

**CENTRAL ADMINISTRATIVE OFFICE
OF THE DIOCESE OF CLEVELAND**

FINANCIAL REPORT

JUNE 30, 2023 and 2022



CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

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Independent Auditors' Report

Most Reverend Edward C. Malesic
Bishop of The Catholic Diocese of Cleveland
Cleveland, Ohio

Opinion

We have audited the financial statements of the Central Administrative Office of The Diocese of Cleveland ("CAO") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CAO as of June 30, 2023 and 2022, 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 CAO 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 CAO'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 CAO'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 CAO'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
October 17, 2023

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 8,757,173	\$ 17,392,511
Short term investments	10,145,909	-
Investments	130,637,087	124,786,239
Accounts receivable, net	779,510	954,144
Property, plant, and equipment, net	6,806,458	7,234,464
Other assets	24,618	37,183
Assets held as custodian	<u>3,189,358</u>	<u>2,970,224</u>
Total assets	<u>\$ 160,340,113</u>	<u>\$ 153,374,765</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 1,130,288	\$ 742,760
Accrued compensation	430,641	309,122
Funds held for others	<u>3,189,358</u>	<u>2,970,224</u>
Total liabilities	4,750,287	4,022,106
Net assets:		
Without donor restrictions	25,262,299	24,859,447
With donor restrictions	<u>130,327,527</u>	<u>124,493,212</u>
Total net assets	<u>155,589,826</u>	<u>149,352,659</u>
Total liabilities and net assets	<u>\$ 160,340,113</u>	<u>\$ 153,374,765</u>

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

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Assessments	\$ 15,029,265		\$ 15,029,265
Endowment and other contributions		\$ 701,463	701,463
Endowment and other investment income	541,290	2,734,733	3,276,023
Net realized and unrealized gains on investments	30,790	8,169,081	8,199,871
Royalties and lease income	962,359		962,359
Other operating revenues	3,433,919		3,433,919
Mission, ministry, and other	915,149		915,149
Net assets released from restrictions	<u>5,770,962</u>	<u>(5,770,962)</u>	<u>-</u>
Total revenues	26,683,734	5,834,315	32,518,049
OPERATING EXPENDITURES			
Salaries and wages	8,407,461		8,407,461
Taxes and benefits	2,362,950		2,362,950
Mission, ministry, and other	2,050,741		2,050,741
Priests - education and care	918,941		918,941
Occupancy, utilities, and depreciation	1,431,842		1,431,842
Professional fees	1,251,457		1,251,457
Assessments and Holy See	473,065		473,065
Equipment, maintenance, and technology	637,260		637,260
Administrative	<u>2,402,757</u>		<u>2,402,757</u>
Total operating expenditures	19,936,474		19,936,474
DIRECT SUBSIDIES			
Seminaries and Center for Pastoral Leadership	3,278,970		3,278,970
Education	370,000		370,000
Catholic Community Foundation	645,770		645,770
Cathedral	1,919,418		1,919,418
Diocese of Cleveland Facilities Services	<u>130,250</u>		<u>130,250</u>
Total direct subsidies	<u>6,344,408</u>		<u>6,344,408</u>
Total operating expenditures and direct subsidies	<u>26,280,882</u>		<u>26,280,882</u>
CHANGE IN NET ASSETS	402,852	5,834,315	6,237,167
NET ASSETS AT BEGINNING OF YEAR	<u>24,859,447</u>	<u>124,493,212</u>	<u>149,352,659</u>
NET ASSETS AT END OF YEAR	<u>\$ 25,262,299</u>	<u>\$ 130,327,527</u>	<u>\$ 155,589,826</u>

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

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
Assessments	\$ 14,927,277		\$ 14,927,277
Endowment and other contributions		\$ 634,004	634,004
Endowment and other investment income	5,952	1,633,640	1,639,592
Net realized and unrealized losses on investments	(52,515)	(14,992,656)	(15,045,171)
Royalties and lease income	898,689		898,689
Other operating revenues	2,317,137		2,317,137
Mission, ministry, and other	544,662		544,662
Net assets released from restrictions	<u>3,788,444</u>	<u>(3,788,444)</u>	<u>-</u>
 Total revenues	 22,429,646	 (16,513,456)	 5,916,190
OPERATING EXPENDITURES			
Salaries and wages	7,016,504		7,016,504
Taxes and benefits	1,929,801		1,929,801
Mission, ministry, and other	1,253,055		1,253,055
Priests - education and care	785,331		785,331
Occupancy, utilities, and depreciation	1,266,430		1,266,430
Professional fees	1,113,033		1,113,033
Assessments and Holy See	485,790		485,790
Equipment, maintenance, and technology	366,801		366,801
Administrative	<u>1,533,389</u>		<u>1,533,389</u>
 Total operating expenditures	 15,750,134		 15,750,134
DIRECT SUBSIDIES			
Seminaries and Center for Pastoral Leadership	3,300,863		3,300,863
Education	1,125,917		1,125,917
Catholic Community Foundation	321,490		321,490
Cathedral	1,309,501		1,309,501
Diocese of Cleveland Facilities Services	<u>395,000</u>		<u>395,000</u>
 Total direct subsidies	 <u>6,452,771</u>		 <u>6,452,771</u>
 Total operating expenditures and direct subsidies	 <u>22,202,905</u>	 <u> </u>	 <u>22,202,905</u>
 CHANGE IN NET ASSETS	 226,741	 (16,513,456)	 (16,286,715)
 NET ASSETS AT BEGINNING OF YEAR	 <u>24,632,706</u>	 <u>141,006,668</u>	 <u>165,639,374</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 24,859,447</u>	 <u>\$ 124,493,212</u>	 <u>\$ 149,352,659</u>

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

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,237,167	\$(16,286,715)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(8,199,871)	15,045,171
Depreciation	479,561	482,118
Contributions restricted for capital and endowment	(701,463)	(634,004)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	174,634	(100,593)
Decrease in other assets	12,565	20,751
Increase (decrease) in accounts payable	387,528	(237,801)
Increase (decrease) in accrued compensation	<u>121,519</u>	<u>(24,396)</u>
Net cash used in operating activities	(1,488,360)	(1,735,469)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in investments, net	(7,796,886)	1,493,509
Proceeds from sale of land for future use	-	64,844
Additions to property, plant, and equipment	<u>(51,555)</u>	<u>(62,002)</u>
Net cash (used in) provided by investing activities	(7,848,441)	1,496,351
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for capital and endowment	<u>701,463</u>	<u>634,004</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,635,338)	394,886
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>17,392,511</u>	<u>16,997,625</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 8,757,173</u></u>	<u><u>\$ 17,392,511</u></u>

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

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Operations

The Central Administrative Office ("CAO") is organized under the stewardship of the Bishop of The Diocese of Cleveland (the "Diocese"). The CAO serves parishes and other Diocesan organizations by providing assistance in the administration of pastoral, education, and vocational services; providing funding for religious education and vocation development, community and human development, Diocesan schools, and charitable activities; and providing administrative support in areas of finance, legal matters, human resources, facilities management, and technology. The CAO is also responsible for all financial, investment, and real estate transactions at the Diocesan level as delegated to the CAO by the Bishop.

The Diocese is an ecclesiastical territory which encompasses eight counties in Northern Ohio. Title to all parish, parish school, and church properties in the Diocese is held in the name of the Bishop and his successors. The Bishop has ecclesiastical responsibility for approximately 185 parishes and several other institutions including Diocesan schools, seminaries, cemeteries, Catholic Charities, Facilities Services, Catholic Community Foundation, and related entities. Each of these activities, as well as parishes and schools, are an operating entity distinct from the CAO and are not included in the accompanying audited financial statements. Each entity maintains separate financial records and carries out its own services and programs.

Note 2. Summary of Significant Accounting Policies

Accrual Basis:

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation:

The CAO's financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The CAO is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

A description of these categories follows:

Net Assets Without Donor Restrictions – Includes the net assets that are free of donor-imposed restrictions.

Net Assets With Donor Restrictions – Includes the net assets from contributions or other inflows where the use is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled and removed by the actions of the CAO. This also includes net assets from contributions or other inflows subject to donor-imposed restrictions that they be maintained in perpetuity by the CAO.

Cash and Cash Equivalents:

The CAO considers all highly liquid investments, with initial maturities of three months or less, to be cash equivalents. Cash accounts with financial institutions are insured by the Federal Deposit Insurance Corporation up to federally insured limits.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

Investments and Fair Value of Financial Instruments:

GAAP requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with realized and unrealized gains and losses included in the statements of activities. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting periods in which they occur.

Investments traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year; investments traded on a national securities exchange for which no sale was reported on that date and investments traded on the over-the-counter market are valued at the last reported bid prices; and investments not having an established market are valued at fair value based upon the advice of the investment advisor.

The carrying values of receivables, accounts payable, and accrued expenses approximate fair value because of the short maturity of these financial instruments.

The CAO 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 between market participants at the measurement date. The inputs used to measure fair value are classified into three levels:

Level 1 – Quoted market prices in active markets for identical assets and liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs in which little or no market data exists

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

The following tables set forth by level within the fair value hierarchy the CAO's financial assets and liabilities that were accounted for at a fair value on a recurring basis as of June 30, 2023 and 2022. The financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The CAO's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. The tables do not include cash on hand or other assets and liabilities that are measured at historical cost or any basis other than fair value; for these items, their carrying value estimates fair value.

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

Investments and Fair Value of Financial Instruments (Continued):

<u>June 30, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Short term investments	\$ 10,145,909	\$ -	\$ -	\$ 10,145,909
Investments	18,336,028	109,772,297	2,528,762	130,637,087
Assets held as custodian	2,275,497	913,861	-	3,189,358
 <u>June 30, 2022</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Assets				
Investments	\$ 19,259,115	\$ 102,434,255	\$ 3,092,869	\$ 124,786,239
Assets held as custodian	2,162,321	807,903	-	2,970,224

The CAO invests in cash and cash equivalents, short term investments equities, fixed income securities, and other securities with quoted prices in active markets that are considered to be Level 1 inputs. Level 2 inputs consist primarily of collective pooled investments and certificates of deposit, further detailed in Note 3. The fair values of investments in the collective pooled investments are valued based on their reported Net Asset Value ("NAV"). The NAV is based on the market value of the underlying investments, adjusted for charges and expenses, and is classified as Level 2 of the fair value hierarchy. Level 3 inputs consist primarily of land held as investments. The land held for investments is based on a historical valuation of the land.

The following table summarizes changes of the CAO's Level 3 inputs:

	<u>Investments</u>
Beginning balance – July 1, 2021	\$ 3,973,356
Additions	69,515
Payments	<u>(950,002)</u>
Ending balance – June 30, 2022	<u>\$ 3,092,869</u>
Beginning balance – July 1, 2022	\$ 3,092,869
Additions	140,000
Payments	<u>(704,107)</u>
Ending balance – June 30, 2023	<u>\$ 2,528,762</u>

Concentration of Credit Risk:

Financial instruments which potentially subject the CAO to concentration of credit risk consist principally of temporary cash investments, receivables, and marketable securities. The CAO places its temporary cash and other investments with national financial institutions and securities dealers, which may exceed federally and privately insured amounts at times.

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

Risks, Uncertainties, and Contingencies:

The CAO maintains investments in U.S. Government obligations, corporate bonds, equities, and mortgage backed securities. These investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

The Diocese is a co-borrower or guarantor on bank loans where several individual parishes or schools are the primary borrowers. The aggregate exposure to the Diocese is \$2.5 million and \$2.5 million as of June 30, 2023 and 2022, respectively. The Diocese deems it unlikely that any of the amounts of guarantee will be called by the lending institution.

Accounts Receivable:

Accounts receivable represent advances to charitable institutions (primarily parishes and schools) associated with or controlled by the Diocese. Significant advances have been made over several years in support of parish and school operations and capital repair needs and in support of closed facilities held for current or future sale. Repayment is generally made when parish cash flow permits or upon sale of a closed facility as cash flow permits.

The CAO provides for uncollectible accounts receivable using the specific identification method. Management estimates an allowance of \$6,040,003 as of June 30, 2023 and 2022. The estimate is based on management's review of individual accounts receivable and an assessment of the CAO's historical evidence of collections and evaluation of the parishes', schools', or other entity's financial condition. Bad debt expense for the years ended June 30, 2023 and 2022 totaled \$-0-.

Property, Plant, and Equipment:

Property, plant, and equipment are stated at cost or fair market value at the date of donation. Depreciation is computed over the estimated useful life of the asset using the straight-line method. Maintenance, repairs, and minor renewals are charged to expense when incurred, while additions and major betterments are capitalized.

Accrued Compensation Obligations:

Certain eligible employees of age 55 or older, with a minimum of ten years' experience, are entitled to accumulated sick pay compensation upon retirement from the CAO. The accrued compensation obligation at June 30, 2023 and 2022 was \$430,641 and \$309,122, respectively, and represents those employees who have reached both the required eligible age and years of service. The obligation is based on the total compensation due to each employee based upon current salary, years of service, and eligible sick days.

Contributions and Grants:

Contributions and grants received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in net assets with donor restrictions.

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions and Grants (Continued):

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenues:

The principal source of operating revenue for the CAO is parish and school assessments. The amount levied against each parish is determined by applying a specific formula to parish revenues as defined by the Diocese. The amount levied against each school is determined by the number of students enrolled. Assessments from parishes and schools are billed monthly and recorded as revenues when received. The difference between amounts billed and received are immaterial at year end. All other revenues are recorded at over time when earned.

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events:

The CAO has evaluated all events subsequent to the statement of financial position date of June 30, 2023, through October 17, 2023, which is the date these financial statements were available to be issued.

Note 3. Investments

At June 30, 2023 and 2022, the following is the composition of investments at fair value:

Short term investments:

	<u>2023</u>	<u>2022</u>
U. S. treasury securities	\$ 10,145,909	\$ -

Short term investments consist of treasury securities with a maturity of less than one year.

Investments at fair value:

	<u>2023</u>	<u>2022</u>
Investments	\$ 18,336,028	\$ 19,259,115
Collective pooled investments	109,772,297	102,434,255
Loan receivable	1,725,811	2,289,918
Land held as investments	802,951	802,951
	<u>\$130,637,087</u>	<u>\$124,786,239</u>

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 3. Investments (Continued)

Assets held as custodian:

	<u>2023</u>	<u>2022</u>
Cash and money market	\$2,275,497	\$2,162,334
Certificates of deposit	<u>913,861</u>	<u>807,890</u>
	<u>\$3,189,358</u>	<u>\$2,970,224</u>

Custodial assets and liabilities include funds held by the CAO for endowment or long-term investments on behalf of other Diocesan organizations.

The CAO places great importance on risk reduction through diversification by asset class and management style. Investment results are measured using a five year period or a market cycle. Shorter time periods may be used to determine the trend of the CAO's performance or deficiencies.

The basic investment performance objective for the portfolio is to obtain a total return, net of all investment related fees, over a five year moving average that exceeds the total return of the respective index or benchmark for each asset class in the portfolio. In addition, each manager's performance should be at or above the median of their peer universe.

The investment strategy for asset allocation targets 60% equity and 40% fixed income investments and also provides for the holding of cash to provide liquidity and miscellaneous land investments. The collective pooled investments' actual allocation approximates the 60% equity and 40% fixed income target. The policy provides for further diversification by various investment segments within the basic asset allocation to recognize that a variety of management styles are appropriate to mitigate risk and achieve targeted returns.

Market value fluctuations may cause variations from the basic strategic asset allocation policy. Rebalancing of the portfolio is done on a periodic basis generally when the asset allocation percentages vary from the policy percentages by approximately 5% or more. The CAO 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.

The investment policy mandates moral and social investment responsibility consistent with the Socially Responsible Investment Guidelines of the United States Conference of Catholic Bishops.

Note 4. Endowment Funds

The CAO's endowment consists of donor restricted endowment funds. 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 available from endowment interest, dividends, and capital appreciation, which are generally recognized as net assets with donor restrictions. The distribution policy permits annual distributions of 4% - 5% of the endowment fund's twelve quarter average market value calculated as of the December 31 date that precedes the beginning of the fiscal year.

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 4. Endowment Funds (Continued)

At June 30, 2023 and 2022, endowment composition by type of fund is as follows:

	June 30, 2023		
	With Donor Restrictions		
	Original Gift Amount	Accumulated Gains (Losses)	Total
Endowment assets, beginning of year	\$43,290,841	\$ 43,235,284	\$ 86,526,125
Investment return:			
Endowment and other investment income	-	1,775,036	1,775,036
Net appreciation (realized and unrealized)	-	7,621,788	7,621,788
Total investment return	-	9,396,824	9,396,824
Endowment and other contributions	156,731	-	156,731
Appropriations of endowment assets for expenditure	-	(3,744,167)	(3,744,167)
Endowment assets, end of year	<u>\$43,447,572</u>	<u>\$ 48,887,941</u>	<u>\$ 92,335,513</u>
	June 30, 2022		
	With Donor Restrictions		
	Original Gift Amount	Accumulated Gains (Losses)	Total
Endowment assets, beginning of year	\$43,268,266	\$ 58,227,823	\$ 101,496,089
Investment return:			
Endowment and other investment income	-	1,382,732	1,382,732
Net depreciation (realized and unrealized)	-	(13,330,426)	(13,330,426)
Total investment return	-	(11,947,694)	(11,947,694)
Endowment and other contributions	22,575	-	22,575
Appropriations of endowment assets for expenditure	-	(3,044,845)	(3,044,845)
Endowment assets, end of year	<u>\$43,290,841</u>	<u>\$ 43,235,284</u>	<u>\$ 86,526,125</u>

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 5. Net Assets

Net assets with donor restrictions as of June 30, 2023 and 2022 comprise the following:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Ministerial Fund	\$ 19,267,461	\$ 20,327,579
Parish Assistance Fund	4,961,875	4,626,851
Clergy Health and Senior Priest Funds	3,902,167	3,513,930
Seminary Fund	2,151,632	2,047,937
Communications Funds	694,572	670,125
Worship Fund	2,850,141	2,711,124
Diaconate Fund	400,495	390,462
Media and Technology	462,074	452,385
Connecting to the People Fund	2,742,247	2,665,453
Education of Priests	3,965,566	3,362,415
Priestly Formation	36,112,715	32,339,668
Sustaining Catholic Presence	2,116,194	1,694,469
Retired Priests Support	622,650	466,373
Other	<u>6,630,166</u>	<u>5,933,600</u>
	86,879,955	81,202,371
Endowments:		
Subject to the spending policy and appropriation:		
Education of Priests	3,666,776	3,666,776
Priestly Formation	30,525,361	30,369,280
Sustaining Catholic Presence	4,396,917	4,396,917
Retired Priests Support	942,293	942,293
Other	<u>3,916,225</u>	<u>3,915,575</u>
Total endowments	<u>43,447,572</u>	<u>43,290,841</u>
Total net assets with donor restrictions	<u>\$ 130,327,527</u>	<u>\$ 124,493,212</u>

Net assets subject to expenditure for specified purpose consist primarily of funds distributed at the discretion of the Bishop for specified mission and ministry matters and endowment assets that are invested with the income available for distributions.

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 6. Property, Plant, and Equipment

Property, plant, and equipment at June 30, 2023 and 2022 consist of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,726,905	\$ 1,726,905
Land held for future use	144,886	144,886
Buildings	3,273,095	3,273,095
Construction in progress	-	14,293
Furnishings	128,190	128,190
Building improvements	5,112,561	5,046,713
Tenant improvements	<u>1,280,284</u>	<u>1,280,284</u>
	11,665,921	11,614,366
Less: accumulated depreciation	<u>4,859,463</u>	<u>4,379,902</u>
Property, plant, and equipment, net of accumulated depreciation	<u>\$ 6,806,458</u>	<u>\$ 7,234,464</u>
Depreciation expense	<u>\$ 479,561</u>	<u>\$ 482,118</u>

Note 7. Lease, Royalties, Other Revenues, Endowment and Net Assets Released

The Diocese leases certain land to an unrelated party under a lease agreement that was extended to 2093. Minimum annual rentals of \$393,126 were received for the years ended June 30, 2023 and 2022. In accordance with the terms of the lease, the annual rent was recalculated in August 2022. Beginning August 1, 2022, the annual rent will remain \$393,126 and will increase on August 1 of each subsequent year by 2% through August 1, 2043, at which time the annual rent will be recalculated based upon the market value of the land. At the termination of the lease, any land improvements and buildings will transfer to the Diocese.

Other operating revenues without donor-imposed restrictions include receipts from various Diocesan benefit and insurance plans as a fee for administrative services provided by the CAO to those plans, which totaled \$617,442 and \$769,345 in 2023 and 2022, respectively, as well as contributions and advertising revenue related to the Diocesan magazine which totaled \$335,199 and \$478,799 in 2023 and 2022, respectively.

Net assets released consist primarily of endowment earnings used in support of the seminaries, education and care of priests, and various diocesan or parish initiatives.

Note 8. Employee Benefits

Employees of the CAO are covered by the Group Life, Unemployment, Workers' Compensation, and Healthcare plans of the Diocese of Cleveland. The expense recorded to these items was 1,276,247 and \$965,860 for the years ended June 30, 2023 and 2022, respectively. Employees are participants of the Diocese of Cleveland Pension Plan, the Diocese of Cleveland Priests' Retirement Plan, or the Catholic Charities Defined Contribution Plan. The expense related to these items was \$553,588 and \$496,919 for the years ended June 30, 2023 and 2022, respectively.

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 9. Income Taxes

The Diocese is a tax-exempt organization under provisions of Section 501(c)(3) of the Internal Revenue Code and similar provisions of the State Code. Therefore, no provision for income taxes has been made.

Note 10. Financial Assets and Liquidity

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:

	<u>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents	\$ 8,757,173	17,392,511
Short term investments	10,145,909	-
Investments	130,637,087	124,786,239
Accounts receivable, net	779,510	954,144
Endowment spending-rate distributions and appropriations	<u>4,445,888</u>	<u>4,032,290</u>
Financial assets, at year-end	154,765,567	147,165,184
Donor restricted endowment funds	<u>(92,335,513)</u>	<u>(86,526,125)</u>
	<u>\$ 62,430,054</u>	<u>\$ 60,639,059</u>

The CAO primarily receives its funding in the form of assessments paid by parishes and schools in the Diocese of Cleveland and investment income from its endowments.

As part of the CAO's liquidity management practices, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Office invests cash in excess of daily requirements in short-term investments.

Note 11. Schedule of Functional Expenses

The CAO, as more fully described in Note 1, is the administrative arm of the Diocese providing professional support to parishes, schools, and other diocesan entities as well as performing certain ministerial and business functions for the Diocese. The CAO classifies program activities as those diocesan ministerial and business functions which include the Chancery and Communications Office, Office of Catholic Education, Clergy and Religious Office, and Parish Life Office. All other CAO activities are defined as administrative support functions that provide professional services such as finance, legal, human resources, and other items described in Note 1 to parishes, schools, and diocesan entities. While the CAO is periodically the beneficiary of donations, it does not incur direct fundraising expenses. Operating expenses represent personnel, ministry, and general overhead incurred by the CAO in carrying out its activities. Direct subsidies represent payments to other Diocesan organizations in support of their activities.

CENTRAL ADMINISTRATIVE OFFICE OF THE DIOCESE OF CLEVELAND

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Note 11. Schedule of Functional Expenses (Continued)

Functional expenses by natural classification at June 30 are as follows:

	2023		
	Program	Administrative	Total Expense
Salaries and wages	\$ 5,392,167	\$ 3,015,294	\$ 8,407,461
Taxes and benefits	1,484,576	878,374	2,362,950
Mission, ministry and other	1,237,206	813,535	2,050,741
Priests - education and care	574,810	344,131	918,941
Occupancy, utilities and depreciation	726,238	705,604	1,431,842
Professional fees	823,757	427,700	1,251,457
Assessments and Holy See	62,488	410,577	473,065
Equipment, maintenance and technology	218,572	418,688	637,260
Administrative	<u>1,256,792</u>	<u>1,145,965</u>	<u>2,402,757</u>
Total operating expenditures	11,776,606	8,159,868	19,936,474
Direct subsidies	<u>6,344,408</u>	<u>-</u>	<u>6,344,408</u>
Total operating expenditures and direct subsidies	<u>\$ 18,121,014</u>	<u>\$ 8,159,868</u>	<u>\$ 26,280,882</u>

	2022		
	Program	Administrative	Total Expense
Salaries and wages	\$ 4,393,834	\$ 2,622,670	\$ 7,016,504
Taxes and benefits	1,208,194	721,607	1,929,801
Mission, ministry and other	715,230	537,825	1,253,055
Priests - education and care	595,159	190,172	785,331
Occupancy, utilities and depreciation	718,696	547,734	1,266,430
Professional fees	714,460	398,573	1,113,033
Assessments and Holy See	82,775	403,015	485,790
Equipment, maintenance and technology	199,987	166,814	366,801
Administrative	<u>779,109</u>	<u>754,280</u>	<u>1,533,389</u>
Total operating expenditures	9,407,444	6,342,690	15,750,134
Direct subsidies	<u>6,452,771</u>	<u>-</u>	<u>6,452,771</u>
Total operating expenditures and direct subsidies	<u>\$ 15,860,215</u>	<u>\$ 6,342,690</u>	<u>\$ 22,202,905</u>