



FORWARD IN FAITH, INC.

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)



KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Auditors' Report

The Board of Directors
Forward in Faith, Inc.:

We have audited the accompanying financial statements of Forward in Faith, Inc. (Forward in Faith), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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 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 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 Forward in Faith, Inc. as of June 30, 2016 and 2015, and the changes in net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 29, 2016

FORWARD IN FAITH, INC.

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 1,683,322	1,618,248
Notes receivable, net (note 4)	3,925,693	3,387,149
Due from others	87,727	47,827
Investments (note 2)	68,893,816	75,088,376
Total assets	\$ 74,590,558	80,141,600
Liabilities and Net Assets		
Liabilities:		
Funds held on behalf of others (note 1(1))	\$ 2,237,347	2,692,751
Contributions payable (notes 5 and 9)	2,662,807	2,533,922
Due to others	29,872	32,379
Total liabilities	4,930,026	5,259,052
Net assets:		
Unrestricted	2,509,107	3,882,255
Temporarily restricted (notes 6 and 8)	2,373,581	6,235,464
Permanently restricted (notes 6 and 8)	64,777,844	64,764,829
Total net assets	69,660,532	74,882,548
Total liabilities and net assets	\$ 74,590,558	80,141,600

See accompanying notes to financial statements.

FORWARD IN FAITH, INC.

Statements of Activities

Years ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Change in net assets:								
Revenue, gains, and other support:								
Gifts and other changes in pledges	\$ —	3,494	13,015	16,509	—	15,043	58,669	73,712
Investment loss (note 2)	(733,049)	(1,773,676)	—	(2,506,725)	(371,838)	(961,922)	—	(1,333,760)
Net assets released from restrictions (note 7)	2,091,701	(2,091,701)	—	—	2,318,086	(2,318,086)	—	—
Total revenue, gains, and other support	1,358,652	(3,861,883)	13,015	(2,490,216)	1,946,248	(3,264,965)	58,669	(1,260,048)
Expenses:								
Program services:								
Scholarships	1,334,000	—	—	1,334,000	1,220,000	—	—	1,220,000
St. Joseph's Lay Leadership Institute	—	—	—	—	35,959	—	—	35,959
Archdiocesan Charitable Fund	—	—	—	—	83,922	—	—	83,922
Multicultural Apostolate	380,000	—	—	380,000	350,000	—	—	350,000
Seminarian expenses	115,000	—	—	115,000	105,000	—	—	105,000
Mission Seminary – Redemptoris	—	—	—	—	44,948	—	—	44,948
Needy Parishes and Schools	729,000	—	—	729,000	635,000	—	—	635,000
Howard University Campus Ministry	33,000	—	—	33,000	30,000	—	—	30,000
Women Religious Housing	33,000	—	—	33,000	30,000	—	—	30,000
Ministry Enhancement	—	—	—	—	200,000	—	—	200,000
Total program services	2,624,000	—	—	2,624,000	2,734,829	—	—	2,734,829
Administrative costs	107,800	—	—	107,800	168,480	—	—	168,480
Total expenses	2,731,800	—	—	2,731,800	2,903,309	—	—	2,903,309
Change in net assets	(1,373,148)	(3,861,883)	13,015	(5,222,016)	(957,061)	(3,264,965)	58,669	(4,163,357)
Net assets at beginning of year	3,882,255	6,235,464	64,764,829	74,882,548	4,839,316	9,500,429	64,706,160	79,045,905
Net assets at end of year	\$ 2,509,107	2,373,581	64,777,844	69,660,532	3,882,255	6,235,464	64,764,829	74,882,548

See accompanying notes to financial statements.

FORWARD IN FAITH, INC.

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (5,222,016)	(4,163,357)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized and realized investment (gains) losses, net	2,580,696	1,449,961
Recovery of uncollectible contributions	—	(73,266)
Decrease (increase) in assets:		
Contributions receivable	—	1,077,060
Due from others	(39,900)	38,934
Increase (decrease) in liabilities:		
Funds held on behalf of others	(455,404)	(863,445)
Contributions payable	128,885	484,429
Due to others	(2,507)	(135,004)
Contributions collected and revenue restricted for long-term investments	(7,432)	(689,010)
Net cash used in operating activities	(3,017,678)	(2,873,698)
Cash flows from investing activities:		
Purchases of investments	(5,526,171)	(6,981,784)
Proceeds from the sale of investments	9,140,035	9,959,335
Notes receivable disbursed	(918,353)	—
Principal payments received on notes receivable	379,809	381,045
Net cash provided by investing activities	3,075,320	3,358,596
Cash flows from financing activity:		
Proceeds from contributions restricted for:		
Investment in endowment	7,432	689,010
Net cash provided by financing activity	7,432	689,010
Net increase in cash	65,074	1,173,908
Cash and cash equivalents at beginning of year	1,618,248	444,340
Cash and cash equivalents at end of year	\$ 1,683,322	1,618,248

See accompanying notes to financial statements.

FORWARD IN FAITH, INC.

Notes to Financial Statements

June 30, 2016 and 2015

(1) Summary of Significant Accounting Policies

(a) Organization

Forward in Faith, Inc. (FIF) was incorporated as a 501(c)(3) corporation on June 22, 2005 to further the educational, charitable, and religious works of the Archdiocese of Washington. FIF is governed by an independent board of directors, and the accounting for FIF is performed under a services agreement with the Central Pastoral Administration of the Archdiocese of Washington (CPA). Funds for this corporation were received as a result of the FIF campaign, which had a \$135 million goal. The FIF campaign raised funds for programs of the Archdiocese of Washington, including Catholic Charities, parishes, and other entities within the Archdiocese. The funds raised for Catholic Charities and parishes are recorded as funds held on behalf of others in the statements of financial position. The FIF campaign was substantially completed December 31, 2010; however, some donors continue to make payments beyond the completion date. Going forward, FIF will focus on investment oversight and grant making.

(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) Cash Equivalents

For financial statement purposes, FIF considers funds in money markets and overnight investments to be cash equivalents, except for money market funds held by investment managers, which are classified as investments.

(d) Investments

Investments are recorded 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 investment managers. Management reviews and evaluates the fair values provided by the external investment managers and believes that the valuation methods and assumptions used in determining their estimated fair values are reasonable.

(e) Contributions Receivable

Contributions receivable were initially recorded net of a discount for the time value of money for payments to be received in future years and net of an allowance for uncollectible amounts. The contributions receivable was subsequently adjusted for accretion of discount and changes in estimates of collectibility. At June 30, 2016, the remaining balance was fully reserved. Subsequent collections that are expected to be nominal will be recognized as the cash is received.

(f) Charitable Gift Annuities

There are several charitable gifts annuity agreements for FIF. These are maintained within the Central Pastoral Administration of the Archdiocese of Washington. FIF receives contributed assets in exchange for a promise to pay the donor a fixed amount over a specified period of time, typically until the donor's death. An estimate of the related liability has been recorded on the books of the Central

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Pastoral Administration of the Archdiocese of Washington. The net receivable is recorded in FIF as due from others, based on the present value of future life expectancy of the donor.

(g) Notes Receivable and Allowance

Notes receivable represent loans to parishes with schools to be used for building, renovating, or maintaining school buildings. Loans must be approved by the FIF Board of Directors (the Board). Notes receivable are stated at the amount management expects to collect on the statements of financial position. FIF follows a policy to calculate the probable uncollectible amount reserving anywhere from 10% to 100% based on the borrower's ability to pay. This allowance for uncollectible notes receivable is adjusted through a provision for bad debt expense.

(h) Revenue Recognition and Net Assets

Net assets and revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions; accordingly, the net assets of FIF and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met either by actions of FIF and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by FIF. Generally, the donors of these assets permit FIF to use all or part of the income earned on related investments for general or specific purposes.

Revenue is reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Contributions, which include unconditional promises to give, are recognized as revenue in the period the promise is made by the donor. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional revenue and used in accordance with donor-imposed restrictions, if any, on the contributions.

Expirations of temporary restrictions on net assets (i.e., the donor's stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

(i) Income Taxes

FIF is exempt from federal income tax, except on unrelated activities, under the provisions of Section 501(c)(3) of the Internal Revenue Code. No provision has been made for income taxes during the years ended June 30, 2016 and 2015 since FIF had no significant unrelated business income.

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Tax positions are recognized or derecognized based on a more-likely than-not threshold. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which change in judgment occurs. This applies to positions taken or expected to be taken in a tax return. FIF recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in accounts payable and accrued liabilities, if assessed. No interest expense or penalties have been recognized as of and for the years ended June 30, 2016 and 2015. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

(j) *Concentration of Credit Risk*

Financial instruments that potentially subject FIF to concentrations of credit risk consist primarily of notes receivable. At June 30, 2016 and 2015, the gross notes receivable balance relating to notes from parishes/schools was \$5,175,693 and \$4,637,149, respectively (note 4).

FIF invests in various investment securities. Investments 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 statements of financial position.

FIF holds cash and cash equivalents at two financial institutions. Although the amount at times exceeds the amount guaranteed by the Federal Deposit Insurance Corporation \$(250,000), and therefore, bears some risk, FIF has neither experienced nor anticipates any losses on its funds. As of June 30, 2016, the amount held by financial institutions in excess of the insured limits was \$1,433,613.

(k) *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires FIF 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(l) *Funds Held on Behalf of Others*

FIF records amounts due to other organizations as funds held on behalf of others when the monies are received. These amounts consist primarily of contributions received by the FIF's fund-raising campaign for the benefit of other Archdiocesan entities.

(m) *Recent Accounting Pronouncements*

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* (the ASU), which updates existing fair value guidance and amends Accounting Standards Codification 820 (ASC 820), *Fair Value Measurement*. The amendments in the ASU remove the requirement to categorize within the fair value hierarchy all investments for which

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fair value is measured using the NAV per share practical expedient. Prior to the issuance of the ASU, investments valued using the NAV per share practical expedient were categorized within the fair value hierarchy based upon FIF's ability to redeem its investment on the measurement date. Reporting entities are required to adopt the ASU retrospectively. The effective date for adoption for public entities is fiscal years beginning after December 15, 2015 and for all other entities is fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted for all entities. Management has evaluated the ASU and determined that the NAV per share or its equivalent is the practical expedient for the investment in CITW. Management therefore, adopted ASU 2015-07 in the year ended June 30, 2015. Management continues to apply the guidance included in this ASU in the current year.

(2) Investments and Fair Value Measurements

Fair value refers to the price that would be received upon selling an asset or the price paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the reporting date.

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, as a practical expedient, an entity holding investments in certain entities that calculate NAV per share or its equivalent for which the fair value is not readily determinable, is permitted to measure the fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment.

Management uses its best judgment in estimating the fair value of FIF's investments including its consideration on the use of NAV as a practical expedient. There are inherent limitations in any estimation technique. Because of the inherent uncertainty of valuation, this estimated fair value may differ significantly from the value that would have been used had a ready market for the investments existed, and the difference could be significant.

Fair value measurements and disclosures, under FASB ASC 820, prioritizes within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

FIF's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy and its applicability to the portfolio investments are described below:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that FIF has the ability to access at the measurement date
- Level 2 Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active
- Level 3 Inputs that are unobservable.

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An individual investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by management.

Observable data is that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of that investment and does not necessarily correspond to the perceived risk of that investment.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Assumptions used due to lack of observable inputs may significantly impact the resulting fair value, and therefore, the results of operations.

Forward in Faith transferred a majority of its investments, effective April 2, 2012, to the Catholic Investment Trust of Washington (CITW). Pursuant to this agreement, legal title of the assets was transferred to CITW and Forward in Faith holds an interest in the NAVs of the investments in CITW. Forward in Faith owns only its interest in CITW and has no claim on the interest held by other participants in CITW and no other participants have a claim on Forward in Faith's interest in CITW. Effective July 1, 2014, CITW entered into a limited partnership agreement with Cambridge Associates Resources, LLC, as General Partner, creating CITW Fund LP. Forward in Faith continues its ownership in CITW while CITW is the limited partner in CITW Fund LP.

The following table shows classification of investments by level of the fair value hierarchy in the CITW portfolio as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Level 1	48.9%	41.1%
Level 2	5.8	8.3
Level 3	—	—
NAV	<u>45.3</u>	<u>50.6</u>
	<u>100%</u>	<u>100%</u>

Forward in Faith used the NAV or its equivalent as a practical expedient 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. The fair value of the investment in CITW of \$66,138,145 and \$68,755,181 at June 30, 2016 and 2015, respectively, is estimated using the NAV as a practical expedient. There are no unfunded commitments for this investment.

CITW Fund LP maintains two portfolios, 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.

Redemptions from CITW Fund LP are permitted upon written notice received by the General Partner at least 90 days prior to the end of any fiscal year and 60 days prior to the end of any fiscal quarter. The General

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Partner has discretion to suspend withdrawals if considered necessary to prevent an adverse impact on CITW Fund LP.

Forward in Faith also held investments outside of CITW as of June 30, 2016 and 2015. The estimated values of the U.S. Treasury obligations are disclosed in Level 1 as the values are based on unadjusted market prices. The other investments held outside of CITW included U.S. government and agency securities, corporate and foreign bonds, and domestic money market funds and are included in Level 2 of the fair value hierarchy as values are based on observable market information.

The following is a summary of the fair value measurements of FIF's investments within the fair value hierarchy with a disclosure of the investments measured at NAV to allow reconciliation to the statements of financial position for the years ended June 30, 2016 and 2015:

	Total 2016	Level 1	Level 2	Net asset value
Assets:				
Investment in CITW	\$ 66,138,145	—	—	66,138,145
U.S. government and agency securities	—	—	—	—
U.S. Treasury obligations	1,505,751	1,505,751	—	—
Corporate and foreign bonds	1,207,295	—	1,207,295	—
Money market funds – domestic	42,625	—	42,625	—
	<u>\$ 68,893,816</u>	<u>1,505,751</u>	<u>1,249,920</u>	<u>66,138,145</u>
	Total 2015	Level 1	Level 2	Net asset value
Assets:				
Investment in CITW	\$ 68,755,181	—	—	68,755,181
U.S. government and agency securities	1,201,149	—	1,201,149	—
U.S. Treasury obligations	902,243	902,243	—	—
Corporate and foreign bonds	3,028,203	—	3,028,203	—
Money market funds – domestic	1,201,600	—	1,201,600	—
	<u>\$ 75,088,376</u>	<u>902,243</u>	<u>5,430,952</u>	<u>68,755,181</u>

In accordance with subtopic 820-10, the investments measured at fair value using NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

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Notes to Financial Statements

June 30, 2016 and 2015

The fair value of other financial instruments, principally cash and cash equivalents, receivables, and payables, approximates their carrying value at June 30, 2016 and 2015 because of the short maturity of these items.

Investment (loss) income consists of the following for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 146,644	149,694
Realized losses, net	(37,021)	(18,060)
Unrealized losses, net	(2,543,675)	(1,431,901)
Investment management fees	(72,673)	(33,572)
Investment loss	<u>\$ (2,506,725)</u>	<u>(1,333,839)</u>

(3) Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	<u>2016</u>	<u>2015</u>
Unconditional promises before allowance for uncollectible contributions receivable expected to be collected in:		
Less than one year	\$ 20,650	446,140
Less allowance for uncollectible contributions receivable	(20,650)	(446,140)
	<u>\$ —</u>	<u>—</u>

(4) Notes Receivable

	<u>2016</u>	<u>2015</u>
Notes receivable from Parishes/Schools	\$ 5,175,693	4,637,149
Less allowance for uncollectible notes receivable	(1,250,000)	(1,250,000)
	<u>\$ 3,925,693</u>	<u>3,387,149</u>

The impaired loan had an outstanding balance of \$2,372,571 and \$2,415,899 at June 30, 2016 and 2015, respectively.

(5) Contributions Payable

Contributions payable represent amounts pledged to certain organizations primarily within the Archdiocese. All amounts are expected to be disbursed in less than one year. See note 9 for related party information.

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Notes to Financial Statements

June 30, 2016 and 2015

(6) Temporarily and Permanently Restricted Net Assets

The following summarizes the nature of the temporarily restricted net assets at June 30 and the purposes for which such net assets may be used:

	<u>2016</u>	<u>2015</u>
HU Campus Ministry Center	\$ 755,511	788,190
St. Joseph's Lay Leadership Institute	—	17
Archdiocesan Charitable Fund	963	—
Pro-Life Apostolate	1,511	1,190
Mission Seminary – Redemptoris	—	21
Women Religious Housing	755,511	788,190
Ministry Enhancement Fund	904	—
Scholarships – Endowment Income	476,608	2,978,479
Needy Parish Fund – Endowment Income	196,357	564,003
Seminarian Education – Endowment Income	60,281	276,118
Multicultural Apostolate – Endowment Income	125,935	839,256
	<u>\$ 2,373,581</u>	<u>6,235,464</u>

The following summarizes the nature of the permanently restricted net assets at June 30 and the purposes for which the income or a portion of income on such net assets may be used:

	<u>2016</u>	<u>2015</u>
Scholarships	\$ 29,627,879	29,622,039
Parish/School Building Fund	19,912,771	19,908,598
Needy Parish Endowment	4,232,554	4,231,720
Seminarian Education Endowment	2,539,532	2,539,032
Multicultural Apostolate	8,465,108	8,463,440
	<u>\$ 64,777,844</u>	<u>64,764,829</u>

(7) Net Assets Released from Restrictions

Net assets were released from temporary restrictions by incurring expenses satisfying the restricted purposes or by the passage of time for the years ended June 30 as follows:

Program services	\$ 2,091,000	2,274,829
Passage of time	701	43,257
Net assets released from restrictions	<u>\$ 2,091,701</u>	<u>2,318,086</u>

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(8) Endowments

Effective April 14, 2009, the State of Maryland enacted the Uniform Prudent Management of Institutional Funds Act (the Act), the provisions of which apply to funds existing on or established after that date.

The Board of Directors of FIF has interpreted the Act as allowing FIF to spend or accumulate the amount of an endowment fund that FIF determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. For accounting and reporting purposes, FIF classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act. If the disbursements under the spending rate policy exceed accumulated earnings, the deficiency is classified as an offset to unrestricted net assets until such time as it is recovered by future earnings. In accordance with the Act, FIF 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 FIF 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) other resources of FIF, and (7) the investment policies of FIF.

FIF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that FIF must hold in perpetuity or for a donor-specified period(s) as well as designated funds. FIF expects its endowment funds, over time, to provide an average rate-of-return of that, net of fees, exceeds the aggregate benchmark's total return with less risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, FIF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). FIF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

FIF's policy includes the following: the classification of restricted gifts, the investment of restricted gifts, the definition of income earned, and the calculation of annual distributions. Gifts are pooled and invested to ensure assets increase over time thereby enhancing the funds' long-term health and fiscal viability. Income earned includes interest, dividends, and realized/unrealized gains and losses unless otherwise specified by the donor. Distributions can be made annually at a rate not to exceed 4% of the sum of the fair market value of the permanently restricted net assets and the income earned (which are classified as temporarily restricted net assets) using a three-year rolling average.

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Endowment net assets composition by type of fund as of June 30 was as follows:

				2016			
				Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	859,181	44,865,074	45,724,255		
Board-designated funds		225,850	1,511,022	—	1,736,872		
Endowment net assets	\$	225,850	2,370,203	44,865,074	47,461,127		
				2015			
				Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	4,657,857	44,856,230	49,514,087		
Board-designated funds		305,415	1,576,380	—	1,881,795		
Endowment net assets	\$	305,415	6,234,237	44,856,230	51,395,882		

Changes in endowment net assets for the fiscal year ended June 30:

				2016			
				Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$	305,415	6,234,237	44,856,230	51,395,882		
Unrealized losses		(79,565)	(1,773,676)	—	(1,853,241)		
Contributions		—	—	8,844	8,844		
Board designation		—	642	—	642		
Appropriation of endowment assets for expenditure		—	(2,091,000)	—	(2,091,000)		
Endowment net assets, end of year	\$	225,850	2,370,203	44,865,074	47,461,127		

FORWARD IN FAITH, INC.

Notes to Financial Statements

June 30, 2016 and 2015

	2015			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Endowment net assets, beginning of year	\$ 350,118	9,104,963	44,389,538	53,844,619
Unrealized losses	(44,703)	(961,922)	—	(1,006,625)
Contributions	—	—	466,692	466,692
Board designation	—	1,196	—	1,196
Appropriation of endowment assets for expenditure	—	(1,910,000)	—	(1,910,000)
Endowment net assets, end of year	<u>\$ 305,415</u>	<u>6,234,237</u>	<u>44,856,230</u>	<u>51,395,882</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the states' enacted legislation requires FIF to retain as a fund for perpetual duration. There are no deficiencies at June 30, 2016 or 2015.

Permanently restricted net assets on the statements of financial position are made up of the following at June 30:

	<u>2016</u>	<u>2015</u>
Permanently restricted endowment net assets	\$ 44,865,074	44,856,230
Revolving loan fund	<u>19,912,770</u>	<u>19,908,599</u>
Total permanently restricted net assets	<u>\$ 64,777,844</u>	<u>64,764,829</u>

FORWARD IN FAITH, INC.

Notes to Financial Statements

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(9) Related-Party Transactions

FIF has significant transactions with parishes and related entities of the Archdiocese of Washington. Below is a summary of the impact of the transactions with these related parties on the statements of financial position and statements of activities as of and for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Due from CPA	\$ 87,727	46,826
Notes receivable, gross	5,175,693	4,637,149
Investment in CITW	66,138,145	68,755,181
Funds held on behalf of others	2,237,347	2,692,751
Contributions payable due to:		
CPA	1,290,000	1,233,922
Catholic Education Foundation	1,334,000	1,220,000
Catholic Charities	38,807	80,000
Expenses:		
Program services	2,624,000	2,734,829
Administrative cost incurred with CPA	83,000	131,000

A member of the board of FIF is also a member of the board of trustees of CITW and another member of the board of FIF is a member of the Archdiocesan finance council.

(10) Subsequent Events

In preparing these financial statements, FIF has evaluated events and transactions for potential recognition or disclosure through November 29, 2016, the date that the financial statements were available to be issued. There were no events or transactions that were discovered during the evaluation that required accrual or further disclosure.