

Faith in the Future Fund, Inc.

**Financial Statements with  
Independent Auditor's Report**

Year Ended June 30, 2014

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## **Independent Auditor's Report**

To the Board of Directors  
Faith in the Future Foundation, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Faith in the Future Foundation, Inc., (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Faith in the Future Foundation, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Nanavaty, Nanavaty & Davenport, LLP*

June 15, 2015

Faith in the Future Fund, Inc.

**Statement of Financial Position**

As of June 30, 2014

**ASSETS**

Cash and cash equivalents	\$	3,411
Investments		23,410,593
Due from the Bridgeport Roman Catholic Diocesan Corporation		1,866,688
Total assets	\$	<u>25,280,692</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Scholarships payable	\$	31,953
Total Liabilities		<u>31,953</u>
Net Assets:		
Unrestricted		-
Temporarily restricted		5,125,094
Permanently restricted		20,123,645
Total Net Assets		<u>25,248,739</u>
Total Liabilities and Net Assets	\$	<u>25,280,692</u>

*The accompanying notes are an integral part of this financial statement.*

Faith in the Future Fund, Inc.

**Statement of Activities**

Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Support and Revenues:</b>				
Contributions	\$ -	\$ -	\$ 124,983	\$ 124,983
Investment income, net	-	2,660,839	-	2,660,839
Total support and revenues	-	2,660,839	124,983	2,785,822
Net assets released from restrictions	59,356	(59,356)	-	-
<b>Program Expenses:</b>				
Scholarships	59,356	-	-	59,356
Bad debts expense	-	-	116,278	116,278
Total program expenses	59,356	-	116,278	175,634
Change in net assets before transfer	-	2,601,483	8,705	2,610,188
Transfer of net assets	-	500,000	(500,000)	-
Change in net assets after transfer	-	3,101,483	(491,295)	2,610,188
<b>Net assets at the beginning of the year</b>	-	2,023,611	20,614,940	22,638,551
<b>Net assets at the end of the year</b>	<u>\$ -</u>	<u>\$ 5,125,094</u>	<u>\$ 20,123,645</u>	<u>\$25,248,739</u>

*The accompanying notes are an integral part of this financial statement.*

Faith in the Future Foundation, Inc.

**Statement of Cash Flows**

Year Ended June 30, 2014

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 2,610,188
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Bad debt	(116,278)
Net realized and unrealized gains on investments	(1,942,093)
Decrease in contributions receivable	116,278
Increase in scholarships payable	31,953
<b>Net cash provided by operating activities</b>	<u>700,048</u>
<b>Cash flows from investing activities:</b>	
Proceeds from sale of investments	4,649,538
Purchases of investments	(10,353,233)
Repayment of amounts due from Bridgeport Roman Catholic Diocesan Corporation	5,000,000
<b>Net cash used in investing activities</b>	<u>(703,695)</u>
<b>Net decrease in cash</b>	(3,648)
<b>Cash and cash equivalents at beginning of year</b>	7,059
<b>Cash and cash equivalents at end of year</b>	<u>\$ 3,411</u>

*The accompanying notes are an integral part of this financial statement.*

## Notes to the Financial Statements

June 30, 2014

### NOTE 1 - ORGANIZATION

Faith in the Future Fund, Inc. ("Faith in the Future") is a Connecticut nonprofit, non-stock corporation formed in February 1996 by the Bridgeport Roman Catholic Diocesan Corporation (the "Diocese"). Members of Faith in the Future are the individuals holding the title of the Bishop, Vicar General, Chancellor and the Chief Financial Officer of the Diocese. The Bishop appoints the Faith in the Future Board of Directors.

Faith in the Future was established to raise, manage and disburse funds raised by the Faith in the Future Endowment Campaign of the Diocese. The campaign purposes were to create a permanent endowment to support Catholic education, vocation and seminary education, priests' residence and retirement fund and Diocesan ministries and programs, having goals of assuring the viability of Diocesan elementary and secondary schools; continuing to develop priestly vocations and to fund seminary education; providing appropriate support and facilities for its retired clergy and enhancing the religious education programs in its parishes.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting and Presentation** - The financial statements of Faith in the Future have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of Faith in the Future are reported in the following net asset categories:

**Unrestricted Net Assets** - Unrestricted net assets represent available resources other than donor restricted contributions. These resources may be expended at the discretion of the Board of Directors.

**Temporarily Restricted Net Assets** - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and accumulated gains and investment income on donor-restricted endowment assets.

**Permanently Restricted Net Assets** - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the income earned thereon be available for use.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates

**Cash and Cash Equivalents** - Cash and cash equivalents are defined as highly liquid investments with original maturities of up to 90 days, except for money market accounts held with investment brokers, which are considered to be investments.

**Notes to the Financial Statements (continued)**

June 30, 2014

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investment Valuation and Income Recognition** - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains include Faith in the Future's gains and losses on investments bought and sold as well as held during the year.

The Diocese's Investment Committee determines Faith in the Future's valuation policies and procedures.

**Contributions** - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable that are expected to be collected in more than one year are discounted to their present value. Faith in the Future reports contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions. Contributions received whose restrictions are met in the same period are recognized with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition.

**Income Taxes** - Faith in the Future is a not-for-profit organization and is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Faith in the Future recognizes the benefits of income tax positions only if those positions are more likely than not of being sustained. Faith in the Future is subject to routine audits by the Internal Revenue Service. There are currently no audits for any tax periods in progress and Faith in the Future believes that it is no longer subject to audits for years prior to 2010.

**Subsequent Events** - In preparing these financial statements, management has evaluated subsequent events through June 15, 2015, which represents the date the financial statements were available to be issued.

**Notes to the Financial Statements (continued)**

June 30, 2014

**NOTE 3 - CONCENTRATION**

Faith in the Future's financial instruments that are exposed to a concentration of credit risk consist of investments.

**Investments** - Faith in the Future's investments are comprised of various common stocks, mutual funds, exchange-traded funds, closed-end funds, alternative investments, and money market funds. The money market funds are not protected by federal depository insurance. The value of these investments is subject to fluctuations due to general market conditions and interest rates.

**NOTE 4 - FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Faith in the Future has the ability to access.

**Level 2** - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. When, as a practical expedient, an investment is measured at fair value on the basis of net asset value, its classification as Level 2 or 3 will be impacted by the ability to redeem the investment at net asset value at the measurement date. If there is uncertainty or the inability to redeem an investment at net asset value in the near term subsequent to the measurement date, the investment is categorized as Level 3.

**Notes to the Financial Statements (continued)**

June 30, 2014

**NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)**

The following is a description of the valuation methodologies used for assets measured at fair value:

**Money-Market Funds** - Money-market funds are valued at the quoted net asset value of shares held by Faith in the Future at year-end.

**Common Stocks** - Common stocks are valued at the closing price reported in the active market in which the individual securities are traded at year-end.

**Mutual Funds** - Mutual funds are valued at the quoted net asset value of shares reported in the active market in which the funds are traded at year-end.

**Exchange-Traded Funds** – Exchange-traded funds are valued at the quoted net asset value of shares reported in the active market in which the funds are traded at the year-end.

**Closed-End Funds** - Closed-end funds are valued at the quoted net asset value of shares reported in the limited market in which the funds are traded at the year-end.

**Alternative Investments** - Interests in these items are valued by external investment managers, taking into consideration the fair-value of the underlying assets and liabilities, current distribution rates and discounts for redemption and liquidity restrictions. The valuations involve assumptions and methods that are reviewed by the Diocese's Investment Committee. Because investments in these items are not readily marketable, their estimated fair-value is subject to uncertainty and may differ significantly from the value that would have been used had a market for such investments existed.

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

**Notes to the Financial Statements (continued)**

June 30, 2014

**NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)**

**Assets Measured at Fair-value on a Recurring Basis** - The following is a summary of the source of fair-value measurements for assets that are measured at fair-value on a recurring basis as of June 30, 2014:

Investment Description	Level 1	Level 2	Level 3	Total
Money-market funds	\$ 626,530	\$ -	\$ -	\$ 626,530
Common stocks	7,266,182	-		7,266,182
Equity mutual funds:				
Large-cap blend	3,543,071	-	-	3,543,071
International	1,401,268	-	-	1,401,268
Emerging markets	924,354	-	-	924,354
Multi-strategy mutual funds	1,402,596	-	-	1,402,596
Bond mutual funds	5,022,887	-	-	5,022,887
Exchange-traded funds	936,965	-	-	936,965
Closed-end funds	-	1,009,188	-	1,009,188
Alternative investments	-	-	1,277,552	1,277,552
Total	<u>\$ 21,123,853</u>	<u>\$ 1,009,188</u>	<u>\$ 1,277,552</u>	<u>\$ 23,410,593</u>

There have been no changes in the methodologies used at June 30, 2014.

**Assets Measured at Fair-Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)** - The following is a summary of the changes in the balances of investments measured at fair-value on a recurring basis, using significant unobservable inputs for June 30, 2014:

	<u>Alternative Investments</u>
Balance at July 1, 2013	1,195,886
Total gains (realized and unrealized) included in the change in net assets	62,916
Purchases	18,750
Balance at June 30, 2014	<u>\$ 1,277,552</u>

**Notes to the Financial Statements (continued)**

June 30, 2014

**NOTE 5 - INVESTMENT INCOME**

Investment income consists of the following at June 30, 2014:

Dividends and interest	\$ 819,684
Net realized gains	54,366
Net unrealized gains	<u>1,887,727</u>
Total investment income	2,761,777
Less: investment expenses	<u>(100,938)</u>
Investment income, net	<u><u>\$ 2,660,839</u></u>

**NOTE 6 - LOAN RECEIVABLE**

Faith in the Future has a loan receivable from the Diocese totaling \$1,866,688 at June 30, 2014. This loan is payable on demand and is non-interest bearing.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30, 2014:

Purposes:

Trinity Catholic High School field improvements	\$ 523,510
Scholarships	<u>7,802</u>
	<u>531,312</u>

Future periods:

Accumulated gains and income on donor-restricted endowment assets restricted until appropriation for:

Catholic education	3,854,728
Vocation and seminary education	399,574
Parish religious education programs	271,395
Scholarships	<u>68,085</u>
	<u>4,593,782</u>

Total Temporarily Restricted Net Assets	<u><u>\$ 5,125,094</u></u>
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Net assets totaling \$59,356 were released from restrictions by incurring expenses satisfying scholarship restrictions for the year ended June 30, 2014. Net assets totaling \$500,000 were transferred in from Permanently Restricted Net Assets for Trinity Catholic High School field improvements.

**Notes to the Financial Statements (continued)**

June 30, 2014

**NOTE 8 - ENDOWMENT**

Faith in the Future's endowment includes only donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Board of Directors of Faith in the Future has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) as requiring the preservation of the fair 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, Faith in the Future 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 Faith in the Future in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, Faith in the Future considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of Faith in the Future and the donor-restricted endowment fund
- The investment policies of Faith in the Future
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Faith in the Future

**Net Assets** - Endowment net asset composition by type of fund is as follows as of June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 4,593,782</u>	<u>\$ 20,123,645</u>	<u>\$ 24,717,427</u>

**Notes to the Financial Statements (continued)**

June 30, 2014

**NOTE 8 - ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ -	\$ 2,015,809	\$ 20,614,940	\$ 22,630,749
Transfers - donor modifications	-	(23,510)	(500,000)	(523,510)
Investment return:				
Investment income	-	819,684	-	819,684
Investment gains, net	-	1,841,155	-	1,841,155
Total investment returns, net	-	2,660,839	-	2,660,839
Other changes:				
Contributions	-	-	124,983	124,983
Uncollectible pledges	-	-	(116,278)	(116,278)
Appropriation of endowment assets	-	(59,356)	-	(59,356)
Endowment net assets - end of year	<u>\$ -</u>	<u>\$ 4,593,782</u>	<u>\$ 20,123,645</u>	<u>\$ 24,717,427</u>

**Funds with Deficiencies** - From time to time, the fair value of investments associated with donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires Faith in the Future to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2014.

**Return Objectives and Risk Parameters** – Faith in the Future has adopted an investment policy for endowment assets with the objective of achieving investment results over the long term that compare favorably with those of other endowments, professionally managed portfolios and appropriate benchmark indices. All investments are invested in accordance with the investment policy.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, Faith in the Future engages a professional investment advisor and has adopted a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Consistent with that strategy, Faith in the Future targets a diversified asset allocation emphasizing long-term investment performance and targets 55% to equity-type investments, 14% to fixed income, 23% to alternatives and 8% to real assets.

**Notes to the Financial Statements (continued)**

June 30, 2014

**NOTE 8 - ENDOWMENT (Continued)**

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - Faith in the Future's Board of Directors has approved a spending policy that evaluates an annual spending target of 4.00% of the average quarterly ending market value over the preceding twenty quarters. This is consistent with Faith in the Future's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

**NOTE 9 - SUBSEQUENT EVENT**

In August 2014 the Faith in the Future Board of Directors approved a distribution of \$925,000 to various programs supported by the endowment. These distributions were made during December 2014.