

**TRUSTEES OF FUNDS AND ENDOWMENTS, INC.**

**FINANCIAL REPORT**

**DECEMBER 31, 2008**

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Winter, Kloman, Moter & Repp, S.C.  
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### Independent Auditor's Report

To the Board of Directors  
Trustees of Funds and Endowments, Inc.  
Milwaukee, Wisconsin

We have audited the accompanying statements of financial position of Trustees of Funds and Endowments, Inc. (a nonprofit organization) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trustees of Funds and Endowments, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 11 and 12 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Winter, Kloman, Moter & Repp, S.C.*

October 14, 2009

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**TRUSTEES OF FUNDS AND ENDOWMENTS, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2008 and 2007**

	2008	2007
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 247,160	\$ 205,985
Investments, at fair value	3,706,475	5,177,092
Beneficial interests in charitable trusts	<u>1,483,120</u>	<u>2,291,415</u>
Total assets	<u>\$5,436,755</u>	<u>\$7,674,492</u>
 <b><u>LIABILITIES AND UNRESTRICTED NET ASSETS</u></b>		
<b>LIABILITIES</b>		
Grants payable	\$ 18,464	\$ 25,798
Agency endowment funds	<u>919,922</u>	<u>1,292,393</u>
Total liabilities	<u>938,386</u>	<u>1,318,191</u>
 <b>UNRESTRICTED NET ASSETS</b>		
Undesignated funds	2,694,063	3,811,973
Donor designated funds	768,643	1,030,529
Donor advised funds	<u>1,035,683</u>	<u>1,513,799</u>
Total unrestricted net assets	<u>4,498,369</u>	<u>6,356,301</u>
Total liabilities and unrestricted net assets	<u>\$5,436,755</u>	<u>\$7,674,492</u>

The Notes to Financial Statements are an integral part of these statements.

**TRUSTEES OF FUNDS AND ENDOWMENTS, INC.**

**STATEMENTS OF ACTIVITIES**  
**For the Years Ended December 31, 2008 and 2007**

	2008	2007
<b><u>REVENUES AND GAINS (LOSSES)</u></b>		
Contributions	\$ 79,417	\$ 131,718
Interest and dividends	8,609	11,485
Distributions received from Combined Fund	181,746	166,819
Fee income	<u>83,649</u>	<u>88,262</u>
Total revenues	353,421	398,284
Net unrealized gains (losses) on investments	(1,375,832)	65,142
Net gains (losses) on split-interest agreements	<u>(718,252)</u>	<u>168,000</u>
Total revenues and gains (losses)	<u>(1,740,663)</u>	<u>631,426</u>
<b><u>EXPENSES</u></b>		
Grants made	107,707	216,299
General and administrative	<u>9,562</u>	<u>3,183</u>
Total expenses	<u>117,269</u>	<u>219,482</u>
Change in unrestricted net assets	(1,857,932)	411,944
<b><u>UNRESTRICTED NET ASSETS</u></b>		
Beginning of year	<u>6,356,301</u>	<u>5,944,357</u>
End of year	<u>\$ 4,498,369</u>	<u>\$6,356,301</u>

The Notes to Financial Statements are an integral part of these statements.

TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2008 and 2007

	2008	2007
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Increase (decrease) in unrestricted net assets	\$(1,857,932)	\$ 411,944
<b>Adjustments to reconcile increase in net assets to net cash flows from operating activities:</b>		
Net unrealized (gains) losses on investments	1,375,832	(65,142)
Net (increase) decrease in value of split-interest agreements	808,295	(81,470)
<b>Increase (decrease) in:</b>		
Grants payable	(7,334)	(36,426)
Agency endowment funds	<u>(372,471)</u>	<u>66,198</u>
Net cash flows from operating activities	<u>(53,610)</u>	<u>295,104</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchases of investments, net	<u>94,785</u>	<u>(363,511)</u>
Net cash flows from investing activities	<u>94,785</u>	<u>(363,511)</u>
Net increase (decrease) in cash and cash equivalents	41,175	(68,407)
<b><u>CASH AND CASH EQUIVALENTS</u></b>		
Beginning of year	<u>205,985</u>	<u>274,392</u>
End of year	<u>\$ 247,160</u>	<u>\$ 205,985</u>

The Notes to Financial Statements are an integral part of these statements.

## TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies

##### **Nature of operations:**

Trustees of Funds and Endowments, Inc. (the Corporation) is a nonstock Wisconsin corporation formed to promote the enhancement of the financial futures of the Episcopal Diocese of Milwaukee, Inc. (the Diocese), its member parishes and its outreach organizations. It is responsible for promoting an endowment building effort within the Diocese and serves as the trustee of The Combined Fund. The Internal Revenue Service has determined the Corporation to be exempt from income tax under the Internal Revenue Code. Accordingly, the accompanying statements of financial position do not include any amounts for capital stock or corporate income taxes.

##### **Methods of accounting:**

The accompanying statements of financial position have been prepared on the accrual basis of accounting wherein revenues, costs and expenses are reflected in the period earned or incurred. The statements reflect the combined assets and liabilities of various trusts and funds administered by the Corporation.

##### **Cash and cash equivalents:**

Cash equivalents consist of short-term, highly liquid investments with original maturities of less than 90 days. Cash equivalents are valued at cost, which approximates market. At December 31, 2008 and 2007, cash and cash equivalents include Institutional Money Market Funds and accrued income totaling \$244,436 and \$203,926, respectively.

##### **Financial statement presentation:**

Net assets are classified based on the existence or absence of donor-imposed restrictions. Although most contributions to the Corporation include donor imposed restrictions, the variance power established in the organizational papers of the Corporation gives the Corporation unilateral variance power to alter the restriction on any donation without the donor's approval. The provisions regarding variance power have been included in the Corporation's governing instruments since 1992 and are included in the Corporation's investment and distribution policies. This variance power applies to all of the funds created within the Corporation's oversight. Accordingly, net assets of the Corporation are classified as unrestricted net assets for financial reporting purposes.

Notwithstanding the unrestricted classification, the Corporation consistently follows the practice of respecting donors' grant-making preferences as stated in their wills or gift agreements when they establish a fund with the Corporation.

## TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies (continued)

##### **Financial statement presentation (continued):**

Certain funds have been created which the Corporation, by agreement, will hold, invest, and allow to compound with no distributions being made for varying periods of time. Upon the lapse of the designated time periods, such funds are totally unrestricted. Such funds have been treated as unrestricted for the purposes of the statements of financial position.

The Corporation's component funds, which have been combined for presentation purposes, are of various types reflecting the purposes of the donors who have contributed to them and are described as follows:

##### **Undesignated Funds**

Undesignated Funds are those over which the Corporation's Board of Directors has full discretion in making distributions for charitable purposes to meet Episcopal needs within and without the Diocese.

##### **Donor Designated Funds**

Donor Designated Funds are unrestricted funds where the donor has designated an agency, institution, or purpose for which sustaining support will be provided.

##### **Donor Advised Funds**

Donor Advised Funds are unrestricted funds for which the donor has reserved the right to make nonbinding distribution recommendations to the Corporation's Board of Directors.

##### **Beneficial interests in charitable trusts:**

The Corporation is an income beneficiary of two charitable trusts. Distributions to the Corporation are made semi-annually by the trusts. Under the terms of the trust agreements, such distributions are to be invested and treated as permanent endowments until 2008. Beginning in September 2008, all current distributions from the two trusts and the current distributions on the previously reinvested amounts are available to support the mission of the Diocese.

##### **Agency endowment funds:**

Under accounting pronouncements the Corporation recognizes a liability as the recipient organization for a transfer of assets when the resource provider (for example, a Parish or the Diocese) specifies itself or an affiliate as the beneficiary. Accordingly, agency endowment funds are reported as liabilities rather than as unrestricted net assets. At December 31, 2008 and 2007, agency endowment funds of \$710,076 and \$1,013,360, respectively, are included as assets on the Diocese's financial statements.

**TRUSTEES OF FUNDS AND ENDOWMENTS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies (continued)**

**Agency endowment funds (continued):**

When a third party donor explicitly grants the Corporation variance power, the Corporation will recognize the fair value of any assets it receives as a contribution received when the designated beneficiary is a not-for-profit organization. As discussed above, the Corporation has unilateral variance power to alter the restriction of any donation without the donor's approval. Therefore, all cash or other financial assets received from a third party donor, even those with donor imposed restrictions, continue to be recognized as a contribution received after adoption of the statement.

**Use of estimates:**

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

**Note 2. Investments**

The cost and fair value of investments as of December 31, 2008 and 2007, are summarized as follows:

<u>Investment</u>	---- 2008 ----		---- 2007 ----	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
The Combined Fund	\$4,947,863	\$3,617,689	\$4,747,774	\$5,036,615
Oakmark Equity Income Fund	12,877	13,450	12,305	16,047
Vanguard Diversified Equity Fund	<u>126,937</u>	<u>75,336</u>	<u>122,902</u>	<u>124,430</u>
	<u>\$5,087,677</u>	<u>\$3,706,475</u>	<u>\$4,882,981</u>	<u>\$5,177,092</u>

Generally, all endowment funds that make periodic distributions are invested in The Combined Fund of the Episcopal Diocese of Milwaukee.

Distributions received from the Combined Fund are treated as income under the total return spending policy adopted by the Corporation. This policy allows the Corporation to supplement income with distributions from previously accumulated appreciation or the original corpus of gifts, if necessary, to maintain distribution levels authorized by the Corporation's Board of Directors.

The Combined Fund is a central common investment trust fund for institutions affiliated with the Diocese and is not separately incorporated. An agency agreement exists with a bank trust division to provide for custody of securities, receipt and redemption of investment units, and maintenance of accounting records. An investment consulting company monitors and evaluates the performance of investment managers and makes recommendations on additional investment alternatives, including investments in mutual funds.

## TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

### NOTES TO FINANCIAL STATEMENTS

#### **Note 2. Investments (continued)**

Investments are reported using a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Valuation is based upon quoted prices in active markets for identical investments.

Level 2 - Valuation is based upon other significant observable inputs (including quoted prices for similar investments).

Level 3 - Valuation is based upon significant unobservable inputs (including the organization's assumptions in determining the fair value of investments).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective fair values. Furthermore, while the Diocese believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Corporation determined their investments in the Combined Fund at fair value as of December 31, 2008 and 2007 are level 2 investments. The investments in mutual funds are considered to be level 1 investments.

#### **Note 3. Grants Payable**

Charitable distributions are made primarily from income accounts in accordance with the stipulations of the various individual trust or fund instruments and as approved by the Board of the Trustees. Grants payable at December 31, 2008 and 2007 of \$18,464 and \$25,798, respectively, were scheduled for payment in the subsequent year.

#### **Note 4. Brokerage Account**

The Corporation acts as an intermediary for donors who wish to gift securities to various Episcopal entities. Many parishes find it difficult to accept gifts of securities because they do not have brokerage accounts through which to dispose of the securities once they have been received. The Corporation has made arrangements through a special account established at a brokerage firm to facilitate such transfers. It is the Corporation's usual policy to sell securities immediately upon receipt. A check is then remitted to the donee upon settlement of the sale.

**TRUSTEES OF FUNDS AND ENDOWMENTS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Note 4. Brokerage Account (continued)**

Securities sold via this account on behalf of donors totaled approximately \$156,000 and \$260,000 for the years ended December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, securities with a fair value of approximately \$13,500 and \$8,000, respectively, were held for sale and remittance to various donees. No amounts are included in these financial statements related to this brokerage account activity.

**Note 5. Property and Equipment**

The Corporation holds deeds and title to various properties and buildings in the Diocese as a matter of convenience. The Corporation does not have any management responsibilities for these properties under Convention Resolution. The properties are used without lease charge and may be transferred to parishes to hold in trust for the benefit of the Diocese without charge. Accordingly, these assets have no recorded value to the Corporation.

**TRUSTEES OF FUNDS AND ENDOWMENTS, INC.**

**AGENCY ENDOWMENT FUNDS DETAIL**

**December 31, 2008**

**Episcopal Diocese of Milwaukee, Inc.**

Father Elmer C. Maier Endowment Fund for St. Barnabas, Richland Center	\$ 9,747
William C. Buschman Seminarian Scholarship Fund	108,634
Julia Woods Adams Endowment Fund	65,079
Bishop's Discretionary Fund	29,220
Gruber Fund – Bishop's Discretionary Fund	50,581
Bishop's Discretionary Fund – Turner	16,177
Churchwomen's Memorial Fund – Episcopal Diocese of Milwaukee	43,650
Diocesan Endowment Fund	118,925
Bishop Hallock Endowment Fund	4,161
Camp Webb Endowment Fund	9,597
Inner-City Ministry Endowment Fund	95,383
Diocesan Endowment Fund for Retired Clergy	128,170
The Bishop's Fund for Reducing Parish Assessments and other Diocesan Needs	398
Transition to XII Bishop Fund	<u>30,354</u>
	<u>\$ 710,076</u>

**Other Diocesan Entities**

St. Andrew's Jesse Crane Outreach Endowment Fund	\$ 4,002
St. Bartholomew's Permanent Endowment Fund	10,401
St. Bartholomew's Memorial Garden Endowment Fund	1,324
Episcopal Church of the Good Shepherd Permanent Endowment Fund	6,970
St. John's Home of Milwaukee Episcopal Music Program Fund	60,420
St. John's Home of Milwaukee Episcopal Chaplaincy Fund	88,926
St. Paul's Stained Glass Window Fund	28,862
St. Paul's Building Maintenance and Restoration Fund	1,608
Deborah Senn Reese Memorial Gardens Endowment Fund	<u>7,333</u>
	<u>209,846</u>

Total agency endowment funds \$ 919,922

See Independent Auditor's report.

## TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

### UNRESTRICTED NET ASSETS DETAIL

December 31, 2008

#### Undesignated funds

Administrative Fund	\$ 2,724
Trustees Permanent Endowment Administration Fund	72,401
The Combined Fund Administrative Endowment Fund	305,830
100 Year Funds	74,529
Trustees' Acorn Fund	1,659
June E. Fyske Fund	807
Vanda K. Healy Fund	4,918
John Meachem Voluntary Trust Fund	145,789
Drs. Meachem Foundation Fund	438,801
Beneficial Interest Accounts – Meachem	1,483,120
Julia Frances Camp Fund	69,096
Diocesan Outreach Endowment Fund	61,743
Bruce E. Robinson Fund	32,626
	<u>\$2,694,043</u>

#### Donor Designated Funds

Nicholas Family Fund	\$ 5,671
Antwian Ambers Endowment Fund	7,978
The Timothy Fund	3,997
Christ Church/Madison Endowment Fund	11,426
Our Next Generation, Inc. Scholarship Fund	19,852
Drake Family Scholars Fund	13,815
Marian Drake Breskvar Scholarship Fund	43,204
St. Andrew's/Milwaukee Endowment Fund	6,699
Camp Webb Scholarship Endowment Fund	29,216
Constance and George Ott Camp Webb Music Program Endowment Fund	12,775
Michelle Mooney Scholarship Fund of the Gathering	9,973
Elsie Brennan Endowment Fund	33,909
St. Paul's Stained Glass Window Fund – Campbell	8,046
St. Paul's Outreach Endowment Fund	25,595
St. Paul's Choristers of St. Cecilia Endowment Fund	46,378
St. Paul's Altar Guild Endowment Fund	22,284
St. Paul's New Organ Fund	96,836
Diocesan Endowment Fund for Seminarian Assistance	20,246
St. Mark's Episcopal Church Scholarship Fund	1,696
Diocesan Endowment Fund to Reduce Parish Assessments	8,583
Barbara St. Aubin Endowment Fund	1,318
Congregational Development Fund	810
M. Drake Breskvar Endowment Fund for ONG	297,813
Haiti Project Priest's Discretionary Fund	7,472
Anonymous Church Endowment Fund	9,866
St. Thomas of Canterbury Endowment Fund	3,812
St. John Chrysostom Endowment Fund	10,990
St. Mark's Summit Endowment Fund	8,383
	<u>\$ 768,643</u>

#### Donor Advised Funds

Mainman Episcopal Endowment Fund	\$ 710,168
The Clergy R & R Fund	317,233
Danielle Elizabeth Barsanti Episcopal Giving Fund	2,081
Simon of Cyrene Endowment Fund	6,201
	<u>\$1,035,683</u>

See Independent Auditor's report.