

Diocese of Allentown

Combined Financial Statements

June 30, 2021 and 2020

Diocese of Allentown

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Independent Auditors' Report

His Excellency
The Most Reverend Alfred A. Schlert, D.D., J.C.L.
Diocese of Allentown

We have audited the accompanying combined financial statements of the Diocese of Allentown, which comprise the combined statements of financial position as of June 30, 2021 and 2020, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements. These combined financial statements include the accounts of the offices and organizations of the Diocese of Allentown as described in Note 1 to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 the combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Diocese of Allentown as of June 30, 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.



Allentown, Pennsylvania
March 1, 2022

Diocese of Allentown

Combined Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and Cash Equivalents	\$ 25,068,578	\$ 23,130,212
Assessments and Premiums Receivable, Net	1,708,080	1,721,687
Pledges Receivable, Net	1,009,271	1,453,070
Other Receivables, Net	351,965	428,736
Accrued Interest Receivable	80,552	29,866
Prepaid Expenses and Other Assets	1,043,193	388,495
Investments	14,974,972	10,900,849
Assets Whose Use is Limited	2,300,000	2,300,000
Assets Whose Use is Contractually Committed	4,905,984	3,730,266
Notes Receivable	-	9,600
Property and Equipment, Net	3,502,761	3,851,305
Land Held for Sale	-	119,777
Cemetery Lots, Mausolea and Burial Rights, Net	<u>1,539,947</u>	<u>1,564,808</u>
Total assets	<u>\$ 56,485,303</u>	<u>\$ 49,628,671</u>

See notes to combined financial statements

Diocese of Allentown

Combined Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Net Assets		
Accounts Payable and Accrued Expenses	\$ 660,077	\$ 663,756
Claims Payments and Other Accruals	-	1,007,999
Contributions Payable, Bishop's Annual Appeal and Forward With Christ	1,845,000	1,894,334
Accrued Compensation and Related Benefits	673,727	532,909
Scholarships Payable	4,790,855	4,844,335
Escrow Funds	443,677	347,270
Deferred Revenue and Contract Liabilities	1,335,872	258,320
Annuities Payable	332,183	392,459
Accrual for Self-Insurance	4,481,000	5,906,000
Notes Payable	4,813,158	13,248,042
Postretirement Benefit Obligation, Net	<u>26,911,767</u>	<u>34,554,307</u>
Total liabilities	<u>46,287,316</u>	<u>63,649,731</u>
Net Assets (Deficit)		
Without donor restrictions:		
Undesignated, operating	(23,272,586)	(42,918,379)
Contractually committed	4,905,984	3,730,266
Designated	<u>12,848,723</u>	<u>10,599,661</u>
Total net deficit without donor restrictions	(5,517,879)	(28,588,452)
With donor restrictions	<u>15,715,866</u>	<u>14,567,392</u>
Total net assets (deficit)	<u>10,197,987</u>	<u>(14,021,060)</u>
Total liabilities and net assets (deficit)	<u>\$ 56,485,303</u>	<u>\$ 49,628,671</u>

See notes to combined financial statements

Diocese of Allentown

Combined Statement of Activities
Year Ended June 30, 2021
(with comparative totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2021 Total</u>	<u>2020 Total</u>
Private and Public Support				
Assessments charged to parishes	\$ 6,224,946	\$ -	\$ 6,224,946	\$ 6,339,297
Contributions:				
Bishop's Annual Appeal	-	3,933,698	3,933,698	4,085,164
Eastern Pennsylvania Scholarship Foundation	5,138,700	-	5,138,700	4,796,691
Other contributions, gifts, grants and bequests	144,802	1,251,989	1,396,791	1,997,744
Total public and private support	<u>11,508,448</u>	<u>5,185,687</u>	<u>16,694,135</u>	<u>17,218,896</u>
Revenues, Gains and Other				
Sales, fees and insurance premiums	9,194,926	-	9,194,926	8,918,757
Insurance rate stabilization refunds	3,267,237	-	3,267,237	3,953,720
Cemetery revenue	2,093,246	-	2,093,246	1,741,265
Investment income, net	2,240,251	1,291,468	3,531,719	894,042
Perpetual care fees	165,648	-	165,648	150,341
Income from perpetual care fund	949,909	-	949,909	5,100
Rent	16,900	-	16,900	3,225
Interest from notes receivable	4,183	-	4,183	2,730
Gain on sale of assets	9,406,621	-	9,406,621	5,133
Other	902,372	-	902,372	1,276,146
Total revenues, gains and other	<u>28,241,293</u>	<u>1,291,468</u>	<u>29,532,761</u>	<u>16,950,459</u>
Net Assets Released From Restriction				
Satisfaction of donor purpose	5,328,681	(5,328,681)	-	-
Total support, revenues, gains and other	<u>45,078,422</u>	<u>1,148,474</u>	<u>46,226,896</u>	<u>34,169,355</u>
Expenses and Other Changes				
High school and educational support services	2,265,111	-	2,265,111	2,706,325
Central Diocesan services	10,138,226	-	10,138,226	12,100,403
Clergy benefits	5,213,711	-	5,213,711	3,768,207
Seminarians, priests and deacons	1,483,727	-	1,483,727	1,600,692
Diocesan cemeteries	950,618	-	950,618	972,884
Stewardship and development, campaigns and endowments	8,000,549	-	8,000,549	7,976,632
Evangelization and external affairs	547,664	-	547,664	1,792,159
Total expenses	<u>28,599,606</u>	<u>-</u>	<u>28,599,606</u>	<u>30,917,302</u>
Change in net assets from operating activities	<u>16,478,816</u>	<u>1,148,474</u>	<u>17,627,290</u>	<u>3,252,053</u>
Postretirement benefit changes other than net periodic postretirement benefit costs	6,591,757	-	6,591,757	(53,618)
Change in net assets	23,070,573	1,148,474	24,219,047	3,198,435
Net Assets (Deficit), Beginning	<u>(28,588,452)</u>	<u>14,567,392</u>	<u>(14,021,060)</u>	<u>(17,219,495)</u>
Net Assets (Deficit), Ending	<u>\$ (5,517,879)</u>	<u>\$ 15,715,866</u>	<u>\$ 10,197,987</u>	<u>\$ (14,021,060)</u>

See notes to combined financial statements

Diocese of AllentownCombined Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Private and Public Support			
Assessments charged to parishes	\$ 6,339,297	\$ -	\$ 6,339,297
Contributions:			
Bishop's Annual Appeal	-	4,085,164	4,085,164
Eastern Pennsylvania Scholarship Foundation	4,796,691	-	4,796,691
Other contributions, gifts, grants and bequests	404,499	1,593,245	1,997,744
	<u>11,540,487</u>	<u>5,678,409</u>	<u>17,218,896</u>
Revenues, Gains and Other			
Sales, fees and insurance premiums	8,918,757	-	8,918,757
Insurance rate stabilization refunds	3,953,720	-	3,953,720
Cemetery revenue	1,741,265	-	1,741,265
Investment income, net	744,520	149,522	894,042
Perpetual care fees	150,341	-	150,341
Income from perpetual care fund	5,100	-	5,100
Rent	3,225	-	3,225
Interest from notes receivable	2,730	-	2,730
Gain on sale of assets	5,133	-	5,133
Other	1,276,146	-	1,276,146
	<u>16,800,937</u>	<u>149,522</u>	<u>16,950,459</u>
Net Assets Released From Restriction			
Satisfaction of donor purpose	5,932,642	(5,932,642)	-
	<u>34,274,066</u>	<u>(104,711)</u>	<u>34,169,355</u>
Expenses and Other Changes			
High school and educational support services	2,706,325	-	2,706,325
Central Diocesan services	12,100,403	-	12,100,403
Clergy benefits	3,768,207	-	3,768,207
Seminarians, priests and deacons	1,600,692	-	1,600,692
Diocesan cemeteries	972,884	-	972,884
Stewardship and development, campaigns and endowments	7,976,632	-	7,976,632
Evangelization and external affairs	1,792,159	-	1,792,159
	<u>30,917,302</u>	<u>-</u>	<u>30,917,302</u>
Change in net assets from operating activities	3,356,764	(104,711)	3,252,053
Postretirement benefit changes other than net periodic postretirement benefit costs	(53,618)	-	(53,618)
Change in net assets	3,303,146	(104,711)	3,198,435
Net Assets (Deficit), Beginning	<u>(31,891,598)</u>	<u>14,672,103</u>	<u>(17,219,495)</u>
Net Assets (Deficit), Ending	<u>\$ (28,588,452)</u>	<u>\$ 14,567,392</u>	<u>\$ (14,021,060)</u>

See notes to combined financial statements

Diocese of Allentown

Combined Statement of Functional Expenses
Year Ended June 30, 2021

	Total	High School and Educational Support Services	Central Diocesan Services	Clergy Benefits	Seminarians, Priests, and Deacons	Diocesan Cemeteries	Stewardship and Development, Campaigns and Endowments	Evangelization and External Affairs
Clergy, religious and lay salaries and payroll taxes	\$ 5,429,495	\$ 826,250	\$ 2,351,373	\$ 779,051	\$ 397,527	\$ 420,280	\$ 404,496	\$ 250,518
Clergy, religious and lay employee benefits	2,029,936	206,457	706,168	463,363	381,645	106,023	122,710	43,570
Diocesan clergy benefits	2,315,794	-	-	2,315,794	-	-	-	-
Clergy postretirement benefits other than periodic costs	971,942	-	-	971,942	-	-	-	-
Property and casualty insurance premiums and claims	3,581,674	-	3,521,175	60,499	-	-	-	-
Unemployment claims	31,808	-	31,808	-	-	-	-	-
Program expenses	663,900	149,089	160,758	220	56,648	51,685	132,212	113,288
Scholarships	5,212,204	-	-	-	-	-	5,212,204	-
Secondary and elementary school subsidies	879,965	879,965	-	-	-	-	-	-
Occupancy	1,144,567	122,144	845,336	114,330	14,059	47,076	701	921
General and administrative, other	519,684	66,014	195,094	35,390	11,963	38,924	42,279	130,020
Professional fees	2,101,823	15,192	1,506,814	338,874	15,331	72,456	143,809	9,347
Claims settlements and expenses	10,203	-	10,203	-	-	-	-	-
Depreciation and amortization	378,265	-	255,893	122,372	-	-	-	-
Bishop's Annual Appeal allocations	1,792,663	-	-	-	-	-	1,792,663	-
Parish rebates on contributions	54,377	-	-	-	-	-	54,377	-
Tuition assistance, seminarians and clergy	603,530	-	-	11,876	591,654	-	-	-
Forward with Christ allocations	40,898	-	-	-	-	-	40,898	-
Banking service fees	46,890	-	5,101	-	-	13,739	28,050	-
Grants	14,900	-	-	-	14,900	-	-	-
Fund raising and development expenses	26,150	-	-	-	-	-	26,150	-
National and state Catholic Conference assessments	230,202	-	230,202	-	-	-	-	-
Cost of burial rights and mausolea	200,435	-	-	-	-	200,435	-	-
Interest	260,294	-	260,294	-	-	-	-	-
Charitable gift annuity distributions	58,007	-	58,007	-	-	-	-	-
Total expenses	\$ 28,599,606	\$ 2,265,111	\$ 10,138,226	\$ 5,213,711	\$ 1,483,727	\$ 950,618	\$ 8,000,549	\$ 547,664

See notes to combined financial statements

Diocese of Allentown

Combined Statement of Functional Expenses

Year Ended June 30, 2020

	<u>Total</u>	<u>High School and Educational Support Services</u>	<u>Central Diocesan Services</u>	<u>Clergy Benefits</u>	<u>Seminarians, Priests, and Deacons</u>	<u>Diocesan Cemeteries</u>	<u>Stewardship and Development, Campaigns and Endowments</u>	<u>Evangelization and External Affairs</u>
Clergy, religious and lay salaries and payroll taxes	\$ 6,092,170	\$ 909,144	\$ 2,387,482	\$ 770,878	\$ 370,291	\$ 428,899	\$ 415,059	\$ 810,417
Clergy, religious and lay employee benefits	2,250,361	207,417	1,015,274	174,592	381,707	113,755	114,352	243,264
Diocesan clergy benefits	2,058,090	-	-	2,058,090	-	-	-	-
Clergy postretirement benefits other than periodic costs	138,157	-	-	138,157	-	-	-	-
Property and casualty insurance premiums and claims	4,045,698	-	3,983,664	62,034	-	-	-	-
Unemployment claims	1,010,747	-	1,010,747	-	-	-	-	-
Program expenses	1,206,331	134,717	299,289	-	207,648	66,519	151,373	346,785
Scholarships	4,820,791	-	-	-	-	-	4,820,791	-
Secondary and elementary school subsidies	891,000	891,000	-	-	-	-	-	-
Occupancy	1,284,582	122,587	921,117	102,453	12,868	66,732	649	58,176
General and administrative, other	465,071	25,375	109,457	32,597	13,302	26,729	71,270	186,341
Professional fees	2,504,439	16,078	1,927,458	271,361	22,532	16,503	137,099	113,408
Claims settlements and expenses, net of recovery	(498,942)	-	(498,942)	-	-	-	-	-
Depreciation and amortization	391,327	-	238,211	120,895	-	-	-	32,221
Bishop's Annual Appeal allocations	1,835,999	-	-	-	-	-	1,835,999	-
Parish rebates on contributions	323,027	-	-	-	-	-	323,027	-
Tuition assistance, seminarians and clergy	620,400	-	-	37,150	583,250	-	-	-
Forward with Christ allocations	41,337	-	-	-	-	-	41,337	-
Banking service fees	48,668	7	15,691	-	-	9,541	21,882	1,547
Grants	409,000	400,000	-	-	9,000	-	-	-
Fund raising and development expenses	43,888	-	-	-	94	-	43,794	-
National and state Catholic Conference assessments	232,759	-	232,759	-	-	-	-	-
Cost of burial rights and mausolea	233,544	-	-	-	-	233,544	-	-
Interest	402,710	-	402,710	-	-	-	-	-
Reserve for uncollectible loans and accounts	10,662	-	-	-	-	10,662	-	-
Charitable gift annuity distributions	55,486	-	55,486	-	-	-	-	-
Total expenses	<u>\$ 30,917,302</u>	<u>\$ 2,706,325</u>	<u>\$ 12,100,403</u>	<u>\$ 3,768,207</u>	<u>\$ 1,600,692</u>	<u>\$ 972,884</u>	<u>\$ 7,976,632</u>	<u>\$ 1,792,159</u>

See notes to combined financial statements

Diocese of Allentown

Combined Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 24,219,047	\$ 3,198,435
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	378,265	391,327
Cost of cemetery lots, mausolea and burial rights sold	171,756	106,856
Increase in allowance for uncollectible accounts	750,000	760,662
Postretirement benefit changes other than net periodic postretirement benefit costs	(6,591,757)	53,618
Realized and unrealized gains on investments, net	(3,196,827)	(405,752)
Additions to perpetual care fund	(1,175,718)	(97,486)
Gain on sale of property and equipment, net	(9,406,621)	(5,133)
Changes in assets and liabilities:		
Other receivables	76,771	(124,493)
Assessments and premiums receivable	(736,393)	(578,813)
Pledges receivable	443,799	735,960
Accrued interest and dividends receivable	(50,686)	34,847
Prepaid expenses and other assets	(654,698)	(70,707)
Accounts payable and accrued expenses	(3,679)	89,208
Contributions payable	(49,334)	(40,708)
Accrued compensation and related benefits	140,818	(209,346)
Scholarships payable	(53,480)	1,265,722
Claims payments and other accruals	(1,007,999)	(16,432,505)
Escrow funds	96,407	(215,954)
Deferred revenue and contract liabilities	68,130	(442,342)
Annuities payable	(60,276)	(11,189)
Accrual for self-insurance	(1,425,000)	1,236,000
Postretirement benefit obligation	971,942	138,157
Additions to postretirement benefit fund	(2,022,725)	(988,444)
Net cash provided by (used in) operating activities	<u>881,742</u>	<u>(11,612,080)</u>
Cash Flows From Investing Activities		
Cash paid for property, equipment and cemetery assets	(114,769)	(110,169)
Proceeds from sale of property and equipment	10,473,973	955,132
Purchases of investments	(2,498,938)	(4,068,189)
Proceeds from sales of investments	445,924	1,318,642
Collections of notes receivable	9,600	3,872
Net cash provided by (used in) investing activities	<u>8,315,790</u>	<u>(1,900,712)</u>
Cash Flows From Financing Activities		
Additions to perpetual care fund	1,175,718	97,486
Proceeds from notes payable	-	8,400,000
Proceeds from PPP loan	-	1,608,800
Repayment of notes payable	(8,434,884)	(239,429)
Net cash (used in) provided by financing activities	<u>(7,259,166)</u>	<u>9,866,857</u>
Increase (decrease) in cash and cash equivalents	1,938,366	(3,645,935)
Cash and Cash Equivalents, Beginning	<u>23,130,212</u>	<u>26,776,147</u>
Cash and Cash Equivalents, Ending	<u>\$ 25,068,578</u>	<u>\$ 23,130,212</u>
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 260,294</u>	<u>\$ 402,710</u>

See notes to combined financial statements

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

A diocese is a portion of the people of God which is entrusted to a bishop for him to shepherd with the cooperation of the presbyterium (priests), so that, adhering to its pastor and gathered by him in the Holy Spirit through the gospel and the Eucharist, it constitutes a particular church in which the one, holy, catholic and apostolic Church of Christ is truly present and operative.

The Canonical Diocese of Allentown (Diocese) is a part of the Roman Catholic Church (Church), and it is governed according to Canon law. Canon law is the body of laws and regulations which provide for the governance of the Church, and also create separately identifiable and individualized structures and entities within the five county territory of the Diocese. Most of these separately identifiable and individualized entities have a formal civil law legal structure, as charitable trusts, unincorporated associations or not-for-profit corporations, that confirms under Pennsylvania civil law, the separateness, individuality and independence of these structures established and granted to them under Canon law. The accompanying combined financial statements include the Roman Catholic Diocese of Allentown Charitable Trust and the following entities, offices and organizations:

Roman Catholic Diocese of Allentown, an unincorporated association, comprised of the Central Diocesan Services - includes the Chancery office, the Secretariat for Temporal Services, the Secretariat for Stewardship and Development, the Secretariat for Education, the Secretariat for Catholic Life and Evangelization, the Secretariat for the Clergy and the Secretariat for External Affairs. These offices direct the central administration of the Diocese.

The accompanying combined financial statements also include the following:

Other Charitable Trusts - Certain charitable trusts are also included in the combined financial statements. Each of these charitable trusts is a separate and distinct common law and civil law operating entity, maintains separate accounts and carries on its own services and programs. The charitable trusts in these combined financial statements include:

Bishop's Annual Appeal Charitable Trust - holds funds for the case components of the Bishop's Annual Appeal, or the Because We Are Catholic Appeal (Appeal). The Appeal unites the parishes and schools in the Diocese in common effort to share the Catholic faith by helping to fund projects, programs, and ministries serving children, adults and families in the Diocese of Allentown.

Supplemental Health Care Benefits Trust - holds funds in trust to pay lay employee health insurance claims that have been incurred but not reported.

Diocesan Cemetery Perpetual Care Trust - holds funds in trust to provide for the perpetual care of diocesan cemeteries.

Clergy Third Age Charitable Trust - holds funds in trust to provide for priests post-retirement benefits, including healthcare and housing.

Eastern Pennsylvania Scholarship Foundation Charitable Trust - holds funds in trust to provide scholarships to students attending Catholic elementary and secondary schools, special learning centers, and pre-kindergarten programs in the Diocese. Donations are received from local businesses and individuals participating in Pennsylvania's Educational Improvement Tax Credit (EITC) and the Opportunity Scholarship Tax Credit (OSTC) programs.

The Diocese of Allentown Independent Reconciliation and Compensation Trust - an independent trust to assist victims and survivors of past clergy sexual abuse.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

Other Corporations:

Allentown Catholic Communications Inc. primarily operates the official newspaper of the Diocese, and is included in the combined financial statements. It is a separate and distinct common law and civil law operating entity, maintains separate accounts and carries on its own services and programs.

Catholic Relief Insurance Company of America II Participant - participant in a sponsored captive insurance company formed under Vermont law for the purpose of insuring or reinsuring certain risks of the Diocese. The lines of insurance managed through the cell include automobile liability, property, professional liability, general liability and workers compensation.

Functional expenses in the accompanying combined financial statements are defined as follows:

Central Diocesan Services - Includes the Chancery office, the Secretariat for Temporal Services (other than cemeteries), the Supplemental Health Care Benefits Trust, the Diocese of Allentown Independent Reconciliation and Compensation Trust (IRCT), the Diocese of Allentown's participation in the Catholic Relief Insurance Company of America II and the Self-Insurance Programs.

Clergy Benefits - Includes the Clergy Benefits Fund of the Diocese, including retirement residences for clergy and the Clergy Third Age Charitable Trust.

Seminarians, Priests & Deacons - Includes the Secretariat for Clergy (other than Holy Family Villa which is included in Clergy Benefits).

Diocesan Cemeteries - Includes the two cemeteries operated by the Diocese, Holy Saviour and Resurrection and the Diocesan Cemetery Perpetual Care Trust.

Stewardship & Development and Campaigns & Endowments - Includes the Secretariat for Stewardship & Development, Strengthening Our Future in Faith (SOFF), Bishop's Annual Appeal Charitable Trust (BAA), Forward With Christ (FWC), Eastern Pennsylvania Scholarship Foundation Charitable Trust (EPSF), Seminarian Trust Fund and National Collections.

Evangelization and External Affairs - Includes the Secretariat for Catholic Life & Evangelization and the Secretariat for External Affairs and Allentown Catholic Communications, Inc., including The A.D. Times (the official biweekly newspaper of the Diocese).

High School and Educational Support Services - Includes the separate costs incurred primarily for support services provided by the Secretariat for Catholic Education and subsidy allocations to the Diocesan high schools.

These combined financial statements do not include the assets, liabilities, or activities of the Allentown Catholic Beneficial Association Inc. (A.C.B.A.), the Allentown Catholic Unitized Investment Fund Charitable Trust (U.I.F.), the Diocesan high school corporations, special learning center corporations, the individual parishes or their associated charitable trusts (including elementary schools), regional elementary schools or their associated charitable trusts, parish cemeteries, social services, pension plans, long-term care facilities, or the religious communities of men and women in the Diocese. These excluded activities may or may not be separately incorporated, operating as unincorporated associations, or have associated charitable trusts under civil law and Canon law; however, each is an operating entity distinct from the offices and organizations included herein, maintains separate accounts and carries on its own services and programs.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

Functional Allocation of Expenses

The costs of providing the Diocese's programs and other activities have been summarized on a functional basis in the combined statements of activities and the combined statements of functional expenses. Certain costs could be allocated to the program and supporting services benefited as needed; however, the nature of the current expenditures do not require allocation. Expenses were incurred of \$900,407 and \$955,478 related to development and fundraising for the years ended June 30, 2021 and 2020, respectively. Such amounts are included in Stewardship & Development, Campaigns & Endowments expenses in the accompanying combined statements of functional expenses. Other supporting services for general and administrative activities are reported in the Central Diocesan Services category of the combined statements of functional expenses.

Basis of Presentation

Accounts have been maintained and the accompanying combined financial statements have been prepared on the accrual basis. All significant inter-entity transactions and balances have been eliminated upon combination.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is provided on the straight-line method over the assets' estimated lives on all property and equipment except land, cemetery lots and construction in progress. Estimated useful lives are:

	<u>Years</u>
Buildings	27.5
Land and building improvements	15
Furniture, fixtures and equipment	7
Computers, software and vehicles	5

Property and equipment is evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

Revenue Recognition

Assessments charged to parishes are levied on parishes to fund the operations and support functions of the Diocese and support the ministries and programs shared by the whole local Church. Diocesan assessments are based on a standard formula based on parish offering income. Revenue from parish assessments is recognized on a monthly basis over the fiscal year.

Revenue from sales, fees and insurance premiums charged to parishes and schools include items such as property and casualty, unemployment and other insurance premiums, clergy support, sales from collective purchases and fees for services. These amounts are recorded as revenue when the performance obligations have been met, which is generally when the related expenses are incurred, usually on a monthly basis.

The Diocese employee healthcare self-insurance is administrated by the healthcare carrier. The carrier invoices and collects premiums from parishes, schools, and administrative offices, pays healthcare claims, and retains service fees. Remaining premium balances after claims and fees are paid to the Diocese as Insurance Rate Stabilization Refunds are recorded as revenue when received, and are used to maintain a self-insurance reserve fund and offset additional healthcare and other expenses.

Diocese of Allentown

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June 30, 2021 and 2020

Cemetery revenue is recorded on sales of burial rights in grave plots, crypts, and niches. Burial right sales are generated through two sales programs - "at need" and "pre-need" programs - with each contract carrying the same terms and conditions. Sales and cost of sales relating to all at-need and pre-need burial rights are recognized and related available inventory is relieved at the time of the sale. Customers are allowed to purchase pre-need burial rights through an installment method with interest charges. As a matter of policy, sales have been refunded under certain circumstances at amounts equal to the original sales price less a restocking fee, with the units then returned to inventory. This policy is subject to amendment at any time. All contracts in which patrons have not made payments for a sixty-day period are cancelable. Sales of at-need cemetery services and merchandise are recognized as cemetery revenue in the period the service is performed. The Diocese recognizes its canonical obligation to care for the dead and maintains a perpetual care trust fund to ensure the continuous maintenance and operation of the cemetery grounds (see Note 11).

Contributions

Gifts of cash and other assets are reported as restricted support if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the combined statements of activities as net assets released from restrictions. In the absence of specific donor restriction, contributions are considered available for use. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying combined financial statements.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Amounts received in advance of satisfying the conditions are recorded as refundable advances.

Contributed Services

Contributed services are recognized for the significant level of service provided by priests and female religious in the operation of certain programs, along with the corresponding expense, for the differential between actual costs incurred and lay-equivalent costs for the positions filled by the priests and female religious, when material to the combined financial statements. No computation is made for positions that can be held only by religious personnel. No contributed services were recorded for the years ended June 30, 2021 and 2020.

Net Assets

Net assets and revenues, gains, expenses and losses are classified as without donor restrictions or with donor restrictions based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by management or those charged with governance, or may be contractually obligated under terms of cemetery contracts in the normal course of business.

Diocese of Allentown

Notes to Combined Financial Statements
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Net Assets With Donor Restrictions - Net assets whose use is subject to donor-imposed stipulations that can be fulfilled by actions of the Diocese pursuant to those stipulations or that expire by the passage of time are reported as net assets with donor restrictions. Net assets with donor restrictions also includes certain pledges for future gifts principally for the Bishop's Annual Appeal Charitable Trust and educational programs. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets with donor restriction are reclassified to net assets without restrictions and reported in the combined statements of activities as net assets released from restriction. Additionally, gifts which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity are reported as net assets with donor restrictions.

Cemeteries, Mausolea and Columbaria

Cemetery lots, mausolea, columbaria and burial rights are recorded at cost, net of cumulative amounts sold of \$987,220 and \$924,140 at June 30, 2021 and 2020, respectively.

Income Taxes

As subordinate organizations of the Church in the United States of America, the entities within the Diocese are entitled to exemption from federal income tax under the provisions as described in Section 501(c)(3) of the Internal Revenue Code.

Uncertainties in income taxes are accounted for in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold at June 30, 2021 and 2020.

The organizations included herein are exempt from filing federal Exempt Organization Business Income Tax Returns because each is either 1) a church, an interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church, or 2) a church-affiliated organization that is exclusively engaged in managing funds or maintaining retirement programs, or 3) a school below college level affiliated with a church or operated by a religious order, in accordance with the applicable Treasury regulations.

Other Changes in Net Assets

Revenues or expenses not directly identifiable to programs, nor related to the overall support and direction of the Diocese, are reported separately from functional expenses. Typically, these represent unusual activities that may not reoccur from year to year, or may vary significantly in amount at management's sole discretion including postretirement benefit changes other than net periodic postretirement costs, other net asset transfers and discretionary contributions to pension plans.

Postretirement Benefits

The incardinated priests serving the Diocese are provided with benefits following their retirement from active service. Benefits include continuation of medical insurance, medical treatments, long-term care, certain living allowances and other reimbursements. The Diocese follows the authoritative guidance accounting for postretirement benefits. The guidance requires an employer to recognize in its statement of financial position the over-funded or under-funded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation (Note 9).

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

Investments

Investments are recorded at fair value in the accompanying combined statements of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for a discussion on fair value measurements. Gains on investments include gains and losses on investments bought and sold, as well as held during the year. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Investments are comprised of a variety of financial instruments. The fair values reported in the combined statements of financial position are exposed to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities, it is reasonably possible that the amounts reported in the accompanying combined statements of financial position could change materially in the near future.

The U.I.F. was established to offer the parishes, institutions, offices and agencies of the Diocese an investment alternative. Participation in the U.I.F. is voluntary and may be extended as a privilege to those religious institutions that have locations in the Diocese. The U.I.F. utilizes a unitized investment pool accounting structure whereby each participant is a shareholder. The U.I.F. is comprised of three asset classes: the equity fund, the fixed income fund and the cash fund. Each participant chooses what portion of its funds should be allocated to the respective asset classes based upon the investment objectives of the respective asset class. The U.I.F. allocates shares to participants based upon the relationship of the individual participants' investment to total pooled investments. Interest, dividends, realized and unrealized gains and losses and expenses are allocated based upon the number of shares each participant holds. The various organizations included herein are some of the participants within the U.I.F.

Cash Equivalents

All highly liquid investments with maturity of three months or less when purchased are considered to be cash equivalents, with the exception of cash held for reinvestment, which is included in investments. Cash equivalents includes donor restricted or management designated funds that are not included in investments, some of which are held in individual deposit accounts in the A.C.B.A.

The A.C.B.A was established to make it possible for Church institutions such as parishes, schools, offices and agencies (Catholic Institutions) located within the Diocese to help other Catholic Institutions located within the Diocese. Participation in the A.C.B.A. is open to Catholic Institutions located within the Diocese. Deposits are made on a voluntary basis. Depositors may withdraw funds at any time; however, for purposes of maintaining liquidity, withdrawals may be subject to a waiting period of not more than 30 days. The various organizations included herein are some of the depositors of the A.C.B.A.

Accounts, Assessments and Premiums Receivable

Accounts, assessments and premiums receivable are reported at net realizable value. Premiums and assessments are charged on a monthly basis to the parishes, schools and other entities within the Diocese. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for uncollectible accounts is estimated based upon a periodic review of individual accounts.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

The following allowances have been recorded as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Assessments and premiums receivable	\$ 14,084,811	\$ 13,348,418
Allowance for uncollectible accounts	<u>(12,376,731)</u>	<u>(11,626,731)</u>
Assessments and premiums receivable, net	<u>\$ 1,708,080</u>	<u>\$ 1,721,687</u>

Self-Insurance Reserves

The self-insurance reserves provides for that portion of claims not covered by the Diocese's other insurance coverage. The provision for estimated self-insurance costs includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The liability for this reserve is estimated based on historical claims and management's evaluation of the future potential losses. The self-insurance reserves are \$4,481,000 and \$5,906,000 at June 30, 2021 and 2020, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Standards Adopted in the Current Year

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2014-09, *Revenue From Contracts With Customers* (Topic 606). This ASU supersedes the revenue recognition requirement in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. The core principle of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU was adopted on a full retrospective basis effective July 1, 2020. The adoption of Topic 606 did not have a material impact on the combined financial position, changes in net assets, cash flows, business processes, controls or systems of the Diocese.

Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 was issued to increase the transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal year June 30, 2023. Early application is permitted for all entities.

During August 2018, the FASB issued ASU No. 2018-14, *Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. ASU No. 2018-14 modifies and clarifies the required disclosures for employers that sponsor defined benefit pension or other postretirement plans. These amendments remove disclosures that are no longer considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. ASU No. 2018-14 is effective for fiscal year June 30, 2022.

The Diocese is assessing the impact these standards will have on its combined financial statements.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

Reclassifications

Certain reclassifications were made to the 2020 combined financial statements to conform to the current year presentation.

Subsequent Events

Subsequent events were evaluated for recognition or disclosure through March 1, 2022, the date the combined financial statements were available to be issued.

2. Fair Value Measurements, Investments and Other Financial Instruments

For financial instruments required to be measured at fair value on a recurring basis, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured using a hierarchy prioritizing the inputs used in determining valuations into three levels. The level within the fair value hierarchy is based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible for identical instruments.

Level 2 - Significant inputs, other than Level 1 inputs that are observable either directly or indirectly for substantially the full term of the instruments through corroboration with observable market data.

Level 3 - Significant unobservable inputs.

The following tables present the financial instruments measured at fair value as of June 30, 2021 and 2020 by caption on the combined statements of financial position by the valuation hierarchy defined above:

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Investments and assets whose use is limited:				
Money market funds	\$ 4,295,828	\$ -	\$ -	\$ 4,295,828
U.S. Treasury obligations	462,300	-	-	462,300
Government Bond Index Funds	2,364,353	-	-	2,364,353
TNCRRG equity	-	-	454,197	454,197
Mutual funds and exchange traded funds:				
Equities	361,556	2,053,196	-	2,414,752
Fixed income	299,127	1,056,853	-	1,355,980
Alternatives	34,760	-	-	34,760
Allentown Catholic United Investment Fund:				
Equity Pool	-	3,877,270	-	3,877,270
Fixed Pool	-	2,015,532	-	2,015,532
Total investments and assets whose use is limited	\$ 7,817,924	\$ 9,002,851	\$ 454,197	\$ 17,274,972

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2021 and 2020

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Investments and assets whose use is limited:				
Money market funds	\$ 1,884,731	\$ -	\$ -	\$ 1,884,731
U.S. Treasury obligations	470,475	-	-	470,475
Government Bond Index Funds	2,358,254	-	-	2,358,254
Corporate bonds	-	101,149	-	101,149
TNCRRG equity	-	-	415,122	415,122
Mutual funds and exchange traded funds:				
Equities	338,857	1,450,526	-	1,789,383
Fixed income	280,647	1,020,831	-	1,301,478
Alternatives	33,207	-	-	33,207
Allentown Catholic Unitized Investment Fund:				
Equity Pool	-	2,832,608	-	2,832,608
Fixed Pool	-	2,014,442	-	2,014,442
Total investments and assets whose use is limited	<u>\$ 5,366,171</u>	<u>\$ 7,419,556</u>	<u>\$ 415,122</u>	<u>\$ 13,200,849</u>

Valuation Methodologies

Money market funds are valued at cost, which approximates fair value, due to their short-term nature and/or current market interest rates, and are considered Level 1.

U.S. Treasury obligations are valued using pricing models maximizing the use of observable inputs for identical securities, and are considered Level 1.

Municipal and corporate bonds are valued based upon model driven valuations by pricing services engaged by the investment custodian(s). These models are primarily industry-standard models that consider observable inputs and various economic inputs and assumptions, and are considered Level 2.

Government bond index funds, mutual funds and exchange traded funds are valued at the net asset value of shares held at year end and are considered Level 1, except for mutual funds which are closed to certain investors and are not widely traded, and are considered Level 2.

The National Catholic Risk Retention Group (TNCRRG) is valued at the net asset book value of shares held, according to TNCRRG's December 31, 2020 and 2019 audited annual reports. Shares may be subject to redemption restrictions of up to five years, or sooner if TNCRRG's actuary certifies that the covered claims of the withdrawing shareholder are closed, and are considered Level 3. See Note 13, *Risk Retention Group and Insurance Pool Participation*.

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The U.I.F. is valued at net asset value, which is based upon the fair value of their underlying assets derived principally from or corroborated by observable market data, and are considered Level 2 inputs. The underlying assets of the Equity Pool are a diversified mix of investments with the objective to provide capital appreciation and growth over time. The underlying assets of the Fixed Pool are a diversified mix of investments with the objective to generate consistent income over time, with low levels of volatility. Funds transferred to the U.I.F. shortly before the first day of the month are classified in the Cash Pool. The U.I.F. requires withdrawals to occur on the first business day of each month, so there may be up to a 30-day waiting period to receive a distribution from this fund.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the valuation methods are believed to be appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at June 30, 2021 and 2020.

Assets Whose Use is Limited

As a condition for certification as a self-insured entity with the Commonwealth of Pennsylvania (the Commonwealth), the Commonwealth required the Diocese to maintain a minimum of \$2,300,000 for its self-insurance program as of June 30, 2021 and 2020. \$2,700,000 was borrowed from the A.C.B.A. and deposited the \$2,700,000 in a separate account to meet the requirements of the Commonwealth as security for its self-insurance program. The outstanding balance of the loan was \$2,300,000 at June 30, 2021 and 2020 (see Note 6). These assets are held in trust at US Bank, and are invested primarily in cash, a government bond index fund, and U.S. Treasury obligations. The value of these assets were \$2,833,331 and \$2,831,027 as of June 30, 2021 and 2020, respectively, and is reported in investments and assets whose use is limited in the accompanying combined statements of financial position.

3. Pledges Receivable

The following promises to give were included in pledges receivable at June 30:

	<u>2021</u>	<u>2020</u>
Bishop's Annual Appeal	\$ 369,945	\$ 555,092
Education	640,000	900,000
Total unconditional promises to give	1,009,945	1,455,092
Less unamortized discount	(674)	(2,022)
Net unconditional promises to give	<u>\$ 1,009,271</u>	<u>\$ 1,453,070</u>
Amounts due in:		
Less than one year	\$ 909,945	\$ 955,092
One to four years	100,000	500,000
Total	<u>\$ 1,009,945</u>	<u>\$ 1,455,092</u>

Pledges due in one to four years are discounted using a rate of 0.18 percent.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

4. Property and Equipment and Land Held for Sale

Property and equipment is as follows:

	<u>2021</u>	<u>2020</u>
Land	\$ 1,009,140	\$ 1,009,140
Buildings, and building and land improvements	7,070,409	7,070,409
Furniture and equipment	2,634,436	2,601,148
Automobiles and trucks	585,696	614,751
Total	11,299,681	11,295,448
Less accumulated depreciation	<u>(7,798,227)</u>	<u>(7,463,182)</u>
Total	3,501,454	3,832,266
Construction-in-progress	<u>1,307</u>	<u>19,039</u>
Property and equipment, net	<u>\$ 3,502,761</u>	<u>\$ 3,851,305</u>

Land held for sale was \$119,777 at June, 30 2020. This balance includes several parcels of land that are recorded at the lower of cost or estimated fair value. These real estate transactions were part of management's plans to provide liquidity as described in Note 16. In August 2019, one of the parcels was sold to a Diocesan parish for \$950,000. In December 2020, two additional parcels were sold for \$11,050,000.

As a condition of sale for a parcel sold in December 2020, \$738,500 of the sale proceeds was placed in an account held by a third party for the estimated future payment of roll-back taxes when the property tax classification of the parcel is changed per the buyer's development plans. This asset account balance is reflected in prepaid expenses and other assets, and the related liability of \$1,009,422 is reflected in deferred revenue and contract liabilities within the accompanying combined statement of financial position at June 30, 2021.

5. Liquidity and Availability of Resources

The financial assets available within one year of the combined statement of financial position date for general expenditure are as follows at June 30:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 9,409,108	\$ 3,458,871
Assessments and premiums receivable	1,708,080	1,721,687
Other receivables	<u>268,824</u>	<u>400,822</u>
	<u>\$ 11,386,012</u>	<u>\$ 5,581,380</u>

As part of liquidity management, there is a policy to structure financial assets to be available as general expenditures, liabilities and other obligations come due. In addition, cash in excess of daily requirements is invested in short-term investments.

Designated net assets were \$12,848,723 and \$10,599,661 at June 30, 2021 and 2020, respectively. Although there is no intent to spend from designated net assets other than for the purposes described in Note 10, amounts from the designated net assets could be made available, if necessary.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

6. Notes Payable

On March 29, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). One principal portion of the CARES Act established the Paycheck Protection Program (PPP), under which the United States Small Business Administration (SBA) was empowered to approve loans (PPP Loan) by insured financial institutions. If a PPP Loan application were approved by the SBA, the SBA would guarantee the Loan. In addition, the borrower of a PPP Loan would have the Loan "forgiven" (i.e., effectively the Loan became a Federal grant), if the borrower complied with all the conditions applicable to obtaining a PPP Loan. During April 2020, a PPP Loan in the amount of \$1,608,800 was approved and received from ESSA Bank & Trust (ESSA). The PPP Loan is reflected in notes payable in the accompanying combined statements of financial position. Forgiveness was applied for, and in July 2021, the SBA forgave the loan in full.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request. The results of any audits or reviews by the SBA are not believed to represent a material impact on the combined financial statements.

Notes payable consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
A.C.B.A. unsecured loan with variable interest rate of 1.25% and 1.75% at June 30, 2021 and 2020, respectively, related to the self-insurance security requirement set by the Commonwealth of Pennsylvania. (See Note 2). Interest only payments due, with principal repayment September 1, 2029. Principal payments may be made early without penalty.	\$ 2,300,000	\$ 2,300,000
A.C.B.A. loan with variable interest rate of 3.25% and 3.75% at June 30, 2021 and 2020, respectively, to support Catholic education in Schuylkill County through the purchase of a new school building for St. Jerome Regional Elementary School Charitable Trust in Tamaqua, PA; secured by a mortgage on that real estate. Principal and interest payments are due monthly through July 2038 according to a 20 year amortization schedule. Principal payments may be made early without penalty.	904,358	939,242
ESSA loan to provide compensation for victims and survivors of clergy sexual abuse, secured by real estate with a fixed interest rate of 5.00%. Repaid during 2021.	-	8,400,000
ESSA loan under the CARES Act PPP loan program, approved and guaranteed by the SBA. The loan is payable within two years of the origination date at an interest rate of 1%, with a deferral of payments until August 2021. In July 2021, the SBA forgave the principal and accrued interest of this loan.	<u>1,608,800</u>	<u>1,608,800</u>
Total	<u>\$ 4,813,158</u>	<u>\$ 13,248,042</u>

In December 2020, the \$8,400,000 loan from ESSA was repaid using proceeds from the sale of real estate (see Note 4).

In September 2021, \$400,000 of the loan from A.C.B.A. related to self-insurance was repaid.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2021 and 2020

Required principal payments on existing long-term debt at June 30, 2021 are due for the years ended June 30 as follows:

Years ending June 30:	
2022	\$ 933,630
2023	756,405
2024	42,642
2025	43,939
2026	45,275
Thereafter	<u>2,991,267</u>
	<u>\$ 4,813,158</u>

7. Lease Commitments

There are commitments under a number of non-cancelable operating leases having minimum future rental payments at June 30, 2021, due as follows:

Years ending June 30:	
2022	\$ 644,109
2023	537,808
2024	373,292
2025	324,241
2026	308,394
Thereafter	<u>155,945</u>
Total	<u>\$ 2,343,789</u>

Recognized lease expense of \$679,965 in 2021 and \$724,358 in 2020 is included in occupancy expense.

8. Diocesan Pension Plans

The Diocese sponsors a contributory defined benefit pension plan covering lay employees of the Diocese who meet certain age and service requirements. On a monthly basis, the parishes, schools and Diocesan entities contribute a portion of participants' compensation exclusive of bonus, overtime and other nonrecurring payments. The Pension Trustees amended the Lay Employee Pension Plan (Lay Plan) in 2010 to reduce the benefits earned in years beginning on or after January 1, 2011. Additionally, the Diocese increased the employer contribution to 3.25 percent for the fiscal year beginning July 1, 2014, to 3.50 percent for the fiscal year beginning July 1, 2015, to 3.75 percent for the fiscal year beginning July 1, 2016, to 4.00 percent for the fiscal year beginning July 1, 2017, to 4.25 percent for the fiscal year beginning July 1, 2018, to 4.50 percent for the fiscal year beginning July 1, 2019, 4.75 percent for the fiscal year beginning July 1, 2020, and 5.25 percent for the fiscal year beginning July 1, 2021. The Pension Trustees and the Diocese continue to monitor and make appropriate changes as necessary to improve the Plan's funded status. The Diocese also has a noncontributory plan (Priests Plan) for its ordained Diocesan priests who are in good standing. Likewise, plan participants include priests assigned to parishes and entities outside the entities represented in these combined financial statements. These plans are separate trusts and operate as multiemployer plans, and for purposes of these combined financial statements, are not included herein. Contributions from the various organizations included herein are recorded in benefits expense as reported below.

The risks of participating in multiemployer pension plans are different from single-employer plans. Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

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Participation by the various organizations included herein in pension plans (Plans) for the years ended June 30, 2021 and 2020 is outlined in the table below. The "EIN/PN" column provides the Employer Identification Number (EIN) and the three-digit plan number (PN). The most recent funded status available for 2021 and 2020 is for the plan year-end as indicated below. The funded status is based on information received from the Plans' actuaries.

The Plans have not benefitted from additional surcharges in addition to their regular plan contributions. Management has implemented plans to increase funding to the Plans over the next five years.

Pension Fund	EIN/Pension Plan Number	Funded Status		Contributions by Diocese for the Year Ended	
		2021	2020	2021	2020
Diocese of Allentown Lay Employees Retirement Plan	(a) 23-1598116/001	60.8% as of 1/1/2019	69.5% as of 1/1/2018	\$ 165,343	\$ 181,623
Retirement Plan for the Ordained Diocesan Priests of the Diocese of Allentown	(b) 20-8045588/001	79.9% as of 7/1/2020	84.7% as of 7/1/2019	207,148	170,292

The various organizations included herein provided more than 5 percent of total contributions for each of the plans for 2021 and 2020.

- (a) The Plan's financial statements for the years ended December 31, 2018 and 2017 indicated total net assets of \$71,728,628 and \$80,756,209, respectively; total actuarial present value of accumulated plan benefits of \$117,892,081 and \$116,274,286, respectively; and total contributions for all participating employers of \$2,863,862 and \$5,314,333, respectively.
- (b) The Plan's financial statements for the years ended June 30, 2020 and 2019 indicated total net assets of \$11,102,581 and \$10,832,360, respectively; total actuarial present value of accumulated plan benefits of \$13,896,727 and \$12,791,781, respectively; and total contributions for all participating employers of \$1,468,544 and \$1,070,553, respectively.

9. Postretirement Benefit Obligation

The Diocese provides postretirement benefits to its incardinated priests in good standing who retire from service to the Diocese at normal retirement age or through early retirement due to disability. These benefits include continuation of medical benefits such as premiums on policies and payment of certain medical costs not covered by insurance; residence and care at a defined residence, where available; and reimbursements, for automobile insurance, workshops and retreats. The accrual for postretirement benefits recognizes the postemployment obligation for the above noted benefits provided to incardinated priests in good standing serving the Diocese.

The following is a summary of the plan's funded status at June 30, 2021 and 2020:

	2021	2020
Fair value of plan assets	\$ 10,926,482	\$ 8,903,757
Accumulated benefit obligation	(37,838,249)	(43,458,064)
Funded status of plan	\$ (26,911,767)	\$ (34,554,307)

Plan assets are held in trust by the Clergy Third Age Charitable Trust to provide for priests post-retirement benefits, including healthcare and housing. Contributions to the plan are derived from monthly assessments billed to the parishes, schools and other entities within the Diocese and amounts received from donors.

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Contributions received are initially deposited in savings held in the A.C.B.A. Periodically, a portion of those deposits are added to investments held in the U.I.F., using a target allocation percentage of 60 percent Equity Pool and 40 percent Fixed Pool. This investment strategy utilizes different asset classes with varying risk/return characteristics, which are believed to provide a long-term rate of return without undue exposure to severe depreciation in asset value during adverse markets.

Withdrawal of plan assets totaled \$250,000 in 2021 and 2020. Management estimates that total contributions to the plan during 2022 will be approximately \$700,000.

The following tables present the plan assets measured at fair value at June 30, 2021 and 2020 by the valuation hierarchy defined in Note 2. In addition, deposits held in the A.C.B.A. are valued using observable inputs, but do not trade in an active market, and are therefore categorized in Level 2.

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Plan assets:				
Cash and cash equivalents	\$ 79,913	\$ -	\$ -	\$ 79,913
Pledges receivable	-	-	2,162	2,162
Deposits held in the A.C.B.A.	-	3,171,372	-	3,171,372
U.I.F.:				
Equity Pool	-	5,163,243	-	5,163,243
Fixed Pool	-	2,509,792	-	2,509,792
Total plan assets	<u>\$ 79,913</u>	<u>\$ 10,844,407</u>	<u>\$ 2,162</u>	<u>\$ 10,926,482</u>

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Plan assets:				
Cash and cash equivalents	\$ 37,007	\$ -	\$ -	\$ 37,007
Pledges receivable	-	-	827	827
Deposits held in the A.C.B.A.	-	2,585,390	-	2,585,390
U.I.F.:				
Equity Pool	-	3,772,098	-	3,772,098
Fixed Pool	-	2,508,435	-	2,508,435
Total plan assets	<u>\$ 37,007</u>	<u>\$ 8,865,923</u>	<u>\$ 827</u>	<u>\$ 8,903,757</u>

Other than plan assets, management designated funds have been established for priest life insurance (see Note 10).

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Net periodic postretirement benefit cost, contributions and benefits paid related to the plan are as follows for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Service cost	\$ 1,010,477	\$ 997,135
Interest cost on accumulated benefit obligation	911,362	1,219,602
Expected return on assets	(534,224)	(474,919)
Amortization of unrecognized prior service cost	<u>(209,286)</u>	<u>(209,286)</u>
Net periodic postretirement benefit cost	<u>\$ 1,178,329</u>	<u>\$ 1,532,532</u>
Employer contributions	<u>\$ 2,229,111</u>	<u>\$ 2,382,819</u>
Benefits paid	<u>\$ 1,632,874</u>	<u>\$ 1,486,128</u>

The measurement date used to determine the plan asset and benefit obligation information was June 30, 2021 and 2020.

Total postretirement benefit expense included in clergy benefits expenses is as follows for 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Clergy benefits, net periodic postretirement benefit cost	<u>\$ 1,178,329</u>	<u>\$ 1,532,532</u>
Changes other than net periodic postretirement benefit cost:		
Amortization of prior service cost	209,286	209,286
Net gain	<u>(6,801,043)</u>	<u>(155,668)</u>
Total other changes	<u>(6,591,757)</u>	<u>53,618</u>
Total	<u>\$ (5,413,428)</u>	<u>\$ 1,586,150</u>

Benefits expected to be paid in the next ten fiscal years, estimated based on the same assumptions used in the measurement of the June 30, 2021 benefit obligation, are as follows:

2022	\$ 1,843,728
2023	1,858,000
2024	1,846,624
2025	1,846,646
2026	1,843,780
2027-2031	9,545,789

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Postretirement benefit obligation at June 30:

	<u>2021</u>	<u>2020</u>
Retirees	\$ 16,587,104	\$ 19,167,091
Other eligible and active plan participants	<u>21,251,145</u>	<u>24,290,973</u>
Accumulated postretirement benefit obligation	<u>\$ 37,838,249</u>	<u>\$ 43,458,064</u>
Healthcare costs	\$ 13,816,630	\$ 17,754,954
Care-level facilities	21,310,844	22,886,681
Life insurance	1,504,849	1,527,215
Other	<u>1,205,926</u>	<u>1,289,214</u>
Accumulated postretirement benefit obligation	<u>\$ 37,838,249</u>	<u>\$ 43,458,064</u>
Items not yet recognized as a component of net periodic cost:		
Prior service cost	\$ (1,744,870)	\$ (1,954,156)
Net gain	<u>(7,789,300)</u>	<u>(988,257)</u>
Total	<u>\$ (9,534,170)</u>	<u>\$ (2,942,413)</u>

The not yet recognized net gain of \$7,789,300 is greater than 10 percent of the accumulated postretirement benefit obligation on June 30, 2021, and therefore needs to be amortized in the net periodic postretirement cost for the fiscal year ending June 30, 2022.

Assumptions used in determining the postretirement benefit cost and the accumulated postretirement benefit obligation were as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Discount rate	2.61 %	2.65 %
Expected long-term rate of return on plan assets	6.00	6.00
Increase rates for Medicare Healthcare costs (all years)	5.00	5.00
Increase rates for Non-Medicare Healthcare costs (all years)	7.00	7.00
Increase rates for Holy Family Villa costs	3.50	3.50
Mortality table	RP-2000	RP-2000

Changes in assumptions caused a net decrease in the postretirement benefit obligation totaling \$5,619,815 for the year ended June 30, 2021. Significant changes were as follows:

- Significantly lower than expected increase in costs of medical and drug coverages;
- The elimination of the skilled nursing benefits and other related healthcare costs.

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10. Net Assets

Net assets without donor restrictions are designated for the following purposes at June 30:

	<u>2021</u>	<u>2020</u>
Self-insurance reserves	\$ 8,411,321	\$ 6,606,309
Other clergy benefit and retirement funds	1,228,789	1,002,202
Seminarian fund	2,305,956	1,803,704
Other management designated funds	902,657	1,187,426
Total	<u>\$ 12,848,723</u>	<u>\$ 10,599,641</u>

Net assets with donor restrictions consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Forward With Christ campaign	\$ 4,228,792	\$ 3,881,141
Forward With Christ endowment	2,207,370	2,207,370
Other endowments	330,496	329,834
Bishop's Annual Appeal	1,185,824	1,337,063
Endowment annuity	410,857	321,452
Seminarian fund	252,858	127,743
Priest postretirement benefits	5,537,688	4,564,231
Education	639,326	897,978
Other	922,655	900,580
Total	<u>\$ 15,715,866</u>	<u>\$ 14,567,392</u>

Net assets released from restriction consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Forward With Christ campaign	\$ 40,898	\$ 41,283
Bishop's Annual Appeal	4,109,513	4,519,011
Seminarian fund	273,333	220,426
Endowment annuity	58,007	57,129
Priest postretirement benefits	268,275	238,228
Education	340,000	600,000
Other	238,655	256,565
Total	<u>\$ 5,328,681</u>	<u>\$ 5,932,642</u>

During the 1980's the Diocese-wide Forward With Christ (FWC) campaign established funds for the immediate and future needs of its high schools, elementary schools and for the broader concerns of Catholic education and spiritual development of its people through the five-county area it serves. In 2005, \$4,000,000 was borrowed from the FWC funds, used toward the purchase of land intended for construction of a new Catholic high school in Berks county. The funds owed to the FWC campaign are included in FWC net assets with donor restrictions.

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11. Contractually Committed Assets and Net Assets

For each lot, crypt and niche sold, a portion of the sale is designated to provide for the future maintenance and preservation of the cemeteries, mausolea and columbaria. These funds are not contributions; therefore, they are not permanently restricted under U.S. GAAP. Further, the Commonwealth of Pennsylvania only regulates permanent maintenance funds when they are held by entities other than religious organizations, requiring that such funds be treated as trust funds, prudently invested with the intent of preserving capital and producing a reasonable income. Although the Diocese is exempt from these regulations, it recognizes a written commitment to invest the principal of the perpetual care fund, to be used for the care, general maintenance and improvements of the cemeteries, mausolea and columbaria. These funds are held in the Diocesan Cemetery Perpetual Care Trust, and classified as contractually committed net assets.

The following tables present the contractually committed assets measured at fair value as of June 30, 2021 and 2020 by the valuation hierarchy defined in Note 2. In addition, certificates of deposit and deposits held in the A.C.B.A. are valued using observable inputs, but do not trade in an active market, and are therefore categorized in Level 2.

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Certificates of deposit	\$ -	\$ 156,312	\$ -	\$ 156,312
Deposits held in the A.C.B.A.	-	360,093	-	360,093
U.I.F.:				
Equity Pool	-	3,510,343	-	3,510,343
Fixed Pool	-	879,236	-	879,236
Total plan assets	<u>\$ -</u>	<u>\$ 4,905,984</u>	<u>\$ -</u>	<u>\$ 4,905,984</u>

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Certificates of deposit	\$ -	\$ 155,339	\$ -	\$ 155,339
Deposits held in the A.C.B.A.	-	131,625	-	131,625
U.I.F.:				
Equity Pool	-	2,564,542	-	2,564,542
Fixed Pool	-	878,760	-	878,760
Total plan assets	<u>\$ -</u>	<u>\$ 3,730,266</u>	<u>\$ -</u>	<u>\$ 3,730,266</u>

Change in contractually committed net assets for the years ended June 30, 2021 and 2020 is as follows:

	2021	2020
Contractually committed net assets, beginning of year	\$ 3,730,266	\$ 3,632,780
Investment return	949,910	5,101
Contributions and new designations	225,808	92,385
Contractually committed net assets, end of year	<u>\$ 4,905,984</u>	<u>\$ 3,730,266</u>

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The Diocese undertook a study in 2014 to estimate the amount of maintenance that would be incurred in the future to care for the cemeteries, mausolea and columbaria. For the purpose of the calculation, maintenance costs of \$150,000 were assumed to escalate at a rate of 3.0 percent per year, with a discount rate of 6.0 percent. Commitments for permanent maintenance are substantial and, based upon the assumptions noted above, the present value of future care payouts approximates \$5,000,000. No contractually committed net assets were withdrawn for current maintenance costs in 2021, nor is a withdrawal of plan assets planned in 2022.

12. Endowments

The ability of the Diocese to fulfill its mission depends upon, among other things, a healthy financial situation. Income for the current budgeted operations comes from a number of sources including support from the parishes of the Diocese, fees, grants/foundations, fundraising and other donations. In order to strengthen the financial base of the Diocese and to enhance the future capabilities and viability of the Diocese, it is desirable to establish funds functioning as endowment which can hopefully grow and in which the interest would be used in accordance with the needs of the Diocese. These needs may include new programs to serve individuals and families in need, the expansion of current programs, or special capital needs as determined by the Diocese's strategic planning process.

The Diocese's endowments consist of four individual donor-restricted funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Diocese has interpreted Pennsylvania law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds where explicit donor stipulations exist. As a result of this interpretation, net assets with donor restrictions are classified as (a) the original value of gifts donated to the endowments, (b) the original value of subsequent gifts to the endowments, and (c) accumulations of investment returns to the endowments made in accordance with the direction of the applicable donor gift stipulations at the time the accumulation is added to the fund.

The respective organizations have adopted investment policies that attempt to provide a predictable stream of funding to programs supported by the endowments. The principal of the funds is invested according to the investment policies. Investment income is spent, or reinvested and designated as funds functioning as endowment, in accordance with the direction of the applicable donor gift stipulations.

The respective organizations have not deemed it necessary to adopt formal spending policies apart from spending based on actual expenditure in accordance with the stipulations of the donor.

Changes in endowment net assets for the years ended June 30, 2021 and 2020 is as follows:

	<u>June 30, 2021</u> <u>With Donor</u> <u>Restrictions</u>
Endowment net assets, beginning of year	\$ 2,537,204
Investment return	662
Appropriation of endowment net assets for expenditure	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,537,866</u>

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	<u>June 30, 2020</u> <u>With Donor</u> <u>Restrictions</u>
Endowment net assets, beginning of year	\$ 2,536,289
Investment return	915
Appropriation of endowment net assets for expenditure	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,537,204</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law. One donor-restricted fund with an original gift value of \$2,207,370, a fair value of \$2,088,511 and a deficiency of \$118,859 is reported in endowment net assets with donor restrictions at June 30, 2020. This deficiency resulted from appropriation for certain purposes that was deemed prudent by management at the time. There were no such deficiencies at June 30, 2021.

13. Self-Insurance - Risk Retention Group and Insurance Pool Participation

The Diocese instituted the Self-Insurance Program effective July 1, 1984. Under the program, all Diocesan buildings, personnel and programs are insured. The coverages provided include, but are not limited to, property, liability, workers' compensation and boilers. Premiums are charged to various entities within the Diocese based upon the specific coverages provided.

On July 1, 2018, an agreement was entered into with The Catholic Relief Insurance Company of America II, a sponsored captive insurance company organized under the laws of Vermont to form a protective captive insurance cell to administer and manage the Diocese of Allentown's self-insurance program. The lines of insurance managed through this cell include automobile liability, property, professional liability, general liability and workers compensation.

The program manages the Diocese's insurance through a combination of self-insurance retention, participation with other Dioceses in the Catholic Umbrella Pool and purchase of excess insurance coverage above the self-insured levels.

The Diocese has, since 1991, participated in TNCRRG, a Vermont company organized by entities of the Church, operating a risk retention group under the federal Liability Risk Retention Act of 1986. All policyholders are also shareholders of TNCRRG. TNCRRG provides Excess Liability coverage to its policyholders. Coverage is provided for certain liability claims exceeding \$750,000. No claims were filed with TNCRRG during 2021 and 2020. The shareholder interest in TNCRRG has been recorded as an investment in the combined financial statements.

The Diocese has, since 1994, been a member participant in the Catholic Umbrella Pool (the Pool), a not-for-profit self-insurance corporation serving certain Roman Catholic archdioceses and dioceses in the United States. The Pool provides excess liability coverage to its policyholders, for certain liability claims exceeding \$1,500,000. In May 2009, the formation of a subsidiary, CUP Re, Inc. was approved to operate as a not-for-profit captive insurer. CUP Re was incorporated in December 2009 and was approved to write business January 1, 2010 by the Vermont Dept. of Financial Regulation. CUP Re, Inc. assumes reinsurance on liability exposures of the Catholic Church from the Administrator, The Catholic Mutual Relief Society of America through its subsidiary, the Catholic Relief Insurance Company of America. No claims were filed with the Pool during 2021 and 2020.

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The Pool reserves the right to make a capital call from participants in the event that Pool reserves and participant balances are depleted by the level of actual claims and expenses. Management does not anticipate a capital call as of June 30, 2021. To the extent that actual claims reserves and expenses of the Pool do not exceed its income, the Pool allocates such surplus to member participants' fund balances. Annually, the Pool trustees approve distribution to member participants of a portion of their individual fund balances. \$79,402 and \$28,343 was recognized in 2021 and 2020, respectively, as a reduction of insurance premiums expense to reflect a partial return of the participation fund balance. The participant fund balance in the Pool was \$255,710 and \$219,877 at June 30, 2021 and 2020, respectively, which could be returned over the next ten years, subject to Pool performance. The balance in the participant fund has not been recorded in the combined financial statements.

14. Concentration of Credit Risk

Cash and restricted and designated deposit balances are deposited in various institutions. These balances may exceed federally insured amounts.

15. Contingent Liabilities

Organizations included herein have been named as a defendant in various civil lawsuits. The lawsuits are being vigorously defended and contested. It is not possible to determine if there will be unfavorable outcomes that would be material to these financial statements.

On August 14, 2018, a statewide grand jury issued its interim report investigating child sex abuse in six Pennsylvania Roman Catholic Dioceses including the Diocese. Among other recommendations, the grand jury called for a "civil window" law, which would let older victims sue the diocese for the damage inflicted on their lives when they were children. The Pennsylvania Legislature has not enacted this law; however, there is on-going discussion about a Constitutional Amendment that may appear on a statewide ballot.

On October 9, 2018, the U.S. Department of Justice notified the Diocese that a federal grand jury is investigating incidences of sexual conduct involving minors and requested that copies of specified documents related to this issue be provided. The Diocese has fully cooperated with this request.

The Diocese expects that it may make payments associated with the events listed in the preceding paragraphs, but it cannot reasonably estimate the amounts of those payments at this time.

16. Independent Reconciliation and Compensation Program (IRCP)

The Diocese of Allentown Independent Reconciliation and Compensation Trust (IRCP) was established in May, 2019. The Independent Reconciliation and Compensation Program voluntarily provided compensation for victims and survivors of clergy sexual abuse as one aspect of their healing. An independent, nationally recognized legal group (led by Kenneth Feinberg and Camille Biros) were solely responsible to evaluate these claims and make recommendations about compensation. The Diocese provided the funding for such compensation but was otherwise not involved with oversight or control. The program was additionally overseen by an Independent Oversight Committee, which operated without influence or control from the Diocese. At June 30, 2020, \$14,965,000 in claims had been paid, and \$970,000 in claims payments were accrued under the IRCP which were paid by January 2021.