

March 28, 2019

Audit Committee of the
Board of Directors
Catholic Community Foundation

We have audited the financial statements of the Catholic Community Foundation (the "Foundation") for the year ended December 31, 2018 and have issued our report thereon dated March 28, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. These matters are summarized in the memorandum that accompanies this letter.

This communication is intended solely for the information and use of management and the Board of Directors of the Foundation and it is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



REQUIRED COMMUNICATIONS

A. Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated November 27, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

B. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in October 2018.

C. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Foundation are described in Note 1 to the financial statements. In 2018, the Foundation adopted Accounting Standards Update No. 2016-14 "Presentation of Financial Statements of Not-for-Profit Entities". The adoption of this standard did not have a material impact on the Foundation's financial statement. The application of existing policies was not changed during 2018. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The following are the most sensitive estimates affecting the financial statements.

Management's estimate of life expectancies and discount factors is based on guidance provided by the Internal Revenue Service. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management estimates an allowance for doubtful accounts based on historical collection experience and a review of the current status of its receivables. Based on subsequent collections and review of the outstanding balances, we believe the estimates are reasonable.

The valuation of investments is based upon management's assessment of quoted market prices for identical or similar securities.

The financial statement disclosures are neutral, consistent and clear.

REQUIRED COMMUNICATIONS (CONTINUED)

D. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

E. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no such misstatements.

F. Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

G. Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated March 28, 2019.

H. Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

I. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



CATHOLIC COMMUNITY
FOUNDATION

Enriching Lives In Northeast Ohio

March 28, 2019

Maloney + Novotny LLC
1111 Superior Avenue, Suite 700
Cleveland, Ohio 44114

This representation letter is provided in connection with your audits of the statements of financial position of the Catholic Community Foundation, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the current and prior years ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of March 28, 2019, the following representations made to you during your audits.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 27, 2018, including our responsibility for the preparation and fair presentation of the financial statements.
- The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance in accordance with U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

- Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. The methods and significant assumptions used to estimate fair values of financial instruments, including nonreadily marketable securities, are based on available market information and other generally accepted valuation methodologies

The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes. This includes the determination of the appropriate leveling of investments in the fair value tables.

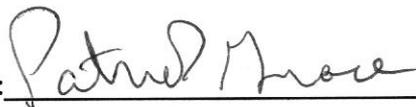
- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- Material concentrations have been properly disclosed in accordance with U.S. GAAP.
- Guarantees, whether written or oral, under which the Organization is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
- The Organization recognizes tax benefits only to the extent that the Organization believes a tax position is "more likely than not" (meaning the likelihood is greater than 50%) to be upheld through an examination by taxing authorities. The Organization has no material unrecognized tax benefits. Filings for the years ended 2015 and later remain subject to review by various taxing authorities.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - Minutes of the meetings of the governing board, or summaries of actions of recent meetings for which minutes were not yet prepared.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the Organization and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.

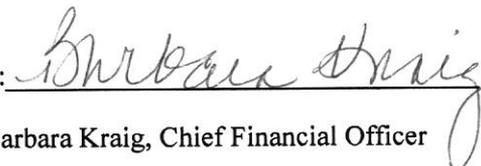
- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- The Foundation is an exempt organization under Section 501(c)3 of the Internal Revenue Code. We are not aware of any activities that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, when applicable, have been disclosed to you. All required filings with tax authorities are up-to-date.
- We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
- No events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
- In regards to the tax return preparation services performed by you, we have:
 - a. Assumed all management responsibilities.
 - b. Overseen the services by designating an individual who possesses suitable skill, knowledge, and/or experience.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services

Signature: _____



Patrick Grace, Executive Director

Signature: _____



Barbara Kraig, Chief Financial Officer

CATHOLIC COMMUNITY FOUNDATION
FINANCIAL REPORT
DECEMBER 31, 2018 and 2017

CATHOLIC COMMUNITY FOUNDATION

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Independent Auditors' Report

To the Board of Directors
Catholic Community Foundation

We have audited the accompanying financial statements of Catholic Community Foundation (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, 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 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Cleveland, Ohio
March 28, 2019

CATHOLIC COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 4,799,891	\$ 5,202,679
Custodial cash and cash equivalents	213,064	347,215
Investments (Note 4)	108,612,115	117,207,653
Custodial investments (Note 4)	37,558,764	29,168,222
Contributions and accounts receivable:		
Rooted in Faith pledges (Note 6)	311,001	2,068,995
Grants and pledges (Note 6)	308,737	154,771
The Catholic Charities Corporation of Cleveland (Note 10)	446	7,383
Due from Diocese of Cleveland Finance Office	-	4,607
Furniture and equipment at cost, less accumulated depreciation of \$1,003,828 in 2018 and \$996,852 in 2017	4,562	11,218
Assets held for charitable gift annuity agreements	1,294,312	1,266,350
Other	<u>115,285</u>	<u>206,460</u>
 Total assets	 <u>\$ 153,218,177</u>	 <u>\$ 155,645,553</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable:		
Trade	\$ 74,690	\$ 222,644
Rooted in Faith distributions (Note 3)	1,211,048	735,048
Beneficiaries of charitable gift annuity agreements	617,818	540,567
Accrued expenses	97,485	85,178
#weGiveCatholic liability	91,231	142,902
Funds held for others	<u>37,680,597</u>	<u>29,372,535</u>
Total liabilities	39,772,869	31,098,874
 <u>NET ASSETS</u>		
Without donor restrictions (Note 8)	8,250,513	8,523,174
With donor restrictions (Note 9)	<u>105,194,795</u>	<u>116,023,505</u>
Total net assets	<u>113,445,308</u>	<u>124,546,679</u>
 Total liabilities and net assets	 <u>\$ 153,218,177</u>	 <u>\$ 155,645,553</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Fundraising, support and grants	\$ 17,088,257	\$ 2,801,161	\$ 19,889,418
Less funds raised for others (Note 10):			
Annual appeal	(13,818,801)		(13,818,801)
Bequests and gifts	(1,835,886)	246,675	(1,589,211)
Net fundraising, support and grants	1,433,570	3,047,836	4,481,406
Interest and dividend income	185,487	2,205,071	2,390,558
Net realized gain on investments	206,010	6,979,738	7,185,748
Net unrealized loss on investments	(1,085,119)	(13,258,009)	(14,343,128)
Fundraising support (Note 10)	2,250,000		2,250,000
Other support	921,451		921,451
Net change in value of annuity agreements	(2,921)	(167,899)	(170,820)
Reclassification and transfers of net assets	(15,625)	358,423	342,798
Net assets released from restrictions pursuant to endowment spending-rate distribution formula	1,690,245	(1,690,245)	-
Net assets released from restrictions - other	6,093,775	(6,093,775)	-
Total revenue and support	11,676,873	(8,618,860)	3,058,013
DISTRIBUTIONS AND EXPENSES			
Distributions	8,830,214		8,830,214
Operating expenses:			
Fundraising	1,957,865		1,957,865
Other operating	958,534		958,534
Administrative expenses	202,921		202,921
Total distributions and expenses	11,949,534		11,949,534
CHANGE IN NET ASSETS BEFORE CAMPAIGN ACTIVITY AND TRANSFERS			
	(272,661)	(8,618,860)	(8,891,521)
Campaign activity (Note 3):			
Rooted in Faith - support		(1,283,277)	(1,283,277)
Rooted in Faith - change in allowance		717,424	717,424
Rooted in Faith - expenses	(105,139)		(105,139)
Rooted in Faith - distributions	(1,216,847)		(1,216,847)
Net assets released from restrictions	1,321,986	(1,321,986)	-
Reclassification from Rooted in Faith		(342,798)	(342,798)
Transfers from Diocesan entities		20,787	20,787
	-	(2,209,850)	(2,209,850)
CHANGE IN NET ASSETS	(272,661)	(10,828,710)	(11,101,371)
NET ASSETS – BEGINNING OF YEAR	8,523,174	116,023,505	124,546,679
NET ASSETS – END OF YEAR	\$ 8,250,513	\$ 105,194,795	\$ 113,445,308

The accompanying notes are an integral part of these financial statements.

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Fundraising, support and grants	\$ 14,634,870	\$ 4,661,608	\$ 19,296,478
Less funds raised for others (Note 10):			
Annual appeal	(13,539,683)		(13,539,683)
Bequests and gifts	(730,634)	313,721	(416,913)
Net fundraising, support and grants	364,553	4,975,329	5,339,882
Interest and dividend income	160,533	2,045,813	2,206,346
Net realized (loss) gain on investments	(16,027)	4,024,652	4,008,625
Net unrealized gain on investments	594,208	7,724,464	8,318,672
Fundraising support (Note 10)	2,193,500		2,193,500
Other support	928,332		928,332
Net change in value of annuity agreements	2,379	126,300	128,679
Reclassification and transfers of net assets	(66,846)	2,339,986	2,273,140
Net assets released from restrictions pursuant to endowment spending-rate distribution formula	1,668,489	(1,668,489)	-
Net assets released from restrictions - other	10,388,252	(10,388,252)	-
Total revenue and support	16,217,373	9,179,803	25,397,176
DISTRIBUTIONS AND EXPENSES			
Distributions	12,574,986		12,574,986
Operating expenses:			
Fundraising	1,996,292		1,996,292
Other operating	935,441		935,441
Administrative expenses	221,740		221,740
Total distributions and expenses	15,728,459		15,728,459
CHANGE IN NET ASSETS BEFORE CAMPAIGN ACTIVITY AND TRANSFERS			
	488,914	9,179,803	9,668,717
Campaign activity (Note 3):			
Rooted in Faith - support		(862,914)	(862,914)
Rooted in Faith - change in allowance		(988,587)	(988,587)
Rooted in Faith - expenses	(162,341)		(162,341)
Rooted in Faith - distributions	(3,464,543)		(3,464,543)
Net assets released from restrictions	3,626,884	(3,626,884)	-
Reclassification from Rooted in Faith		(2,273,140)	(2,273,140)
Transfers from Diocesan entities		539,561	539,561
	-	(7,211,964)	(7,211,964)
CHANGE IN NET ASSETS	488,914	1,967,839	2,456,753
NET ASSETS – BEGINNING OF YEAR	8,034,260	114,055,666	122,089,926
NET ASSETS – END OF YEAR	\$ 8,523,174	\$ 116,023,505	\$ 124,546,679

The accompanying notes are an integral part of these financial statements.

CATHOLIC COMMUNITY FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2018 and 2017

	Program Services	Administrative	Fundraising	2018 Totals	2017 Totals
Distributions	\$ 8,830,214			\$ 8,830,214	\$ 12,574,986
Salaries and wages	568,135	\$ 147,778	\$ 1,005,691	1,721,604	1,687,257
Other employee benefits	75,387	14,229	107,603	197,219	193,748
Postage	334	259	180,324	180,917	191,778
Printing	784	5,336	167,491	173,611	195,094
Bank fees	3,557		145,693	149,250	148,664
Payroll taxes	41,781	9,574	75,418	126,773	126,540
Information technology	95,391	1,275	20,035	116,701	101,697
Fees for services - other	13,771		79,932	93,703	92,951
Occupancy	77,145			77,145	82,190
Pension expense	33,343	6,189	56,493	96,025	79,668
Fees for services - accounting	38,000			38,000	38,000
Advertising and promotion		3,568	34,262	37,830	38,414
Creative services		983	28,290	29,273	29,578
Conferences, conventions, and meetings	1,518	1,385	25,009	27,912	45,949
Travel		1,569	16,928	18,497	21,607
Office expenses	4,056	1,218	7,434	12,708	12,626
Miscellaneous expenses	5,332	5,023	4,820	15,175	31,653
Depreciation		4,535	2,442	6,977	36,059
Total expenses included in the distributions and expenses section of the statements of activities	<u>\$ 9,788,748</u>	<u>\$ 202,921</u>	<u>\$ 1,957,865</u>	<u>\$ 11,949,534</u>	<u>\$ 15,728,459</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (11,101,371)	\$ 2,456,753
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gain on investments	(7,185,748)	(4,008,625)
Net unrealized loss (gain) on investments	14,343,128	(8,318,672)
Change in value of annuity agreements	(83,469)	(120,620)
Depreciation	6,977	36,059
Contributions permanently restricted	(220,343)	(1,742,391)
Changes in operating assets and liabilities:		
Pledges and accounts receivable	1,615,572	7,641,551
Other assets	91,175	(27,079)
Accounts payable	328,046	(1,582,488)
Accrued expenses	12,307	(9,874)
Total adjustments	<u>8,907,645</u>	<u>(8,132,139)</u>
Net cash used in operating activities	<u>(2,193,726)</u>	<u>(5,675,386)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	79,951,647	53,649,821
Purchase of investments	(78,513,490)	(51,577,995)
Purchase of furniture and equipment	(320)	-
Net cash provided by investing activities	<u>1,437,837</u>	<u>2,071,826</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to beneficiaries of charitable gift annuities	(120,961)	(83,916)
Proceeds from beneficiaries of charitable gift annuities	253,719	50,480
Contributions permanently restricted	<u>220,343</u>	<u>1,742,391</u>
Net cash provided by financing activities	<u>353,101</u>	<u>1,708,955</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(402,788)	(1,894,605)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>5,202,679</u>	<u>7,097,284</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 4,799,891</u>	<u>\$ 5,202,679</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

- A. **Organization** – The Catholic Community Foundation (the "Foundation") was created and incorporated on January 1, 2000 to centralize and enhance fundraising and fund management for the Roman Catholic Diocese of Cleveland (the "Diocese"). The Foundation receives unrestricted contributions, certain restricted contributions, bequests, and special gifts and it allocates funds to the various operating secretariats of the Diocese.
- B. **Accounting Method** – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, certain net assets for a board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

- C. **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 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.
- D. **Cash and Cash Equivalents** – The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to endowments that are perpetual in nature, or other long-term purposes, are excluded from this definition.
- E. **Investments** – Marketable securities are carried at fair value based on quoted market prices with realized and unrealized gains and losses reported in the statements of activities. Realized gains or losses on the sale of investments are determined on the specific identification method. Investment income or loss on net assets with donor restrictions, including unrealized and realized gains or losses net of investment expenses, is reported as changes in net assets.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- F. Charitable Annuity Agreements – The Foundation, as trustee, holds assets from donors under charitable remainder trust agreements that designate the Foundation as a significant charitable beneficiary. The terms of the agreements require that the trust pay from the assets of the trust an annuity to the annuitant, the donor, or specified beneficiary, for the remainder of the designated individual's life or specified term. Upon the death of the individual or the expiration of the term, the Foundation may use the remaining assets as specified in the trust agreement. The Foundation reports the assets held by these trusts at fair value in the statements of financial position as assets held in trust under charitable gift annuity agreements. The Foundation also records a liability for the actuarial present value of the future annuity payments. The discount rates used to compute the liability range from 4.1% to 8.8%.
- G. #weGiveCatholic – In 2018 and 2017, the Foundation conducted its annual Giving Tuesday online fundraising effort called #weGiveCatholic in which 197 and 175 Catholic agencies, respectively, participated. Gifts made to #weGiveCatholic are deposited to a special purpose bank account with the proceeds subsequently distributed to each of the participating agencies. The related liability represents undistributed funds at December 31, 2018 and 2017.
- H. Funds Held for Others – The Foundation's custodial cash and investments are funds that are held for various entities that are affiliated with the Catholic Diocese of Cleveland. The Foundation pools the balances for these entities with its investments so it can receive a higher rate of return. Income and losses attributable to the funds are not included in the accompanying statements of activities but are recorded as adjustments to the liability.
- I. Fair Value of Financial Instruments – The carrying values of cash and equivalents, accounts receivable, and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments.

The Foundation estimates the fair value of financial instruments using available market information and other generally accepted valuation methodologies. Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction in accordance with accounting principles generally accepted in the United States of America. These standards establish a three level hierarchy that prioritizes the inputs and defines valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 – Uses quoted market prices in active markets for identical assets and liabilities.

Level 2 – Uses observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Uses unobservable inputs in which little or no market data exists.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fair Value of Financial Instruments (Continued)

The following tables set forth by level the Foundation's assets that are accounted for at a fair value on a recurring basis as of December 31:

<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Common stocks	\$ 80,382,655	\$ -	\$ 80,382,655
Corporate and international bonds	34,004,396	-	34,004,396
Government and muni bonds	16,489,648	-	16,489,648
Asset backed and agency bonds	-	9,391,040	9,391,040
Total	<u>\$ 130,876,699</u>	<u>\$ 9,391,040</u>	<u>\$ 140,267,739</u>
<u>2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Common stocks	\$ 87,833,407	\$ -	\$ 87,833,407
Corporate and international bonds	34,682,953	-	34,682,953
Government and muni bonds	14,124,810	-	14,124,810
Asset backed and agency bonds	-	3,912,985	3,912,985
Total	<u>\$ 136,641,170</u>	<u>\$ 3,912,985</u>	<u>\$ 140,554,155</u>

Common stocks – Common stocks consist of marketable equity securities of domestic and international corporations in a variety of industries that are valued based on quoted prices in active markets and are classified as Level 1.

Corporate and international bonds – These bonds consist of investments in U.S. and foreign corporations and are valued based on quoted prices in active markets. These are classified as Level 1.

Government and muni bonds – Government and muni bonds consist of investments in U.S. Treasuries and government related securities that are valued based on quoted prices in active markets. These are classified as Level 1.

Asset backed securities and agency bonds – These securities are valued based on the market value of the underlying investments and related interest rates; values that, while observable in the market, are subject to adjustment due to pricing considerations for the specific instruments and are classified as Level 2.

- J. Contributions – Contributions received, including unconditional promises to give, are recognized as revenues in the period received at their fair values. All contributions are considered to be available without donor restriction unless specifically restricted by the donor. Funds set aside by the Board of the Foundation or by the Bishop of Cleveland, to be used at their discretion, and funds that are donor advised are included in net assets without donor restrictions.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- K. Distributions – Budgeted payments are disbursed to the various operating secretariats of the Diocese for allocation to agencies and institutions. Periodically, additional special allocations are approved and disbursed to other agencies and institutions.
- L. Depreciation – Depreciation is provided for on a straight-line method over the estimated useful lives of ten years for furniture and equipment and five years for computer and office equipment.
- M. Income Taxes – The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code. The Foundation believes that there is appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

The Foundation's federal information and tax return are subject to examination by the IRS, generally for three years after they were filed.

- N. Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Some expenses require allocation, which has been done on a reasonable basis consistently applied. The expenses are allocated based on estimates of time and effort.
- O. Concentration of Credit Risk – The Foundation places its cash and cash equivalents with financial institutions. Deposits with financial institutions may exceed Federal Depository Insurance Corporation insurance limits of \$250,000 per financial institution.

The Foundation holds investment securities which are exposed to various risks including 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 changes could materially affect the Foundation's investment account balances and the amounts reported in the statements of financial position.

- P. Change in Accounting Principle – On August 18, 2016, FASB issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The new pronouncement amends certain financial reporting requirements for not-for-profit entities including revisions to classifications of net assets and expanded disclosure requirements concerning expenses and liquidity. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.
- Q. Subsequent Events – The Foundation has evaluated subsequent events through March 28, 2019, which is the date the financial statements were available to be issued. There were no subsequent events requiring disclosure.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Liquidity and Availability

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically supported annual program funding needs, with the remainder funded by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

General expenditures include administrative and general expenses and fundraising expenses. Annual operations are defined as activities occurring during the Foundation's calendar year. The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within the fundraising agreement between The Catholic Charities Corporation of Cleveland (the "Corporation"), the Diocese, and the Foundation,
- Maintaining adequate liquid assets, and
- Adhering to the distributions policies as set forth for the various funds managed by the Foundation.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 726,589
Investments	<u>770,783</u>
	<u>\$ 1,497,372</u>

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Income from donor-restricted endowments is restricted and is not available for general expenditure. The Foundation's board-designated endowment of \$1,800,743 is subject to an annual spending-rate of 5% as described in Note 5. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts that may be appropriated for general expenditure as part of the Foundation's Board's annual budget approval and appropriation), these amounts could be made available if necessary. Likewise, the Foundation could consider investment income and contributions without donor restrictions to be available to meet cash needs for general expenditures. However, the Foundation has historically made these funds available for philanthropic purposes, and there is no foreseeable need to use them for general expenditures.

The Foundation annually receives a commitment of fundraising support from both the Corporation and the Diocese as further described in Note 10. This support totaled \$3,124,000 for 2018 and is expected to total approximately \$3,175,000 for 2019.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Rooted in Faith - Forward in Hope Campaign

The Foundation initiated the Rooted in Faith - Forward in Hope campaign in 2010 to provide a solid base for meeting urgent needs and investing in the long-term development of diocesan ministries. As of December 31, 2017, approximately \$170,000,000 had been pledged, including revocable planned gifts, contingent gifts, and combined parish campaigns that are not recognized in the financial statements under generally accepted accounting principles.

Campaign pledges receivable at year end were \$311,001 (refer to Note 6). Due to the overall success of the campaign including combined parish campaigns, a cumulative total of approximately \$148,600,000 has been received by the Foundation and parishes for the campaign's Case for Support which includes distributions for Strengthening Our Parishes, Strengthening Our Faith, Catholic Education, Those Who Serve, and Charitable Works as well as the campaign costs. Distributions payable at December 31, 2018 were \$1,211,048 and are included in accounts payable. Now that the campaign is in its final stages, all cash received in 2019 and subsequent years will be distributed annually to the donors' parishes.

Note 4. Investments and Custodial Investments

Investments are comprised of the following at December 31:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
CASH HELD FOR INVESTMENT PURPOSES	\$ 5,903,140	\$ 5,903,140	\$ 5,821,720	\$ 5,821,720
INVESTMENTS				
Common stocks	80,382,655	75,268,700	87,833,407	63,233,112
Corporate and international bonds	34,004,396	34,550,758	34,682,953	35,123,288
Government and muni bonds	16,489,648	16,446,230	14,124,810	14,198,910
Asset backed securities and agency bonds	9,391,040	9,388,529	3,912,985	3,944,917
	<u>140,267,739</u>	<u>135,654,217</u>	<u>140,554,155</u>	<u>116,500,227</u>
	<u>\$ 146,170,879</u>	<u>\$ 141,557,357</u>	<u>\$ 146,375,875</u>	<u>\$ 122,321,947</u>

Note 5. Endowment Funds

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act 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.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Endowment Funds (Continued)

The Foundation places great importance on risk reduction through asset allocation and style diversification. Investment results are measured using a rolling three to five year period or a market cycle. The following are the investment performance objectives, in order of importance, for the portfolio:

- To generate a real annual compound rate of return, inclusive of interest income, dividends, and net capital appreciation over the measurement period, at least equal to the sum of the annual payout percentage provided for in the distribution policy plus inflation (for example 5% distribution policy + inflation + investment management cost).
- To obtain a total return on the portfolio, net of all investment related fees, that exceeds the total return of the policy benchmark.
- Performance will be evaluated versus achievement of distribution policy and comparisons to a similar set of investments.

The goals of the strategic asset allocation policy are to establish a long-term asset allocation plan for the Foundation's portfolio that is consistent with objectives and guidelines contained in this policy and carried out in an efficient manner. To that end, this policy establishes an acceptable range, defined to be any percentage above a minimum and below a maximum percentage of the portfolio allocated to a particular asset class, and a target percentage, defined to be the percentage goal for the investment of the portfolio in that asset class.

Market value fluctuations and operational needs may cause variations from the strategic asset allocation policy ranges stated in this policy. To ensure allocations are consistent with the allocation policy, rebalancing the portfolio is done quarterly using the quarter end portfolio values. The Foundation does not deem it acceptable to time the market with tactical allocation shifts. The intention of this policy is to avoid short-term judgments that introduce significant unplanned risk.

Distributions from endowment funds are spent in compliance with the donor's restrictions applicable to the funds being distributed. Annual distributions from endowment funds are limited to not more than 5% of the average weighted market value of investable assets of the past three years in the permanently restricted fund.

Endowment net asset composition by type of fund as of December 31, 2018:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Board-designated endowment fund	\$ 1,800,743	\$ -	\$ 1,800,743
Donor-restricted endowment funds:			
Corpus	-	30,596,437	30,596,437
Accumulated endowment earnings	-	8,846,378	8,846,378
	<u>\$ 1,800,743</u>	<u>\$ 39,442,815</u>	<u>\$ 41,243,558</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Endowment Funds (Continued)

Changes in endowment net assets for the year ended December 31, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment investments, beginning of year	\$ 1,885,645	\$ 42,877,085	\$ 44,762,730
Investment return:			
Investment income	40,357	1,008,628	1,048,985
Net depreciation (realized and unrealized)	<u>(125,709)</u>	<u>(3,063,840)</u>	<u>(3,189,549)</u>
Total investment return	(85,352)	(2,055,212)	(2,140,564)
Contributions	450	311,187	311,637
Appropriation of endowment assets for distribution	<u>-</u>	<u>(1,690,245)</u>	<u>(1,690,245)</u>
Endowment investments, end of year	<u>\$ 1,800,743</u>	<u>\$ 39,442,815</u>	<u>\$ 41,243,558</u>

Endowment net asset composition by type of fund as of December 31, 2017:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-designated endowment fund	\$ 1,885,645	\$ -	\$ 1,885,645
Donor-restricted endowment funds:			
Corpus	-	30,285,250	30,285,250
Accumulated endowment earnings	<u>-</u>	<u>12,591,835</u>	<u>12,591,835</u>
	<u>\$ 1,885,645</u>	<u>\$ 42,877,085</u>	<u>\$ 44,762,730</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Endowment Funds (Continued)

Changes in endowment net assets for the year ended December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning of year	\$ 1,650,228	\$ 36,060,310	\$ 37,710,538
Investment return:			
Investment income	35,500	920,162	955,662
Net appreciation (realized and unrealized)	<u>197,387</u>	<u>5,282,106</u>	<u>5,479,493</u>
Total investment return	232,887	6,202,268	6,435,155
Contributions	2,530	2,282,996	2,285,526
Appropriation of endowment assets for distribution	<u>-</u>	<u>(1,668,489)</u>	<u>(1,668,489)</u>
Endowment investments, end of year	<u>\$ 1,885,645</u>	<u>\$ 42,877,085</u>	<u>\$ 44,762,730</u>

Note 6. Grants and Contributions Receivable

Grants and contributions receivable are unconditional promises to give to the Foundation under multi-year commitments. An allowance for uncollectible receivables has been established. Grants and contributions receivable are comprised of the following at December 31:

	Rooted in Faith	Other	Total 2018	2017
Amounts due in:				
Less than one year	\$ 444,765	\$ 214,395	\$ 659,160	\$ 3,016,172
One to five years	-	100,000	100,000	63,830
Less: allowance for uncollectible receivables	<u>(133,764)</u>	<u>-</u>	<u>(133,764)</u>	<u>(851,188)</u>
Total	311,001	314,395	625,396	2,228,814
Less: discount to present value at 5%	<u>-</u>	<u>(5,658)</u>	<u>(5,658)</u>	<u>(5,048)</u>
Present value of estimated future cash flows	<u>\$ 311,001</u>	<u>\$ 308,737</u>	<u>\$ 619,738</u>	<u>\$ 2,223,766</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 7. Pension Plan

The Foundation participates in a multiple employer section 401(a) and 403(b) defined contribution pension plan, which covers substantially all non-hourly employees. Pension expense was \$96,024 in 2018 and \$81,740 in 2017.

Note 8. Net Assets Without Donor Restrictions

Net assets without donor restrictions are designated as follows:

	<u>2018</u>	<u>2017</u>
Donor advised funds	\$ 5,187,356	\$ 4,705,901
Board-designated funds	1,800,743	1,885,645
Other donor funds	1,061,398	1,634,323
Operating	348,689	286,087
Furniture and equipment	<u>4,562</u>	<u>11,218</u>
	<u>\$ 8,402,748</u>	<u>\$ 8,523,174</u>

Donor advised funds are donations or bequests received by the Foundation, over which the donor has reserved the right to periodically submit recommendations regarding distribution.

Board-designated funds are distributed only upon specific Board approval and are typically invested for the long term.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions are designated for the following purposes:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
Health and Human Services	\$ 19,429,328	\$ 22,204,993
Education	46,482,965	52,434,424
Parish Life and Development	1,272,915	1,407,248
Clergy and Religious	1,626,400	1,689,087
Chancery	-	68,382
Rooted in Faith	879,926	3,107,498
Catholic Community Foundation	<u>4,754,589</u>	<u>4,824,674</u>
	74,446,123	85,736,306
Subject to endowment spending policy and appropriation:		
Health and Human Services	10,626,414	10,616,976
Education	15,239,499	15,139,623
Parish Life and Development	1,417,500	1,417,500
Clergy and Religious	95,700	95,700
Catholic Community Foundation	<u>3,217,324</u>	<u>3,017,400</u>
	<u>30,596,437</u>	<u>30,287,199</u>
Total net assets with donor restrictions	<u>\$ 105,042,560</u>	<u>\$ 116,023,505</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 10. Related Party Transactions

The Foundation has an agreement with the Corporation to provide operational support for the Corporation's annual appeal and other fundraising efforts. Accordingly, the Foundation has reported fundraising fee revenues of \$2,250,000 and \$2,193,500 in 2018 and 2017, respectively, in the accompanying statements of activities. A total of \$15,654,687 and \$14,270,317 was raised in 2018 and 2017, respectively, for the Corporation's annual appeal and various bequests and gifts. These amounts have been presented as funds raised for others.

As of December 31, 2018 and 2017, the Corporation owed the Foundation \$446 and \$7,383, respectively.

The Diocese of Cleveland Finance Office pays the Foundation for administrative support that amounted to \$874,000 for each of the years ended December 31, 2018 and 2017, and is included in other support in the statements of activities.