



**CATHOLIC INVESTMENT TRUST OF WASHINGTON**

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

The Board of Trustees  
Catholic Investment Trust of Washington:

We have audited the accompanying financial statements of the Catholic Investment Trust of Washington, which comprise the statement of net assets, including the schedule of investments as of June 30, 2013 and 2012, and the related statement of operations and statement of changes in net assets for the year ended June 30, 2013 and the period from March 29, 2012 (inception) to June 30, 2012, 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 U.S. generally accepted accounting principles; 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.

### *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 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 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 Catholic Investment Trust of Washington as of June 30, 2013 and 2012, and the results of its operations, and changes in its net assets for the year ended June 30, 2013 and the period from March 29, 2012 (inception) to June 30, 2012, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 6, 2013

**CATHOLIC INVESTMENT TRUST OF WASHINGTON**

Statement of Net Assets

June 30, 2013 and 2012

<b>Assets:</b>	<u>2013</u>	<u>2012</u>
Investments, at fair value (note 2)	\$ 347,827,821	295,009,944
Prepaid expenses	21,545	21,345
Total assets	<u>\$ 347,849,366</u>	<u>295,031,289</u>
 <b>Liabilities:</b>		
Fund manager fees payable	\$ 424,569	356,492
Administration fees payable to an affiliate (note 4)	190,372	147,247
Other fees payable (note 4)	111,526	153,770
Total liabilities	<u>726,467</u>	<u>657,509</u>
<b>Net Assets:</b>	<u>\$ 347,122,899</u>	<u>294,373,780</u>

See accompanying notes to financial statements.

## CATHOLIC INVESTMENT TRUST OF WASHINGTON

### Statement of Operations

Year ended June 30, 2013 and the period from March 29, 2012 (inception) through June 30, 2012

	<u>2013</u>	<u>2012</u>
Investment income:		
Dividend and interest	\$ 7,225,693	1,826,729
Expenses:		
Trustee and investment management fees	1,822,736	452,581
Administration fees to an affiliate (note 4)	500,000	147,247
Other administrative fees	357,067	132,426
Total expenses	<u>2,679,803</u>	<u>732,254</u>
Net investment income	<u>4,545,890</u>	<u>1,094,475</u>
Net realized gain on investments	7,396,556	6,185,888
Net unrealized gain (loss) on investments	<u>26,260,527</u>	<u>(21,359,347)</u>
Net realized and unrealized gain (loss) on investments	<u>33,657,083</u>	<u>(15,173,459)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 38,202,973</u>	<u>(14,078,984)</u>

See accompanying notes to financial statements.

**CATHOLIC INVESTMENT TRUST OF WASHINGTON**

Statement of Changes in Net Assets

Year ended June 30, 2013 and the period from March 29, 2012 (inception) through June 30, 2012

	<u>2013</u>	<u>2012</u>
Increase (decrease) in net assets from operations:		
Net investment income	\$ 4,545,890	1,094,475
Net realized gain on investments	7,396,556	6,185,888
Net change in unrealized gain (loss) on investments	<u>26,260,527</u>	<u>(21,359,347)</u>
Net increase (decrease) in net assets from operations	38,202,973	(14,078,984)
Capital contributions, net	<u>14,546,146</u>	<u>308,452,764</u>
Net increase in net assets	52,749,119	294,373,780
Net assets, beginning of period	<u>294,373,780</u>	—
Net assets, end of period	<u>\$ 347,122,899</u>	<u>294,373,780</u>

See accompanying notes to financial statements.

**CATHOLIC INVESTMENT TRUST OF WASHINGTON**

Schedule of Investments

June 30, 2013

<b>Investments</b>	<b>Fair value as a percent of net assets</b>	<b>Cost</b>	<b>Fair value</b>
U.S. government agencies	4.10%	\$ 14,502,010	\$ 14,245,916
U.S. Treasury obligations	1.28	4,636,600	4,466,633
Domestic and foreign common stocks	64.31	195,675,185	223,699,787
Corporate and foreign bonds	5.83	20,773,079	20,280,189
Fixed income funds	12.61	45,353,798	43,874,505
Municipal obligations	0.12	411,661	402,680
Money market funds	4.02	13,973,735	13,973,735
Balanced and closed end mutual funds	2.92	6,477,619	10,154,786
Master limited partnerships	0.28	910,166	971,258
Real estate investment trusts	0.26	851,397	896,956
Certificate of deposits	0.77	2,650,897	2,674,047
Overseas partnership	2.35	7,480,000	8,172,681
Private equity fund	0.10	470,004	369,208
U.S. property income and growth fund	1.05	3,585,306	3,645,440
	<u>100.00%</u>	<u>\$ 317,751,457</u>	<u>\$ 347,827,821</u>

See accompanying notes to financial statements.

**CATHOLIC INVESTMENT TRUST OF WASHINGTON**

Schedule of Investments

June 30, 2012

<u>Investments</u>	<u>Fair value as a percent of net assets</u>	<u>Cost</u>	<u>Fair value</u>
U.S. government agencies	5.53%	\$ 16,091,111	\$ 16,322,294
U.S. Treasury obligations	2.51	7,481,961	7,401,833
Domestic and foreign common stocks	63.03	185,823,216	185,938,634
Corporate and foreign bonds	5.63	16,081,306	16,611,457
Fixed income funds	13.10	37,878,296	38,646,120
Municipal obligations	0.16	411,661	487,884
Money market funds	2.94	8,658,722	8,659,036
Balanced and closed end mutual funds	2.89	6,547,264	8,512,961
Master limited partnerships	0.17	331,198	516,618
Real estate investment trusts	0.08	211,717	227,794
Certificate of deposits	0.25	730,769	732,046
Overseas partnership	2.37	7,000,000	7,000,000
Private equity fund	0.07	194,377	194,377
U.S. property income and growth fund	1.27	3,752,511	3,758,890
	<u>100.00%</u>	<u>\$ 291,194,109</u>	<u>\$ 295,009,944</u>

See accompanying notes to financial statements.



# CATHOLIC INVESTMENT TRUST OF WASHINGTON

## Notes to Financial Statements

June 30, 2013 and 2012

### (1) Summary of Significant Accounting Policies

#### (a) *Organization*

Catholic Investment Trust of Washington (CITW or Trust) was established pursuant to the Trust agreement effective March 29, 2012 to assist Grantors in the investment of long-term assets. The Grantors are related-party entities of the Archdiocese of Washington and include the following: The Roman Catholic Archbishop of Washington, a Corporation Sole, Forward in Faith, Inc., Catholic Education Foundation of the Archdiocese of Washington, Archdiocese of Washington Priests' Retirement Benefit Trust, and the Archdiocese of Washington Pension Trust. The Grantors transferred their long-term investment to the Trust pursuant to the Trust agreement, effective April 2, 2012.

The investments of CITW comprise three portfolios: Traditional, Semi-liquid, and Illiquid. The investment objective of each portfolio, consistent with the Investment Policy Statement approved by CITW's board of trustees, is long-term total return that net of fees exceeds the aggregate Portfolio benchmark's total return with less risk. CITW is governed by an independent board of trustees. Trustees serving on the board of the Trust are board members who serve at each of the Grantors. The accounting for CITW is performed under a services agreement with the Central Pastoral Administration of the Archdiocese of Washington. Participation in the Trust is voluntary for its Grantors. CITW follows an Investment Policy Statement. CITW is not registered with the SEC as an investment company. The investments of the Trust are managed by independent investment managers and the securities are held by a custodian.

#### (b) *Basis of Presentation*

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles on the accrual basis of accounting.

#### (c) *Investments*

Investments are carried at fair value, which is determined using quoted market prices or, with respect to investments without quoted market prices, at estimated fair values provided by external investments managers. CITW management reviews and evaluates the fair values provided by the external investments managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to inherent uncertainties of these investments, these values may differ from the fair values that would have been reported had a ready market for such investments existed. Investment money market funds include cash and cash equivalents held by long-term investment managers for reinvestment.

#### (d) *Income Taxes*

CITW is considered a partnership for federal income tax purposes. As a pass-through entity, CITW does not have any federal or state income tax obligations. Instead, the partners (Grantors) are responsible for income taxes on their proportionate share of taxable income.

FASB Accounting Standards Codification (ASC) 740-10, *Income Taxes – Overall*, requires that management evaluate tax positions taken by CITW and recognize a tax liability (or asset) if CITW

# CATHOLIC INVESTMENT TRUST OF WASHINGTON

## Notes to Financial Statements

June 30, 2013 and 2012

has taken an uncertain tax position that more likely than not would not be sustained upon examination by the Internal Revenue Service. CITW has analyzed the tax positions taken and has concluded that as of June 30, 2013 and 2012, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

**(e) *Unit Issues, Redemptions, and Distributions***

CITW determines the net asset value (NAV) of the Traditional portfolio monthly and the Semi-liquid and Illiquid portfolios quarterly. Units are issued and redeemed based on the computed net asset value. Net investment earnings are determined and posted to the Grantors' accounts on the respective valuation dates.

**(f) *Concentration of Risk***

CITW invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

**(g) *Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires CITW to make certain estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(h) *Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year presentation.

**(2) *Investments***

***Fair Value Measurements***

Fair value is the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The three-level fair value hierarchy that describes the inputs that are used to measure assets is as follows:

*Level 1* – Unadjusted quoted market prices for identical assets or liabilities in active markets

*Level 2* – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets
- Quoted prices for identical or similar assets in nonactive markets

# CATHOLIC INVESTMENT TRUST OF WASHINGTON

## Notes to Financial Statements

June 30, 2013 and 2012

- Inputs other than quoted prices that are observable for the asset/liability
- Inputs that are derived principally from or corroborated by other observable market data

*Level 3* – Unobservable inputs that cannot be corroborated by observable market data

CITW uses quoted values and other data provided by a nationally recognized independent pricing service (pricing service) as inputs into its process for determining fair value of its investments. The pricing service obtains market quotations and actual transaction prices for securities that have quoted prices in active markets. For securities that do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities based upon its proprietary pricing applications, which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing.

CITW's equity securities (Domestic and Common Stock), including mutual funds, trade on a major exchange. Accordingly, such equity securities are disclosed in Level 1. Securities with fixed maturities (Corporate and Foreign Bonds, Municipal Obligations, Fixed Income Funds, and U.S. government Agencies) other than U.S. Treasury securities generally do not trade on a daily basis. The fair value estimates of such fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity investments as provided by the pricing service are disclosed in Level 2 of the hierarchy. The estimated values of U.S. Treasury securities are disclosed in Level 1 as the values are based on unadjusted market prices.

CITW invests in several institutional money market funds whose underlying assets are fixed income instruments. These funds do not usually have daily purchases and redemptions. The fair value estimates of such institutional mutual funds are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such funds as provided by the pricing service are included in the amount disclosed in Level 2.

CITW invests in two Master Limited Partnerships that are actively traded on the New York Stock Exchange and are classified as Level 1. CITW also invests in Real Estate Investment Trusts, which are actively traded on domestic and foreign exchanges and are, therefore, classified as Level 1. CITW also invests in Certificates of Deposit (CDs), which are held by FDIC insured banks and range in maturity up to six years. The CDs are classified as Level 2.

CITW invests in a private equity fund, an overseas partnership and a property income and growth fund located in the United States that does not have observable inputs and that cannot be corroborated by observable market data. These funds are disclosed as Level 3 and comprise the Semi-liquid and Illiquid portions of the CITW portfolio.

**CATHOLIC INVESTMENT TRUST OF WASHINGTON**

Notes to Financial Statements

June 30, 2013 and 2012

The following is a summary of the fair value measurements of CITW's investments within the fair value hierarchy as of June 30, 2013 and 2012:

	<u>2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government agencies	\$ 14,245,916	—	14,245,916	—
U.S. Treasury obligations	4,466,633	4,466,633	—	—
Domestic and foreign common stocks	223,699,787	223,699,787	—	—
Corporate and foreign bonds	20,280,189	—	20,280,189	—
Fixed income funds	43,874,505	—	43,874,505	—
Municipal obligations	402,680	—	402,680	—
Money market funds	13,973,735	—	13,973,735	—
Balanced and closed end mutual funds	10,154,786	10,154,786	—	—
Master limited partnerships	971,258	971,258	—	—
Real estate investment trusts	896,956	896,956	—	—
Certificate of deposits	2,674,047	—	2,674,047	—
Overseas partnership	8,172,681	—	—	8,172,681
Private equity fund	369,208	—	—	369,208
U.S. property income and growth fund	3,645,440	—	—	3,645,440
	<u>\$ 347,827,821</u>	<u>240,189,420</u>	<u>95,451,072</u>	<u>12,187,329</u>
	<u>2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. government agencies	\$ 16,322,294	—	16,322,294	—
U.S. Treasury obligations	7,401,833	7,401,833	—	—
Domestic and foreign common stocks	185,938,634	185,938,634	—	—
Corporate and foreign bonds	16,611,457	—	16,611,457	—
Fixed income funds	38,646,120	—	38,646,120	—
Municipal obligations	487,884	—	487,884	—
Money market funds	8,659,036	—	8,659,036	—
Balanced and closed end mutual funds	8,512,961	8,512,961	—	—
Master limited partnerships	516,618	516,618	—	—
Real estate investment trusts	227,794	227,794	—	—
Certificate of deposits	732,046	—	732,046	—
Overseas partnership	7,000,000	—	—	7,000,000
Private equity fund	194,377	—	—	194,377
U.S. property income and growth fund	3,758,890	—	—	3,758,890
	<u>\$ 295,009,944</u>	<u>202,597,840</u>	<u>81,458,837</u>	<u>10,953,267</u>

## CATHOLIC INVESTMENT TRUST OF WASHINGTON

### Notes to Financial Statements

June 30, 2013 and 2012

The following table is a rollforward of the Level 3 investments for the year ended June 30, 2013:

	<b>U.S. government property income and growth fund</b>	<b>Private equity fund</b>	<b>Overseas partnership</b>	<b>Total</b>
Beginning balance	\$ 3,758,890	194,377	7,000,000	10,953,267
Total gains included in earnings	211,921	—	692,681	904,602
Purchases	48,684	264,441	480,000	793,125
Sales	(374,055)	(89,610)	—	(463,665)
Ending balance	<u>\$ 3,645,440</u>	<u>369,208</u>	<u>8,172,681</u>	<u>12,187,329</u>

The following table is a rollforward of the Level 3 investments for the period March 29, 2012 (inception) to June 30, 2012:

	<b>U.S. government property income and growth fund</b>	<b>Private equity fund</b>	<b>Overseas partnership</b>	<b>Total</b>
Beginning balance	\$ —	—	—	—
Total gains included in earnings	59,641	—	—	59,641
Purchases	3,910,676	194,377	7,000,000	11,105,053
Sales	(211,427)	—	—	(211,427)
Ending balance	<u>\$ 3,758,890</u>	<u>194,377</u>	<u>7,000,000</u>	<u>10,953,267</u>

The fair value of other financial instruments, principally prepaid expenses and accounts payable, approximates their carrying value at June 30, 2013 and 2012 because of the short maturity of these items.

When investments were transferred by the Grantors to the Trust, they were conveyed at their carryover cost basis at the date of transfer. At date of transfer, April 2, 2012, the unrealized gains in the portfolio totaled \$25,175,183.

CITW used the NAV or its equivalent to determine the fair value of its underlying investments, which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. CITW has investments in mutual funds, which are reported as either equity funds or bond funds depending on the nature of the underlying assets in the funds. There are no restrictions on redemptions and/or purchase from the mutual funds.

There are no transfers and reclassifications of assets between Level 1, Level 2, or Level 3.

The funds disclosed as Level 3 comprise the Semi-liquid and Illiquid portions of the CITW portfolio.

**CATHOLIC INVESTMENT TRUST OF WASHINGTON**

Notes to Financial Statements

June 30, 2013 and 2012

For investments in overseas partnership, private equity fund, and U.S. property income and growth fund, the following table presents the nature and risk of these assets at June 30, 2013 and 2012:

	<u>2013</u> <u>Fair value</u>	<u>Unfunded</u> <u>commitments</u>	<u>Redemption</u>	<u>Redemption</u> <u>notice Period</u>	<u>Redemption</u> <u>restrictions</u> <u>as of June 30,</u> <u>2013</u>
Overseas partnership (a)	\$ 8,172,681	—	Quarterly	30 days	None
Private equity fund (b)	369,208	3,470,650	NA	NA	NA
U.S. property income and growth fund (c)	<u>3,645,440</u>	<u>506,828</u>	NA	NA	NA
	<u>\$ 12,187,329</u>	<u>3,977,478</u>			

  

	<u>2012</u> <u>Fair value</u>	<u>Unfunded</u> <u>commitments</u>	<u>Redemption</u>	<u>Redemption</u> <u>notice period</u>	<u>Redemption</u> <u>restrictions</u> <u>as of June 30,</u> <u>2012</u>
Overseas partnership (a)	\$ 7,000,000	—	Quarterly	30 days	1 year
Private equity fund (b)	194,377	3,705,623	NA	NA	NA
U.S. property income and growth fund (c)	<u>3,758,890</u>	<u>—</u>	NA	NA	NA
	<u>\$ 10,953,267</u>	<u>3,705,623</u>			

- (a) The fund seeks to achieve positive risk adjusted capital appreciation over the long-term through an investment program that utilizes a broad range of leveraged investment and trading strategies and that is socially responsible with respect to the funds. To obtain the fair value of the overseas partnership, CITW uses the period-end NAV statement provided by the investment manager. The NAV reported by the fund manager is used as a practical expedient to estimate the fair value of CITW's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2013 and 2012, CITW had no plans or intentions to sell its investment at amounts different from NAV.
- (b) The fund's objective is to assemble a diversified portfolio of private equity investments that will produce superior, risk-adjusted long-term private equity returns. The fair values of these investments have been estimated using the NAV of CITW's ownership interest in partners' capital. These investments can never be redeemed with the fund. Instead, the nature of the investments in this class is that distributions are received through liquidation of the underlying assets of the fund.

# CATHOLIC INVESTMENT TRUST OF WASHINGTON

## Notes to Financial Statements

June 30, 2013 and 2012

- (c) The fund intends to aggregate a diversified portfolio of modern, Class A, institutional quality, income-producing office assets that are leased to U.S. government tenants. The general partner estimates the values of its investments using Level 3 inputs based upon factors such as operating performance, financial condition, and economic and market events. Fair value of the real estate investments is determined by the general partner at each annual reporting date and reflects the price that an underlying property would bring in a competitive open market (exit price). CITW may not sell, transfer or pledge their interest or withdraw from the Fund except with the consent of the general partner.

### (3) Fees Payable and Expenses

CITW has entered into arrangements with various service providers as follows: Asset Strategy Consultants, investment advisor; M&T Bank, custodian; Central Pastoral Administration of the Archdiocese of Washington (CPA), administrative services; and Institutional Shareholder Services, Catholic values screening and proxy services. In addition, the investments are held by investment managers under management agreements.

Fees payable at June 30, 2013 and 2012 are related to investment manager, administrative, legal, and other fees. All amounts are expected to be disbursed in less than one year.

### (4) Related-Party Transactions

All Grantors of the Trust are affiliates of the Archdiocese of Washington. At June 30, 2013 and 2012, there were five Grantors to the Trust. Each Grantor had a member of its governance board or other representative serving as a trustee. At June 30, 2013, one Grantor held approximately 52% of the Trust, the other Grantors held approximately 19%, 18%, 7%, and 5%, respectively. At June 30, 2012, one Grantor held approximately 54% of the Trust, the other Grantors held approximately 17%, 17%, 6%, and 5%, respectively.

The Trust pays an administrative service fee to CPA of 20 basis points of the average CITW investment balance, capped at \$500,000 per year, for administration, record keeping, and other services. At June 30, 2013 and 2012, approximately \$190,372 and \$147,247 were payable to CPA and were included in administration fees payable to an affiliate.

CPA pays certain expenses on behalf of CITW. At June 30, 2013 and 2012, approximately \$28,198 and \$113,277 were payable to CPA as reimbursement of CITW expenses and were included in other fees payable.

### (5) Subsequent Events

CITW entered into an agreement with Carlyle Partners VI L.P. in June 2013 for a total commitment of \$6,000,000. The first capital call occurred on July 1, 2013.

In preparing these financial statements, CITW has evaluated events and transactions for potential recognition or disclosure through November 6, 2013, the date that the financial statements were available to be issued. There were no other events or transactions that were discovered during the evaluation that required accrual or further disclosure.