TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

FINANCIAL REPORT

DECEMBER 31, 2017

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

Report on the Financial Statements

We have audited the accompanying financial statements of Trustees of Funds and Endowments, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 auditor's 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 auditor considers 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 Trustees of Funds and Endowments, Inc. as of December 31, 2017, and the results of its change in unrestricted net assets for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

June 29, 2018

235 N Executive Drive, Suite 160
Brookfield, WI 53005-6064
P: 262-797-9050 F:262-797-8251

1040 Oconomowoc Parkway
Oconomowoc, WI 53066-4621
P: 262-567-6540 F: 262-567-7285

138 Hospital Drive, Suite 100.
Watertown, WI 53098-1358
P: 920-261-6767 F: 920-261-1358

www.wkmr.com

TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2017

ASSETS

Cash and cash equivalents	$ 259,100
Receivable	92,578
Investments, at fair value	7,840,116
Beneficial interests in charitable trusts	2,150,415
Total assets	$10,342,209

LIABILITIES AND UNRESTRICTED NET ASSETS

LIABILITIES	
Agency endowment funds	$ 2,139,407
Total liabilities	2,139,407
UNRESTRICTED NET ASSETS	
Undesignated funds	4,597,737
Donor designated funds	1,860,367
Donor advised funds	1,744,698
Total unrestricted net assets	8,202,802
Total liabilities and unrestricted net assets	$10,342,209

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

TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

REVENUES	
Contributions	$ 25,456
Fee income	92,578
Investment earnings	771,204
Net earnings on beneficial interests	311,837
Total revenues	1,201,075
EXPENSES	
Grant expenditures	304,062
General and administrative	58,325
Total expenses	362,387
Change in unrestricted net assets	838,688
UNRESTRICTED NET ASSETS	
Beginning of year	7,364,114
End of year	$8,202,802

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

TRUSTEES OF FUNDS AND ENDOWMENTS, INC.

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in unrestricted net assets	$ 838,688
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Net increase in value of beneficial interests	(221,561)
Increase/decrease in:	
Receivable	(92,578)
Agency endowment funds	258,980
Net cash flows from operating activities	783,529
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments, net	(778,335)
Net cash flows from investing activities	(778,335)
Net change in cash and cash equivalents	5,194
CASH AND CASH EQUIVALENTS	
Beginning of year	253,906
End of year	$ 259,100

The Notes to Financial Statements are an integral part of these 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, 2017, cash and cash equivalents include Institutional Money Market Funds totaling $238,724.

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.

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 completely 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 were 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.

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 U.S. 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.

Subsequent events:

Management evaluated subsequent events through June 29, 2018, the date the financial statements were available to be issued.

Note 2. **Investments**

The fair value of investments as of December 31, 2017, are summarized as follows:

The Combined Fund	$ 7,534,515
Oakmark Equity Income Fund	31,186
Vanguard Diversified Equity Fund	274,415
	$ 7,840,116

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.

Note 2. Investments (continued)

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.

Investment earnings consist of interest and dividends, realized and unrealized gains and loss, net of fees.

Note 3. Fair Value Measurement

Investments and beneficial interests in charitable trusts 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 and beneficial interests in charitable trusts as of December 31, 2017 are level 2 investments. The investments in mutual funds are considered to be level 1 investments.

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.

Securities received via this account on behalf of donors totaled approximately $216,000 for the year ended December 31, 2017. At December 31, 2017, securities with a fair value of approximately $17,000, were in the process of 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.