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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, 2014 and 2013

Together with Independent Auditors' Report



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TANNER
BUSINESS ADVISORS AND
CERTIFIED PUBLIC ACCOUNTANTS



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, 2014 and 2013, 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, 2014 and 2013, 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

June 30, 2015



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

As of December 31,

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Cash	\$ 59,800	\$ 50,076
Interest and dividends receivable	506	484
Investments	<u>82,388,893</u>	<u>83,742,480</u>
Total assets	<u>\$ 82,449,199</u>	<u>\$ 83,793,040</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 175,073	\$ 94,134
Interest payable	550,553	578,783
Notes payable	<u>31,223,941</u>	<u>31,832,382</u>
Total liabilities	<u>31,949,567</u>	<u>32,505,299</u>
Net assets - temporarily restricted	<u>50,499,632</u>	<u>51,287,741</u>
Total liabilities and net assets	<u>\$ 82,449,199</u>	<u>\$ 83,793,040</u>



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

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Change in unrestricted net assets:		
Revenues and reclassifications:		
Net assets released from restrictions	\$ 5,741,316	\$ 5,744,353
Expenses:		
Distributions to a beneficiary	3,795,624	3,741,372
Interest expense	1,436,805	1,502,950
Investment management fees	249,238	238,515
Professional and trustee fees	104,827	101,392
Custodial fees	95,185	95,721
Legal fees	51,523	60,849
Bank fees	67	126
Other	8,047	3,428
Total expenses	<u>5,741,316</u>	<u>5,744,353</u>
Change in unrestricted net assets	<u>-</u>	<u>-</u>
Change in temporarily restricted net assets:		
Net portfolio gain	4,953,207	13,902,594
Net assets released from restrictions	<u>(5,741,316)</u>	<u>(5,744,353)</u>
Increase (decrease) in temporarily restricted net assets	<u>(788,109)</u>	<u>8,158,241</u>
Increase (decrease) in net assets	(788,109)	8,158,241
Net assets, beginning of the year	<u>51,287,741</u>	<u>43,129,500</u>
Net assets, end of the year	<u>\$ 50,499,632</u>	<u>\$ 51,287,741</u>



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

For the Years Ended December 31,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (788,109)	\$ 8,158,241
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Unrealized (gains) losses on investments	347,983	(6,437,099)
Realized gains on investments	(3,045,970)	(5,153,938)
Gains on interest rate swaps	(608,441)	(985,089)
Increase in interest and dividends receivable	(22)	(3)
Increase (decrease) in:		
Accounts payable	80,939	(18,209)
Interest payable	(28,230)	(1,298)
Net cash used in operating activities	<u>(4,041,850)</u>	<u>(4,437,395)</u>
Cash flows from investing activities:		
Proceeds from sales of investments	<u>4,051,574</u>	<u>4,404,933</u>
Net change in cash	9,724	(32,462)
Cash, beginning of the year	<u>50,076</u>	<u>82,538</u>
Cash, end of the year	<u>\$ 59,800</u>	<u>\$ 50,076</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	<u>\$ 1,465,035</u>	<u>\$ 1,504,248</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.



1. Organization and Summary of Significant Accounting Policies
Continued

Investments

Investments in mutual funds, common trust funds and hedge funds 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 common trust funds and hedge 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>2014</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Mutual funds and common trust funds	\$ 61,327,880	\$ 71,751,973	\$ 10,424,093
Hedge funds	6,460,802	9,510,156	3,049,354
Money market funds	1,126,764	1,126,764	-
	<u>\$ 68,915,446</u>	<u>\$ 82,388,893</u>	<u>\$ 13,473,447</u>

	<u>2013</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Mutual funds and common trust funds	\$ 63,387,351	\$ 74,371,070	\$ 10,983,719
Hedge funds	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>

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

	<u>2014</u>	<u>2013</u>
Management fees	\$ 166,588	\$ 84,557
Legal and trustee fees	-	7,451
Other	8,485	2,126
	<u>\$ 175,073</u>	<u>\$ 94,134</u>



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

4. Notes Payable

As of December 31, 2014 and 2013, notes payable consist of three notes payable to a bank. Total outstanding amounts due on these loans were as follows as of December 31:

	<u>2014</u>	<u>2013</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>1,223,941</u>	<u>1,832,382</u>
	<u>\$ 31,223,941</u>	<u>\$ 31,832,382</u>

Accrued unpaid interest on notes payable as of December 31, 2014 and 2013 totaled \$550,553 and \$578,783, 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% (2.03% as of December 31, 2014). A total of \$22,500,000 of these notes payable are subject to interest rate swaps with fixed rates of 4.48% and 5.81% as of December 31, 2014 (see Note 5).

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

Years Ending December 31:

2015 - 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>2014</u>	<u>2013</u>
First interest rate swap:		
Current notional amount	\$ 12,500,000	\$ 14,166,667
Variable rate hedged (6-month LIBOR plus 1.70%)	2.03%	2.10%
Fixed rate obligation	4.48%	4.48%
Fair value cost to terminate the swap	\$ 795,172	\$ 995,072
Expires February 12, 2019		
Second interest rate swap:		
Current notional amount	\$ 10,000,000	\$ 10,000,000
Variable rate hedged (6-month LIBOR plus 1.70%)	2.03%	2.10%
Fixed rate obligation	5.81%	5.81%
Fair value cost to terminate the swap	\$ 428,769	\$ 837,310
Expires August 12, 2015		

During the years ended December 31, 2014 and 2013, the Trust recognized non-cash gains of \$608,441 and \$985,089, 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, 2014 and 2013, and the fair value input hierarchy level that the Organization has determined applies to each asset and liability category:

	<u>2014</u>	<u>2013</u>	Input Hierarchy Level
Assets:			
Large cap equity funds	\$ 19,662,230	\$ 15,407,825	1
International equity funds	15,355,796	20,846,167	1
US fixed income index funds	13,584,677	10,899,302	2
US equity index funds	10,375,261	9,865,660	2
REIT index funds	5,220,353	2,289,513	2
Multi-sector hedge fund	4,316,454	4,177,678	3
International and global active quantitative fund	3,866,911	4,081,751	2
Multi-strategy hedge fund	3,828,981	3,751,570	3
US high yield bond fund	1,675,720	2,462,656	1
Small cap growth index fund	1,640,867	5,166,800	1
Multi-manager hedge funds	1,364,721	1,369,270	3
Global equity index funds	1,337,498	1,396,907	2
International emerging markets fund	76,048	398,264	1
Commodity index fund	58,388	1,463,226	2
Gold exchange traded fund	24,988	165,891	1
Total assets	<u>\$ 82,388,893</u>	<u>\$ 83,742,480</u>	
Liabilities:			
Interest rate swaps	<u>\$ 1,223,941</u>	<u>\$ 1,832,382</u>	2



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

6. Fair Value Measurements
Continued

During the year ended December 31, 2014, there were no changes to the input hierarchy levels assigned to the assets and liabilities above.

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, 2014 and 2013:

	<u>Hedge Funds</u>
Beginning balance, January 1, 2013	\$ 8,002,827
Unrealized gains included in changes in net assets	<u>1,295,691</u>
Ending balance, December 31, 2013	9,298,518
Unrealized gains included in changes in net assets	<u>211,638</u>
Ending balance, December 31, 2014	<u>\$ 9,510,156</u>

The following table summarizes the Organization's investments in entities that calculate net asset value per share as of December 31, 2014 and 2013:

<u>Category</u>	<u>2014</u>	<u>2013</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
U.S. fixed income index funds (a)	\$ 13,584,677	\$10,899,302	Daily	2 days
Multi-sector hedge funds (b)	4,316,454	4,177,678	Quarterly	45 days
Multi-strategy hedge funds (c)	3,828,981	3,751,570	Quarterly	90 days
International and global active quantitative funds (d)	3,866,911	4,081,751	Daily	2 days
Commodity index fund (e)	58,388	1,463,226	Daily	2 days
Global equity index funds (f)	1,337,498	1,396,907	Daily	2 days
Multi-manager hedge funds (g)	1,364,721	1,369,270	Quarterly	90 days
U.S. equity index funds (h)	10,375,261	9,865,660	Daily	2 days
REIT index funds (i)	5,220,353	2,289,513	Daily	2 days
Total	<u>\$ 43,953,244</u>	<u>\$39,294,877</u>		



**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, 2014 and 2013. Investments in this category may be redeemed at any time with at least two business days' written notice.
- (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, 2014 and 2013. 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, 2014 and 2013. 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, 2014 and 2013. Investments in this category may be redeemed at any time with at least two business days' written notice.
- (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, 2014 and 2013. Investments in this category may be redeemed at any time with at least two business days' written notice.



**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, 2014 and 2013. Investments in this category may be redeemed at any time with at least two business days' written notice.
- (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 is 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, 2014 and 2013. 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.
- (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 with at least two business days' written notice.



6. Fair Value Measurements
Continued

- (i) 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 normally invests most of its assets in the equity securities of real estate investment trusts ("REITs") and real estate operating companies ("REOCs") included in the Index. A REIT is a pooled investment vehicle that invests primarily in income producing real estate or real estate related loans or interests. 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 Portfolio 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 Portfolio'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 with at least two business days' written notice.

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.



7. Endowment
Continued

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

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) to provide a stable source of perpetual financial support for CECU and/or the Diocese.



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

7. Endowment
Continued

The endowment is invested in a diversified pool of securities with an overall emphasis on quality, diversification, and potential for investment income and 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, 2014 and 2013 are as follows:

	2014		
	Unrestricted	Temporarily Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 51,287,741	\$ 51,287,741
Investment return:			
Net investment income	-	4,692,749	4,692,749
Change in fair value cost to terminate the swap	-	608,441	608,441
Net depreciation of investments	-	(347,983)	(347,983)
Total investment return	-	4,953,207	4,953,207
Appropriation of endowment assets for expenditure	-	(5,741,316)	(5,741,316)
Endowment net assets, end of year	\$ -	\$ 50,499,632	\$ 50,499,632



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

7. Endowment *Investment Policy – Continued*
Continued

	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

**8. Related Party
Transactions**

As of December 31, 2014 and for the year then ended, the Trust had related party balances and transactions as described below.

- Distributed cash to CECU totaling \$3,795,624.
- Paid a trustee \$9,600 for professional services.
- Paid accounting fees totaling \$36,200 to CECU.
- Reimbursed CECU for Directors and Officers insurance and other expenses totaling \$7,458 paid by CECU on behalf of the Trust.
- Accounts payable due to CECU of \$8,485.



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

8. Related Party Transactions
Continued

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.

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, 2014 and 2013 totaled \$344,423 and \$334,236, respectively.