessarily correspond to management's assessed risk of the Fund. The Trust has no unfunded commitments related to investments in this category as of December 31, 2013 and 2012. Investments in this category may be redeemed as of the last business day of each calendar quarter upon at least 45 days prior written notice.



6. Fair Value Measurements
Continued

- (c) This category invests in hedge funds that invest primarily through a diversified group of money managers that, as a group, use a wide variety of investment techniques and strategies including statistical arbitrage, convertible arbitrage, short selling, investment partnerships engaging in long purchases or short sales, or blended or flexible strategies of long purchases or short sales, program trading and special situations. Assets invested in these funds may also be allocated to strategies focusing on bankruptcies, reorganizations and workouts, high yield securities and risk arbitrage. The portfolio funds in which this category invests consist primarily of publicly traded, liquid securities or commodity interests. Valuation is based on unobservable inputs for the asset. The unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The fair value measurement is an exit price from the perspective of a market participant. Unobservable inputs reflect the assumptions about assumptions that market participants would use in valuing the asset, including assumptions about risk. The inputs used for valuing investments are not necessarily an indication of the risk associated with the investment. The Trust has no unfunded commitments related to investments in this category as of December 31, 2013 and 2012. Investments in this category may be redeemed as of the last business day of each calendar quarter upon at least 90 days prior written notice, however, shareholders electing to redeem their interests on any redemption date other than the last business day of a calendar year will be subject to a redemption fee equal to 2% of the net asset value of interests redeemed as of such date.
- (d) This category includes actively managed equity funds that invest primarily in international equity securities included in applicable benchmark indices. These funds may also participate in securities lending transactions. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Trust has no unfunded commitments related to investments in this category as of December 31, 2013 and 2012. Investments in this category may be redeemed at any time.
- (e) This category includes passively managed commodity index funds that invest primarily in futures contracts and options and may enter into exchange-traded or over-the-counter derivatives transactions similar to those of applicable benchmark indices. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Trust has no unfunded commitments related to investments in this category as of December 31, 2013 and 2012. Investments in this category may be redeemed at any time.



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

6. Fair Value Measurements
Continued

- (f) This category includes passively managed equity index funds that invest primarily in international equity securities included in applicable benchmark indices. These funds may also participate in securities lending transactions. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Trust has no unfunded commitments related to investments in this category as of December 31, 2013 and 2012. Investments in this category may be redeemed at any time.
- (g) This category invests in hedge funds that utilize a multi-manager strategy which seeks to diversify the portfolio exposure among long/short equity, relative value fixed income, fundamental, momentum, statistical arbitrage, trend following, pattern recognition and other strategies which seek to generate absolute returns. The portfolio for this category includes investments in currencies, futures contracts, forward contracts, physical commodities, swaps, options, common and preferred stock, depository receipts, warrants, rights, debt securities, convertible debt securities, and convertible preferred stock. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. The Trust's investment in this category are generally stated at fair value based on the Trust's net contribution to the Investment Funds and the Trust's allocated share of undistributed profits and losses, including realized and unrealized gains and losses of the Investment Funds. The Trust has no unfunded commitments related to investments in this category as of December 31, 2013 and 2012. Investments in this category may be redeemed as of the last business day of each calendar quarter upon at least 45 days prior written notice.
- (h) This category seeks an investment return that approximates as closely as practicable, before expenses, the performance of its benchmark index over the long term. The category is managed using a "passive" or "indexing" investment strategy. The Portfolio will typically attempt to invest in the securities comprising the Index, in the same proportions as they are represented in the index. The strategy may at times purchase or sell index futures contracts, or options on those futures, or engage in other transactions involving the use of derivatives, in lieu of investment directly in the securities making up the index or to enhance the strategy's replication of the Index return. These funds may also participate in securities lending transactions. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Investments in this category may be redeemed at any time.



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

7. Endowment

The Trust is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

The Trust's endowment is a donor-restricted endowment consisting of all of the Trust's assets. The endowment was established to support the activities of the Diocese and/or CECU. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Trust has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary.

While the Trust document indicates that the donor's desire was to create a trust that would continue in perpetuity, the Trust document allows distributions from the principal of the Trust, if the net income of the Trust has been exhausted. As a result, the Trust classifies as temporarily restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Trust and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) The investment policies of the Trust



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

7. Endowment
Continued

Spending Policy

Distributions from the Trust are allowed for the following purposes and must be made in the following order: (1) Distributions for Trust administrative costs, (2) Distributions made at the discretion of the Board of Trustees to provide for repayment of debt service costs and obligations of CECU and/or the Diocese, and (3) Distributions to CECU and/or the Diocese for their operating costs of up to 5% of the 48-month Rolling Average Fund Value of the Trust's Portfolio Assets. Over the long term, the Board of Trustees expects the current spending policy to allow its endowment to grow and continue in perpetuity, consistent with the Trust's objective.

Investment Policy

The Trust's primary investment objectives are (1) the long-term preservation of the real purchasing power of the principal, and (2) provide a stable source of perpetual financial support for CECU and/or the Diocese.

The endowment is invested in a diversified pool of securities with an overall emphasis on quality, diversification, and potential for earnings growth. The Trust implements target allocations that utilize over/underweights in order to maximize investment returns. The Board of Trustees periodically adjusts these allocations, as needed, in response to market conditions.

Changes in endowment net assets for the years ended December 31, 2013 and 2012 are as follows:

| | 2013 | | |
|--|---------------------|-------------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Total |
| Endowment net assets, beginning of year | \$ - | \$ 43,129,500 | \$ 43,129,500 |
| Investment return: | | | |
| Net investment income | - | 6,480,406 | 6,480,406 |
| Change in fair value cost to terminate the swap | - | 985,089 | 985,089 |
| Net appreciation of investments | - | 6,437,099 | 6,437,099 |
| Total investment return | - | 13,902,594 | 13,902,594 |
| Appropriation of endowment assets for expenditure | - | (5,744,353) | (5,744,353) |
| Endowment net assets, end of year | \$ - | \$ 51,287,741 | \$ 51,287,741 |



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

7. Endowment
Continued

Investment Policy – Continued

| | 2012 | | |
|--|--------------|------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Total |
| Endowment net assets, beginning of year | \$ - | \$ 38,957,542 | \$ 38,957,542 |
| Investment return: | | | |
| Net investment income | - | 4,635,679 | 4,635,679 |
| Change in fair value cost to terminate the swap | - | 156,848 | 156,848 |
| Net appreciation of investments | - | 5,517,981 | 5,517,981 |
| Total investment return | - | 10,310,508 | 10,310,508 |
| Appropriation of endowment assets for expenditure | - | (6,138,550) | (6,138,550) |
| Endowment net assets, end of year | \$ - | \$ 43,129,500 | \$ 43,129,500 |

8. Related Party
Transactions

As of December 31, 2013 and for the year then ended, the Trust had related party balances and transactions as described below.

- Distributed cash to CECU totaling \$3,741,372.
- Paid a trustee \$9,600 for professional services.
- Paid accounting fees totaling \$31,800 to CECU.
- Reimbursed CECU for Directors and Officers insurance and other expenses totaling \$3,825 paid by CECU on behalf of the Trust.
- Accounts payable due to CECU of \$2,126.



THE PERPETUAL TRUST OF ST. PETER AND ST. PAUL
Notes to Financial Statements
Continued

8. Related Party Transactions
Continued

As of December 31, 2012 and for the year then ended, the Trust had related party balances and transactions as described below.

- Distributed cash to CECU totaling \$4,063,259.
- Paid a trustee \$10,400 for professional services.
- Paid accounting fees totaling \$31,800 to CECU.
- Reimbursed CECU for Directors and Officers insurance and other fees totaling \$3,307 paid by CECU on behalf of the Trust.
- Accounts payable due to CECU of \$5,957.

9. Management Agreements

The Trust has entered into custodial and investment management agreements with an outside party. In exchange for services performed, the Trust pays fees to this outside party, primarily determined as a defined percentage of assets managed or invested. Custodial and investment management fees for the years ended December 31, 2013 and 2012 totaled \$334,236 and \$330,667, respectively.