

CATHOLIC COMMUNITY FOUNDATION
FINANCIAL REPORT
DECEMBER 31, 2021 and 2020

CATHOLIC COMMUNITY FOUNDATION

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Independent Auditors' Report

To the Board of Directors
Catholic Community Foundation

Opinion

We have audited the financial statements of Catholic Community Foundation (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but it is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Meloney + Novotny LLC

Cleveland, Ohio
April 18, 2022

CATHOLIC COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 13,775,650	\$ 10,881,891
Custodial cash and cash equivalents	302,739	252,241
Investments	149,490,616	137,610,004
Custodial investments	59,037,511	54,567,674
Contributions and accounts receivable:		
Heart of a Shepherd campaign pledges (Note 3)	20,379,303	6,492,478
Grants and pledges (Note 5)	686,548	313,677
The Catholic Charities Corporation of Cleveland (Note 9)	12,200	16,775
Furniture and equipment, net	13,427	17,141
Assets held for charitable gift annuity agreements	1,547,074	1,502,897
Other	<u>254,058</u>	<u>184,910</u>
Total assets	<u>\$ 245,499,126</u>	<u>\$ 211,839,688</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable:		
Trade	\$ 320,993	\$ 398,570
Heart of a Shepherd campaign distributions	4,279,018	967,143
Beneficiaries of charitable gift annuity agreements	568,819	561,217
Accrued expenses	76,678	73,500
Unearned revenue	200,000	200,000
Funds held for others	<u>59,340,250</u>	<u>54,819,915</u>
Total liabilities	64,785,758	57,020,345
 <u>NET ASSETS</u>		
Without donor restrictions (Note 7)	11,459,863	10,577,882
With donor restrictions (Note 8)	<u>169,253,505</u>	<u>144,241,461</u>
Total net assets	<u>180,713,368</u>	<u>154,819,343</u>
Total liabilities and net assets	<u>\$ 245,499,126</u>	<u>\$ 211,839,688</u>

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

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Fundraising, support and grants	\$ 16,775,229	\$ 6,583,904	\$ 23,359,133
Less funds raised for others (Note 9):			
Annual appeal	(14,314,125)		(14,314,125)
Bequests and gifts	(1,835,050)		(1,835,050)
Net fundraising, support and grants	626,054	6,583,904	7,209,958
Interest and dividend income	153,646	1,975,466	2,129,112
Net realized gain on investments	274,508	9,432,046	9,706,554
Net unrealized gain on investments	199,321	2,543,931	2,743,252
Fundraising support (Note 9)	2,181,000		2,181,000
Other support	691,882		691,882
Net change in value of annuity agreements	6,735	65,914	72,649
Reclassification and transfers of net assets	(44,710)	(238,280)	(282,990)
Net assets released from restrictions pursuant to endowment spending-rate distribution formula	2,060,939	(2,060,939)	-
Net assets released from restrictions - other	6,959,393	(6,959,393)	-
Total revenue and support	13,108,768	11,342,649	24,451,417
DISTRIBUTIONS AND EXPENSES			
Distributions	9,396,752		9,396,752
Operating expenses:			
Fundraising	1,663,171		1,663,171
Other operating	884,919		884,919
Administrative expenses	281,945		281,945
Total distributions and expenses	12,226,787		12,226,787
CHANGE IN NET ASSETS BEFORE CAMPAIGN ACTIVITY AND TRANSFERS			
	881,981	11,342,649	12,224,630
CAMPAIGN ACTIVITY (Note 3) AND TRANSFERS			
Heart of a Shepherd - support		27,633,663	27,633,663
Heart of a Shepherd - expenses	(1,176,734)		(1,176,734)
Heart of a Shepherd - distributions	(13,074,553)		(13,074,553)
Net assets released from restrictions - Heart of a Shephard	14,251,287	(14,251,287)	-
Reclassification to Heart of a Shepherd		282,990	282,990
Transfers from Diocesan entities		4,029	4,029
Total campaign activity and transfers	-	13,669,395	13,669,395
CHANGE IN NET ASSETS			
	881,981	25,012,044	25,894,025
NET ASSETS – BEGINNING OF YEAR			
	10,577,882	144,241,461	154,819,343
NET ASSETS – END OF YEAR			
	\$ 11,459,863	\$ 169,253,505	\$ 180,713,368

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

CATHOLIC COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Fundraising, support and grants	\$ 17,018,893	\$ 6,622,149	\$ 23,641,042
Less funds raised for others (Note 9):			
Annual appeal	(14,076,455)		(14,076,455)
Bequests and gifts	(2,275,761)		(2,275,761)
Net fundraising, support and grants	666,677	6,622,149	7,288,826
Interest and dividend income	166,707	2,079,343	2,246,050
Net realized gain on investments	98,897	5,866,211	5,965,108
Net unrealized gain on investments	575,933	7,877,955	8,453,888
Fundraising support (Note 9)	2,220,000		2,220,000
Other support	745,861		745,861
Net change in value of annuity agreements	1,678	104,001	105,679
Reclassification and transfers of net assets	(486,924)	42,485	(444,439)
Net assets released from restrictions pursuant to endowment spending-rate distribution formula	1,881,458	(1,881,458)	-
Net assets released from restrictions - other	6,813,170	(6,813,170)	-
Total revenue and support	12,683,457	13,897,516	26,580,973
DISTRIBUTIONS AND EXPENSES			
Distributions	9,096,065		9,096,065
Operating expenses:			
Fundraising	1,754,436		1,754,436
Other operating	894,894		894,894
Administrative expenses	316,435		316,435
Total distributions and expenses	12,061,830		12,061,830
CHANGE IN NET ASSETS BEFORE CAMPAIGN ACTIVITY AND TRANSFERS			
	621,627	13,897,516	14,519,143
CAMPAIGN ACTIVITY (Note 3) AND TRANSFERS			
Heart of a Shepherd - support		6,668,165	6,668,165
Heart of a Shepherd - expenses	(558,838)		(558,838)
Heart of a Shepherd - distributions	(3,363,020)		(3,363,020)
Net assets released from restrictions - Heart of a Shepherd	3,921,858	(3,921,858)	-
Reclassification to Heart of a Shepherd		444,439	444,439
Transfers from Diocesan entities		28,309	28,309
Total campaign activity and transfers	-	3,219,055	3,219,055
CHANGE IN NET ASSETS	621,627	17,116,571	17,738,198
NET ASSETS – BEGINNING OF YEAR	9,956,255	127,124,890	137,081,145
NET ASSETS – END OF YEAR	<u>\$ 10,577,882</u>	<u>\$ 144,241,461</u>	<u>\$ 154,819,343</u>

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

CATHOLIC COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	Program Services	Administrative	Fundraising	Total
Distributions	\$ 22,471,305			\$ 22,471,305
Salaries and wages	560,577	\$ 155,875	\$ 846,621	1,563,073
Consulting fees			990,000	990,000
Taxes and benefits	179,891	29,509	191,568	400,968
Postage	1,942	3,347	234,933	240,222
Bank fees	821	1,525	142,703	145,049
Professional fees	19,829	29,946	95,174	144,949
Printing	833	1,547	125,160	127,540
Information technology	81,170	1,959	41,961	125,090
Travel	583	1,083	76,885	78,551
Occupancy	25,846	45,729	45	71,620
Advertising and promotion	1,515	2,814	45,291	49,620
Office expenses	11,587	5,724	16,667	33,978
Creative services			25,072	25,072
Conferences, conventions, and meetings	255	473	6,595	7,323
Depreciation	70	2,414	1,230	3,714
Total expenses	23,356,224	281,945	2,839,905	26,478,074
Less: Heart of a Shephard expenses and distributions	(13,074,553)		(1,176,734)	(14,251,287)
Total expenses included in the distributions and expenses section of the statement of activities	\$ 10,281,671	\$ 281,945	\$ 1,663,171	\$ 12,226,787

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

CATHOLIC COMMUNITY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2020

	Program Services	Administrative	Fundraising	Total
Distributions	\$ 12,459,085			\$ 12,459,085
Salaries and wages	562,749	\$ 156,121	\$ 825,479	1,544,349
Consulting fees			460,000	460,000
Taxes and benefits	170,709	35,268	179,134	385,111
Postage	5,134	2,068	163,003	170,205
Bank fees	865	1,606	156,120	158,591
Professional fees	34,332	55,263	171,180	260,775
Printing			220,844	220,844
Information technology	82,212	345	26,923	109,480
Travel	242	450	30,136	30,828
Occupancy	27,867	49,556	4,432	81,855
Advertising and promotion	1,904	3,536	28,527	33,967
Office expenses	8,796	9,498	13,531	31,825
Creative services			32,001	32,001
Conferences, conventions, and meetings	84	157	582	823
Depreciation		2,567	1,382	3,949
 Total expenses	 13,353,979	 316,435	 2,313,274	 15,983,688
Less: Heart of a Shephard expenses and distributions	<u>(3,363,020)</u>		<u>(558,838)</u>	<u>(3,921,858)</u>
 Total expenses included in the distributions and expenses section of the statement of activities	 <u>\$ 9,990,959</u>	 <u>\$ 316,435</u>	 <u>\$ 1,754,436</u>	 <u>\$ 12,061,830</u>

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

CATHOLIC COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 25,894,025	\$ 17,738,198
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized gain on investments	(9,706,554)	(5,965,108)
Net unrealized gain on investments	(2,743,252)	(8,453,888)
Change in value of annuity agreements	117,158	4,879
Depreciation	3,714	3,949
Contributions permanently restricted	(1,412,589)	(47,079)
Changes in operating assets and liabilities:		
Pledges and accounts receivable	(14,255,121)	(79,265)
Other assets	(69,148)	(47,601)
Accounts payable	3,234,298	852,738
Accrued expenses	3,178	(1,223)
Unearned revenue	-	200,000
Total adjustments	<u>(24,828,316)</u>	<u>(13,532,598)</u>
Net cash provided by operating activities	1,065,709	4,205,600
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	91,209,857	87,489,871
Purchase of investments	<u>(90,640,663)</u>	<u>(86,428,818)</u>
Net cash provided by investing activities	569,194	1,061,053
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to beneficiaries of charitable gift annuities	(153,733)	(110,559)
Contributions permanently restricted	<u>1,412,589</u>	<u>47,079</u>
Net cash provided by (used in) financing activities	<u>1,258,856</u>	<u>(63,480)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	2,893,759	5,203,173
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	<u>10,881,891</u>	<u>5,678,718</u>
CASH AND CASH EQUIVALENTS – END OF YEAR	<u>\$ 13,775,650</u>	<u>\$ 10,881,891</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 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.

The Scholarship Granting Organization of the Catholic Community Foundation ("SGO"), an Ohio non-profit corporation, was created as a subsidiary of the Foundation on November 19, 2021, and operates under the trade name Angel Scholarship Fund. The SGO's sole member is the Foundation. The Angel Scholarship Fund is tax exempt under Section 501(c)(3) of the Internal Revenue Code and accepts donations and awards scholarships to primary and secondary students, prioritizing scholarships to low-income students. The Angel Scholarship Fund is a recognized scholarship granting organization by the State of Ohio, and donations to the fund may be eligible for special tax treatment by the State of Ohio. Operations of SGO commenced subsequent to December 31, 2021.

- 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 balance and are included in investments.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

- 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 and are recorded net of investment fees. Investment income or loss on net assets with donor restrictions, including unrealized and realized gains or losses net of investment expenses, is reported in changes in net assets.
- 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 another 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 for 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. Unearned Revenue – The Foundation conducts an annual fundraising event. The unearned revenue amount represents sponsorships received in advance.
- 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 Diocese. 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, 2021 and 2020. Certain investments that are measured at fair value using the net asset value ("NAV") per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

<u>2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash and cash equivalents	\$ 15,883,309	\$ -	\$ 15,883,309
Common stocks	123,112,691	-	123,112,691
Corporate and international bonds	28,613,360	-	28,613,360
Government and muni bonds	26,991,287	-	26,991,287
Asset backed and agency bonds	-	9,588,916	9,588,916
Total investments subject to fair value leveling	194,600,647	9,588,916	204,189,563
Investments in real estate investment trust using the NAV practical expedient	-	-	4,338,564
Total	<u>\$ 194,600,647</u>	<u>\$ 9,588,916</u>	<u>\$ 208,528,127</u>
<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash and cash equivalents	\$ 18,311,281	\$ -	\$ 18,311,281
Common stocks	113,515,808	-	113,515,808
Corporate and international bonds	28,962,046	-	28,962,046
Government and muni bonds	18,522,521	-	18,522,521
Asset backed and agency bonds	-	12,866,022	12,866,022
Total	<u>\$ 179,311,656</u>	<u>\$ 12,866,022</u>	<u>\$ 192,177,678</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.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Fair Value of Financial Instruments (Continued)

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.

These methods described above may produce a fair value that may not reflect net realizable value or future fair values. There have been no changes in the methodologies used from 2020 to 2021. Although the Organization believes its valuation methods are appropriate and consistent with other market participants, different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value at the reporting date.

The Foundation is required to disclose the nature and risks of the investments recorded at the NAV. The following table summarized the nature and risk of these investments as of December 31, 2021:

	Fair Value at December 31, 2021	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate investment trust	\$ 4,338,564	\$ 5,000,000	Quarterly	60 days

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 restrictions 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.

K. Distributions – 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 expense is recognized 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. Fully depreciated assets totaling \$949,905 and no longer in service were written off in 2020. The Foundation had accumulated depreciation of \$64,486 and \$60,772 in 2021 and 2020, respectively.

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.

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. Expenses are allocated based on estimates of time and effort.

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 1. Summary of Significant Accounting Policies (Continued)

O. Concentration of Credit Risk – The Foundation deposits 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. Subsequent Events – The Foundation has evaluated subsequent events through April 18, 2022, which is the date the financial statements were available to be issued.

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 distribution 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, are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 13,775,650	\$ 10,881,891
Investments	149,490,616	137,610,004
Less:		
Donor restricted cash and cash equivalents	(12,756,923)	(9,794,765)
Donor restricted investments	<u>(148,562,874)</u>	<u>(136,659,366)</u>
	<u>\$ 1,946,469</u>	<u>\$ 2,037,764</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Liquidity and Availability (Continued)

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 \$2,038,498 is subject to an annual spending rate of 5% as described in Note 4. The Foundation considers 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 9. This cash support totaled \$2,217,105 and \$2,458,960 for 2021 and 2020, respectively, and such support is expected to continue in 2022.

Note 3. Heart of a Shepherd Campaign

The Foundation initiated the Heart of a Shepherd Campaign (the "Campaign") in 2019 to fund the urgent need for capital renovations of Borromeo Seminary and St. Mary Seminary, to add to the priests' retirement fund, and to create an endowment to provide student loan relief to newly ordained priests. In 2020, the Campaign was modified to also address local parish needs. Total Campaign funds raised as of December 31, 2021 were \$46,320,506.

Campaign pledges receivable were \$20,379,303 and \$6,492,478 at December 31, 2021 and 2020, respectively (see Note 5). Cash received from this Campaign initially is allocated to parish needs under an agreed-upon formula with each parish and to fund seminary renovations, and the remainder will be prorated between the priests' retirement fund and a new endowment to provide student loan relief to newly ordained priests. The Foundation has received \$22,381,000 for the Campaign's objectives through December 31, 2021. Distributions to parishes for their local needs and distributions for seminary renovations totaled \$7,746,090 and \$9,072,023, respectively, through December 31, 2021. Campaign distributions payable were \$4,279,018 and \$697,143 at December 31, 2021 and 2020, respectively. Campaign costs totaled \$2,216,381 through December 31, 2021. The active Campaign concluded in December 2021.

Note 4. Endowment Funds

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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.

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).

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Endowment Funds (Continued)

- 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.

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation's spending policy does not permit spending from underwater endowments. At December 31, 2021 and 2020, the Foundation had no underwater endowment funds.

Endowment net asset composition by type of fund as of December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment fund	\$ 2,038,498	\$ -	\$ 2,038,498
Donor-restricted endowment funds:			
Corpus	-	32,503,322	32,503,322
Accumulated endowment earnings	-	25,044,752	25,044,752
	<u>\$ 2,038,498</u>	<u>\$ 57,548,074</u>	<u>\$ 59,586,572</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Endowment Funds (Continued)

Changes in endowment net assets for the year ended December 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning of year	\$ 1,832,232	\$ 51,841,170	\$ 53,673,402
Investment return:			
Investment income	29,265	930,319	959,584
Net appreciation (realized and unrealized)	<u>170,851</u>	<u>5,424,935</u>	<u>5,595,786</u>
Total investment return	200,116	6,355,254	6,555,370
Contributions	6,150	1,412,589	1,418,739
Appropriation of endowment assets for distribution	<u>-</u>	<u>(2,060,939)</u>	<u>(2,060,939)</u>
Endowment investments, end of year	<u>\$ 2,038,498</u>	<u>\$ 57,548,074</u>	<u>\$ 59,586,572</u>

Endowment net asset composition by type of fund as of December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment fund	\$ 1,832,232	\$ -	\$ 1,832,232
Donor-restricted endowment funds:			
Corpus	-	31,090,733	31,090,733
Accumulated endowment earnings	<u>-</u>	<u>20,750,437</u>	<u>20,750,437</u>
	<u>\$ 1,832,232</u>	<u>\$ 51,841,170</u>	<u>\$ 53,673,402</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Endowment Funds (Continued)

Changes in endowment net assets for the year ended December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment investments, beginning of year	\$ 2,135,993	\$ 46,419,051	\$ 48,555,044
Investment return:			
Investment income	32,482	963,534	996,016
Net appreciation (realized and unrealized)	<u>161,685</u>	<u>6,292,964</u>	<u>6,454,649</u>
Total investment return	194,167	7,256,498	7,450,665
Contributions	2,072	47,079	49,151
Appropriation of endowment assets for distribution	<u>(500,000)</u>	<u>(1,881,458)</u>	<u>(2,381,458)</u>
Endowment investments, end of year	<u>\$ 1,832,232</u>	<u>\$ 51,841,170</u>	<u>\$ 53,673,402</u>

Note 5. Contributions Receivable

Contributions receivable are unconditional promises to give to the Foundation under multi-year commitments. An allowance for uncollectible receivables has been established based upon historical results and the amounts pledged have been discounted to present value based on the expected timing of the cash receipts. Contributions receivable are comprised of the following at December 31:

	Heart of a Shepherd	Other	Total 2021	Total 2020
Amounts due in:				
Less than one year	\$ 11,085,772	\$ 339,110	\$ 11,424,882	\$ 3,370,591
One to five years	12,859,735	426,700	13,286,435	4,621,075
Less: allowance for uncollectible receivables	<u>(3,034,136)</u>	<u>(22,202)</u>	<u>(3,056,338)</u>	<u>(790,024)</u>
Total	20,911,371	743,608	21,654,979	7,201,642
Less: discount to present value at 3%-5%	<u>(532,068)</u>	<u>(57,060)</u>	<u>(589,128)</u>	<u>(395,487)</u>
Present value of estimated future cash flows	<u>\$ 20,379,303</u>	<u>\$ 686,548</u>	<u>\$ 21,065,851</u>	<u>\$ 6,806,155</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Retirement Plan

The Foundation participates in a defined contribution plan which covers substantially all non-hourly employees. Retirement expense was \$93,100 in 2021 and \$91,729 in 2020.

Note 7. Net Assets Without Donor Restrictions

Net assets without donor restrictions are designated as follows:

	<u>2021</u>	<u>2020</u>
Donor advised funds	\$ 7,651,254	\$ 6,970,505
Board-designated funds	2,038,498	1,832,232
Other donor funds	1,254,446	1,352,666
Operating	502,238	405,338
Furniture and equipment	<u>13,427</u>	<u>17,141</u>
	<u>\$ 11,459,863</u>	<u>\$ 10,577,882</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 8. Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Education	\$ 70,306,690	\$ 64,919,304
Health and Human Services	29,721,088	26,902,469
Heart of a Shepherd	25,169,840	11,504,109
Catholic Community Foundation	8,134,805	6,646,321
Parish Life and Development	2,484,363	2,199,745
Clergy and Religious	913,526	949,621
Rooted in Faith	<u>19,871</u>	<u>29,159</u>
	136,750,183	113,150,728
Subject to endowment spending policy and appropriation:		
Education	15,496,125	15,382,678
Health and Human Services	10,634,346	10,634,346
Catholic Community Foundation	4,859,651	3,560,509
Parish Life and Development	1,417,500	1,417,500
Clergy and Religious	<u>95,700</u>	<u>95,700</u>
	<u>32,503,322</u>	<u>31,090,733</u>
Total net assets with donor restrictions	<u>\$ 169,253,505</u>	<u>\$ 144,241,461</u>

CATHOLIC COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. 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 pursuant to which the Foundation received fundraising fee revenues of \$2,181,000 and \$2,220,000 in 2021 and 2020, respectively. A total of \$16,149,175 and \$16,352,216 was raised in 2021 and 2020, respectively, for the Corporation. These amounts have been presented as funds raised for others in the accompanying statements of activities.

As of December 31, 2021 and 2020, the Corporation owed the Foundation \$12,200 and \$16,775, respectively.

The Diocese paid administrative support to the Foundation of \$36,105 and \$238,960 for the years ended December 31, 2021 and 2020, respectively. These amounts are included in other support in the accompanying statements of activities.

In November 2019, the Foundation entered into a Shared Services Agreement with the Diocese pursuant to which the Diocese provides various professional and administrative services to the Foundation as necessary. The Shared Services Agreement also provides for the Foundation to perform fundraising services for the Diocese. Beginning in 2020, donated revenue and expense is recognized in accordance with the terms of the Shared Services Agreement and totaled \$604,755 and \$460,108 in 2021 and 2020, respectively. The value of the services provided by the Diocese is based on the employee cost and the time spent by Diocesan personnel on Foundation matters and is presented in other support, salaries and wages, and other employee benefits in the accompanying statements of functional expenses.