



**FORWARD IN FAITH, INC.**

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



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

## **Independent Auditors' Report**

Board of Directors  
Forward in Faith, Inc.:

We have audited the accompanying statements of financial position of Forward in Faith, Inc. (Forward in Faith) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Forward in Faith'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Forward in Faith's internal control over financial reporting. Accordingly, we express no such opinion. 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 Forward in Faith, Inc. as of June 30, 2012 and 2011 and changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

February 1, 2013

# FORWARD IN FAITH, INC.

## Statements of Financial Position

June 30, 2012 and 2011

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 5,063,875	1,826,937
Contributions receivable, net (note 3)	2,493,863	4,525,127
Notes receivable, net (note 4)	4,963,855	3,632,856
Due from others	63,662	101,972
Investments for long-term purposes (note 2)	55,826,995	56,774,040
<b>Total assets</b>	<b>\$ 68,412,249</b>	<b>66,860,932</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Funds held on behalf of others (note 1 (k))	\$ 4,481,909	4,148,552
Contributions payable (note 5)	1,292,293	2,054,406
Due to others	88,100	159,969
<b>Total liabilities</b>	<b>5,862,302</b>	<b>6,362,927</b>
Net assets:		
Unrestricted	(1,361,523)	152,300
Temporarily restricted (note 6)	2,576,304	2,722,528
Permanently restricted (note 6)	61,335,166	57,623,177
<b>Total net assets</b>	<b>62,549,947</b>	<b>60,498,005</b>
<b>Total liabilities and net assets</b>	<b>\$ 68,412,249</b>	<b>66,860,932</b>

See accompanying notes to financial statements

**FORWARD IN FAITH, INC.**  
 Statements of Activities  
 Years ended June 30, 2012 and 2011

	<b>June 30, 2012</b>				<b>June 30, 2011</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Change in net assets:								
Revenue, gains, and other support:								
Contributions, donations, and gifts:	\$ -	842,024	3,447,597	4,289,621	-	100,324	225,118	325,441
Investment income (loss) (note 2)	(569,991)	(209,980)	-	(779,971)	7,612,885	1,099,980	-	8,712,865
Change in the value of pledges	-	50,845	264,392	315,237	-	167,557	860,898	1,028,455
Replenish restricted assets with unrestricted assets	(1,040,000)	1,040,000	-	-	-	-	-	-
Net assets released from restrictions	1,869,113	(1,869,113)	-	-	1,309,867	(1,309,867)	-	-
	<u>259,122</u>	<u>(146,224)</u>	<u>3,711,989</u>	<u>3,824,887</u>	<u>8,922,752</u>	<u>57,994</u>	<u>1,086,016</u>	<u>10,066,762</u>
Expenses:								
Program services:								
Scholarships	685,000	-	-	685,000	625,000	-	-	625,000
Pro-Life Apostolate	75,000	-	-	75,000	100,000	-	-	100,000
St. Joseph's Lay Leadership Institute	256,135	-	-	256,135	36,385	-	-	36,385
Homeless and Poor	-	-	-	-	148,000	-	-	148,000
Multicultural Apostolate	195,000	-	-	195,000	150,000	-	-	150,000
Seminarian expenses	60,000	-	-	60,000	40,000	-	-	40,000
Mission Seminary-Redemptoris	177,810	-	-	177,810	90,000	-	-	90,000
Needy Parishes & Schools	230,000	-	-	230,000	225,000	-	-	225,000
Ministry Enhancement-domestic violence	-	-	-	-	4,190	-	-	4,190
Total Program services	<u>1,678,945</u>	<u>-</u>	<u>-</u>	<u>1,678,945</u>	<u>1,418,575</u>	<u>-</u>	<u>-</u>	<u>1,418,575</u>
Administrative costs	94,000	-	-	94,000	148,200	-	-	148,200
Total expenses	<u>1,772,945</u>	<u>-</u>	<u>-</u>	<u>1,772,945</u>	<u>1,566,775</u>	<u>-</u>	<u>-</u>	<u>1,566,775</u>
	<u>(1,513,823)</u>	<u>(146,224)</u>	<u>3,711,989</u>	<u>2,051,942</u>	<u>7,355,977</u>	<u>57,994</u>	<u>1,086,016</u>	<u>8,499,987</u>
Net assets at beginning of year	<u>152,300</u>	<u>2,722,528</u>	<u>57,623,177</u>	<u>60,498,005</u>	<u>(7,203,677)</u>	<u>2,664,534</u>	<u>56,537,161</u>	<u>51,998,018</u>
Net assets at end of period	<u>\$ (1,361,523)</u>	<u>2,576,304</u>	<u>61,335,166</u>	<u>62,549,947</u>	<u>152,300</u>	<u>2,722,528</u>	<u>57,623,177</u>	<u>60,498,005</u>

See accompanying notes to financial statements

**FORWARD IN FAITH, INC.**

## Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,051,942	8,499,987
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized and realized investment (gains) losses	1,494,901	(8,020,221)
Decrease (increase) in assets:		
Notes receivable	(1,644,000)	(1,716,143)
Contributions receivable	2,031,264	684,356
Due from others	38,310	(46)
Increase (decrease) in liabilities:		
Funds held on behalf of others	333,357	(1,253,170)
Contributions payable	(762,113)	(3,687,080)
Service fee payable	-	(275,000)
Due to others	(71,869)	85,546
Contributions collected and revenues restricted for long term investments	(4,994,628)	(709,514)
Net cash used in operating activities	<u>\$ (1,522,836)</u>	<u>(6,391,286)</u>
Cash flows from investing activities:		
Purchases of investments	(64,024,670)	(58,431,518)
Proceeds from the sale of investments	63,476,814	53,181,264
Principal payments received on notes receivable	313,002	89,630
Net cash used in investing activities	<u>(234,854)</u>	<u>(5,160,624)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in endowment	4,994,628	709,514
Net cash provided by financing activities	<u>4,994,628</u>	<u>709,514</u>
Net increase (decrease) in cash	3,236,938	(10,842,396)
Cash and cash equivalents at beginning of year	<u>1,826,937</u>	<u>12,669,333</u>
Cash and cash equivalents at end of year	<u>\$ 5,063,875</u>	<u>1,826,937</u>

See accompanying notes to financial statements

## FORWARD IN FAITH, INC.

### Notes to Financial Statements

June 30, 2012 and 2011

#### (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 Archdiocese of Washington. 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.

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

The accompanying financial statements include the financial position, changes in net assets, and cash flows of FIF 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 agrees with the valuation methods and assumptions used in determining their estimated fair value.

FIF entered into a Trust Agreement with the Catholic Investment Trust of Washington (CITW or the Trust) on March 29, 2012. Pursuant to this agreement, FIF transferred its long-term investments to the Trust effective April 2, 2012. The pooled investments of the Trust are managed by independent investment managers, and the securities are held by bank custodians. The Trust is invested in a diversified portfolio consisting of cash equivalents, domestic and foreign equity and fixed income securities, bonds, money market funds, private equity, funds of funds, and U.S. government and agency securities. The investment in CITW is reported at estimated fair values utilizing net asset value. FIF reviews and evaluates the net asset values by the general partner and fund managers and agrees with the valuation methods and assumptions used in determining the net asset values.

All investments are exposed to various risks, such as interest rates, market and credit risks. Due to the level of risk associated with certain investments, it is at least possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

## FORWARD IN FAITH, INC.

### Notes to Financial Statements

June 30, 2012 and 2011

**(e) Contributions Receivable**

Contributions receivable are 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 is subsequently adjusted for accretion of discount and changes in estimates of collectability.

**(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 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) Revenue Recognition and Net Assets**

Net assets and revenues, 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.

Revenues are 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. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Investment income is reported as increases in unrestricted net assets unless its use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

**(h) 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 since FIF had no unrelated business income.

Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition on the financial statements.

## FORWARD IN FAITH, INC.

### Notes to Financial Statements

June 30, 2012 and 2011

(i) ***Concentration of Credit Risk***

Financial instruments that potentially subject FIF to concentrations of credit risk consist primarily of notes receivable. At June 30, 2012 and 2011, the gross notes receivable balance relating to notes from parishes/schools was \$6,213,855 and \$4,882,856, respectively (see note 4).

FIF 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 statements of financial position.

(j) ***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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) ***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 fundraising campaign for the benefit of other Archdiocesan entities.

(l) ***Reclassifications***

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

(2) **Investments and Fair Value Measurements**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The three level fair value hierarchy that describes the inputs that are used to measure assets is as follows:

*Level 1* – Quoted prices in active markets for identical assets or liabilities

*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; inputs other than quoted prices that are observable for the asset/liability; and inputs that are derived principally from or corroborated by other observable market data.

*Level 3* – Unobservable inputs that are supported by little or no market activity.

## **FORWARD IN FAITH, INC.**

### Notes to Financial Statements

June 30, 2012 and 2011

Investments measured using net asset value are considered Level 2 if they are redeemable at or near fiscal year end, otherwise they are considered Level 3.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of an input that is significant to the fair value measurement.

FIF transferred its long-term investments, effective April 2, 2012, to the CITW. Pursuant to this agreement, legal title of the assets was transferred to CITW and FIF holds an interest in the net asset values of the investments in the Trust as of June 30, 2012. FIF owns only its interest in the Trust and has no claim on the interest held by other participants in the Trust and no other participants have a claim on FIF's interest in the Trust. The Trust is invested in a diversified portfolio consisting of cash equivalents, domestic and foreign equity and fixed income securities, bonds, money market funds, private equity, funds of funds, and U.S. government and agency securities. As of June 30, 2012, approximately 68.7% of investments in the Trust are classified in Level 1, 27.6% are classified in Level 2 and 3.7% are classified in Level 3 of the fair value hierarchy.

FIF also held investments outside of the Trust as of June 30, 2012. These investments included U.S. government and agency securities, foreign equity and money market funds and are all included in Level 2 of the fair value hierarchy.

As of June 30, 2011, the majority of FIF's equity securities traded on a major exchange. Accordingly, such equity securities were disclosed in Level 1. The remaining equity securities were disclosed in Level 2. Securities with fixed maturities (Corporate Bonds, Mutual Funds and Government Sponsored Enterprises) 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 were disclosed in Level 2 of the hierarchy. The estimated values of U.S. Treasury securities were disclosed in Level 1 as the values are based on unadjusted market prices.

As of June 30, 2011, FIF invested 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 were included in the amount disclosed in Level 2.

**FORWARD IN FAITH, INC.**

Notes to Financial Statements

June 30, 2012 and 2011

The following is a summary of the fair value measurements of FIF's investments within the fair value hierarchy as of June 30, 2012 and 2011:

	<u>2012</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Unobservable inputs (Level 3)</u>
Assets:				
Investment in CITW	\$ 51,210,842	—	49,309,462	1,901,380
U.S. government/agencies Equity securities	4,543,862	—	4,543,862	—
International	9,067	—	9,067	—
Money market funds - domestic	63,224	—	63,224	—
	<u>\$ 55,826,995</u>	<u>—</u>	<u>53,925,615</u>	<u>1,901,380</u>

	<u>2011</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>
Assets:			
U.S. government/agencies	\$ 7,594,135	1,091,760	6,502,375
Corporate bonds - domestic	6,128,747	—	6,128,747
Fixed income mutual funds - domestic	5,993,592	—	5,993,592
Equity securities			
Domestic	23,465,935	23,465,935	—
International	11,643,742	6,460,315	5,183,427
Money market funds - domestic	1,947,889	—	1,947,889
	<u>\$ 56,774,040</u>	<u>31,018,010</u>	<u>25,756,030</u>

## FORWARD IN FAITH, INC.

### Notes to Financial Statements

June 30, 2012 and 2011

Investments are reported in the statements of financial position as follows:

	<u>2012</u>	<u>2011</u>
Investment restricted for long-term purposes	\$ 55,826,995	56,774,040
Total investments	<u>\$ 55,826,995</u>	<u>56,774,040</u>

The fair value of other financial instruments, principally accounts receivable, accounts payable, and due to affiliate approximates their carrying value at June 30, 2012 and 2011 because of the short maturity of these items.

FIF used the Net Asset Value (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. The fair value of the investment in CITW of \$51,210,842 is estimated using the net asset value at June 30, 2012. There are no unfunded commitments for this investment.

The investments of CITW are comprised of 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. The Traditional portfolio is valued monthly and redemption by the grantors is permitted quarterly and at the valuation date. The Semi-Liquid portfolio is valued at the beginning of each quarter and can be redeemed with 30 days notice. The Illiquid portfolio is valued at the beginning of each quarter and does not have redemption frequency.

Investment income (loss) for the years ended June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 1,042,726	1,218,702
Realized gains and losses, net	692,483	1,774,895
Unrealized gains and losses, net	(2,187,384)	6,245,326
Less administrative investment fees	(327,796)	(526,058)
Investment income (loss)	<u>\$ (779,971)</u>	<u>8,712,865</u>

**FORWARD IN FAITH, INC.**

Notes to Financial Statements

June 30, 2012 and 2011

Investment income (loss) is reported on the statements of activities as follows:

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ (569,991)	7,612,885
Temporarily restricted	<u>(209,980)</u>	<u>1,099,980</u>
Investment income (loss)	<u>\$ (779,971)</u>	<u>8,712,865</u>

**(3) Contributions Receivable**

Contributions receivable are summarized as follows at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unconditional promises before unamortized discount and allowance for uncollectibles expected to be collected in:		
Less than one year	\$ 2,391,277	4,327,753
One year to five years	<u>1,040,000</u>	<u>2,145,000</u>
	3,431,277	6,472,753
Less unamortized discount (discount rates ranging from 3.54% to 4.62%)	(57,414)	(147,626)
Less allowance for uncollectible contributions receivable	<u>(880,000)</u>	<u>(1,800,000)</u>
	<u>\$ 2,493,863</u>	<u>4,525,127</u>

**(4) Notes Receivable**

	<u>2012</u>	<u>2011</u>
Notes receivable from Parishes/Schools	6,213,855	4,882,856
Less allowance for uncollectible notes receivable	<u>(1,250,000)</u>	<u>(1,250,000)</u>
	<u>\$ 4,963,855</u>	<u>3,632,856</u>

**(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.

**FORWARD IN FAITH, INC.**

Notes to Financial Statements

June 30, 2012 and 2011

**(6) Temporarily and Permanently Restricted Net Assets**

The following summarizes the nature of the temporarily restricted net assets at June 30, 2012 and 2011 and the purposes for which such net assets may be used:

	<u>2012</u>	<u>2011</u>
HU Campus Ministry Center	\$ 802,374	754,785
St. Joseph's Lay Leadership Institute	82,448	148,224
Archdiocesan Charitable Fund	470,122	327,353
Pro-Life Apostolate	12,374	39,784
Homeless and Poor	493	493
Mission Seminary-Redemptoris	103,060	101,845
Women Religious Housing	802,374	754,785
Ministry Enhancement Fund	303,059	385,280
Scholarships-Endowment Income	—	70,903
Needy Parish Fund-Endowment Income	—	118,885
Seminarian Education-Endowment Income	—	20,757
Multicultural Apostolate-Endowment Income	—	(566)
	<u>\$ 2,576,304</u>	<u>2,722,528</u>

The following summarizes the nature of the permanently restricted net assets at June 30, 2012 and 2011 and the purposes for which the income or a portion of income on such net assets may be used:

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 28,083,087	26,417,451
Parish/School Building Fund	18,809,348	17,619,608
Needy Parish Endowment	4,011,870	3,773,922
Seminarian Education Endowment	2,407,122	2,264,353
Multicultural Apostolate	8,023,739	7,547,843
	<u>\$ 61,335,166</u>	<u>57,623,177</u>

## FORWARD IN FAITH, INC.

### Notes to Financial Statements

June 30, 2012 and 2011

#### (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, 2012 and 2011, as follows:

	<u>2012</u>	<u>2011</u>
Program services	\$ 1,548,945	1,264,385
Passage of time	<u>320,168</u>	<u>45,482</u>
Net assets released from restrictions	<u>\$ 1,869,113</u>	<u>1,309,867</u>

#### (8) Uniform Prudent Management of Institutional Funds Act (UPMIFA)

Effective January 23, 2008, the District of Columbia 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 State of Maryland enacted the Act effective April 14, 2009.

The Board of Directors of FIF has interpreted the Act as requiring, for accounting and reporting purposes, the preservation of the fair market value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, FIF classifies as permanently restricted net assets (a) 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 the organization.

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. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that meet or exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. 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.

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June 30, 2012 and 2011

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.

Endowment net assets composition by type of fund as of June 30, 2012 and 2011 was as follows:

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ <u>(1,484,178)</u>	<u>—</u>	<u>41,433,386</u>	<u>39,949,208</u>
	<b>2011</b>			
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ <u>—</u>	<u>209,980</u>	<u>38,039,600</u>	<u>38,249,580</u>

**FORWARD IN FAITH, INC.**

Notes to Financial Statements

June 30, 2012 and 2011

Changes in endowment net assets for the fiscal year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ —	209,980	38,039,600	38,249,580
Investment return:				
Investment income	—	376,415	—	376,415
Realized and unrealized gains and losses, net	—	(1,030,573)	—	(1,030,573)
Total investment return	—	(654,158)	—	(654,158)
Contributions	—	—	3,393,786	3,393,786
Replenish net assets	(1,484,178)	1,484,178	—	—
Appropriation of endowment assets for expenditure	—	(1,040,000)	—	(1,040,000)
Endowment net assets, end of year	<u>\$ (1,484,178)</u>	<u>—</u>	<u>41,433,386</u>	<u>39,949,208</u>

Changes in endowment net assets for the fiscal year ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (5,408,640)	—	37,557,494	32,148,854
Investment return:				
Investment income	436,085	—	—	436,085
Realized and unrealized gains and losses, net	6,072,535	—	—	6,072,535
Total investment return	6,508,620	—	—	6,508,620
Contributions	—	—	482,106	482,106
Replenish net assets	(1,099,980)	1,099,980	—	—
Appropriation of endowment assets for expenditure	—	(890,000)	—	(890,000)
Endowment net assets, end of year	<u>\$ —</u>	<u>209,980</u>	<u>38,039,600</u>	<u>38,249,580</u>

**FORWARD IN FAITH, INC.**

Notes to Financial Statements

June 30, 2012 and 2011

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. In accordance with generally accepted accounting principles, the deficiencies of this nature that are reported in unrestricted net assets totaled \$1,484,178 as of June 30, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of the new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

**(9) Related-Party Transactions**

FIF has significant transactions with parishes and related corporations of the Archdiocese of Washington of which it is also an affiliate. Below is a summary of the impact of significant transactions with these related parties on the statements of financial position at June 30, 2012 and 2011 and statements of activities for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Notes receivable, gross	\$ 6,213,855	4,882,856
Due from others	63,292	74,013
Investment in CITW	51,210,842	—
Contributions payable	1,292,293	2,054,406
Expenses:		
Program services	1,678,945	1,418,575
Administrative cost	65,000	148,200
	<u>\$ 1,743,945</u>	<u>1,566,775</u>

The Contribution payable of \$1,292,293 includes \$685,000 due to the Catholic Education Foundation and \$607,293 to the Central Pastoral Administration.

A member of the board of FIF is also a member of the board of Trustees of CITW.

**(10) Subsequent Events**

In preparing these financial statements, FIF has evaluated events and transactions for potential recognition or disclosure through February 1, 2013, 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.