

**Catholic Charities of the
Diocese of Allentown, Inc.**

Financial Statements
June 30, 2017 and 2016



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Catholic Charities of the Diocese of Allentown, Inc.

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Independent Auditors' Report

Board of Directors
Catholic Charities of the Diocese of Allentown, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Catholic Charities of the Diocese of Allentown, Inc., which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities of the Diocese of Allentown, Inc. as of June 30, 2017 and 2016, 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.

Baker Tilly Virchow Krause, LLP

Allentown, Pennsylvania
November 14, 2017

Catholic Charities of the Diocese of Allentown, Inc.

Statement of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 187,349	\$ 424,836	Accounts payable, trade	\$ 16,105	\$ 15,542
Accounts receivable, net	92,533	109,820	Accrued liabilities	32,475	2,905
Related party receivables	667,656	602,357	Accrued compensation	79,715	86,326
Pledges receivable	75,000	75,000	Accrued unemployment compensation	16,467	18,430
Prepaid expenses	40,105	19,081	Deferred revenue	16,009	522
	<u>1,062,643</u>	<u>1,231,094</u>		<u>160,771</u>	<u>123,725</u>
Total current assets			Total current liabilities		
Restricted and Designated Deposits			Net Assets		
Held in the Allentown Catholic			Unrestricted:		
Beneficial Association, Inc.	1,660,131	1,437,774	Undesignated	-	-
			Designated, endowment	3,577,132	3,279,198
Investments	2,415,630	2,168,249	Designated, property and equipment	472,045	479,116
			Designated, other	381,645	381,646
Beneficial Interest in Perpetual Trusts	852,553	844,529		<u>4,430,822</u>	<u>4,139,960</u>
			Total unrestricted net assets		
Property and Equipment, Net	472,045	479,116	Temporarily restricted	1,007,547	1,041,239
	<u>6,463,002</u>	<u>6,160,762</u>	Permanently restricted	863,862	855,838
Total assets	<u>\$ 6,463,002</u>	<u>\$ 6,160,762</u>		<u>6,302,231</u>	<u>6,037,037</u>
			Total net assets		
			Total liabilities and net assets	<u>\$ 6,463,002</u>	<u>\$ 6,160,762</u>

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statement of Activities

Year Ended June 30, 2017

(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Support, Revenues, and Other Gains					
Public support,					
Government grants and awards	\$ 525,196	\$ -	\$ -	\$ 525,196	\$ 569,099
Private support:					
Bequests	113,356	-	-	113,356	259,394
Donations	354,205	12,307	-	366,512	340,264
Bishop's Annual Appeal	-	591,000	-	591,000	602,000
Strengthening Our Future in Faith	-	74,000	-	74,000	-
Grants	152,053	119,184	-	271,237	362,489
Fundraising	212,576	37,850	-	250,426	228,678
Total private support	832,190	834,341	-	1,666,531	1,792,825
Revenue and other gains:					
Program fees	189,844	-	-	189,844	187,150
Third-party fees	144,256	-	-	144,256	97,924
Interest and dividends	22,395	-	-	22,395	36,455
Change in value of beneficial interest	-	-	8,024	8,024	(39,007)
Investment gains (losses), net	197,596	-	-	197,596	(2,118)
Loss on disposal of property and equipment	(1,823)	-	-	(1,823)	(1,202)
Miscellaneous income	33,730	-	-	33,730	-
Total revenue and other gains	585,998	-	8,024	594,022	279,202
Net Assets Released from Restriction					
Satisfaction of donor restrictions	266,033	(266,033)	-	-	-
Expiration of time restrictions, Receipt from Bishop's Annual Appeal Charitable Trust	602,000	(602,000)	-	-	-
Total net assets released from restrictions	868,033	(868,033)	-	-	-
Total support, revenues, and other gains	2,811,417	(33,692)	8,024	2,785,749	2,641,126
Expenses					
Program	2,274,324	-	-	2,274,324	2,377,890
Management and general	93,118	-	-	93,118	105,746
Fundraising	153,113	-	-	153,113	183,463
Total expenses	2,520,555	-	-	2,520,555	2,667,099
Change in net assets	290,862	(33,692)	8,024	265,194	(25,973)
Net Assets, Beginning	4,139,960	1,041,239	855,838	6,037,037	6,063,010
Net Assets, Ending	\$ 4,430,822	\$ 1,007,547	\$ 863,862	\$ 6,302,231	\$ 6,037,037

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.Statement of Activities
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, Revenues, and Other Gains				
Public support,				
Government grants and awards	\$ 569,099	\$ -	\$ -	\$ 569,099
Private support:				
Bequests	259,394	-	-	259,394
Donations	307,089	33,175	-	340,264
Bishop's Annual Appeal	-	602,000	-	602,000
Grants	201,239	161,250	-	362,489
Fundraising	213,178	15,500	-	228,678
Total private support	<u>980,900</u>	<u>811,925</u>	<u>-</u>	<u>1,792,825</u>
Revenue and other gains:				
Program fees	187,150	-	-	187,150
Third-party fees	97,924	-	-	97,924
Interest and dividends	36,455	-	-	36,455
Change in value of beneficial interest	-	-	(39,007)	(39,007)
Investment losses, net	(2,118)	-	-	(2,118)
Loss on disposal of property and equipment	(1,202)	-	-	(1,202)
Total revenue and other gains	<u>318,209</u>	<u>-</u>	<u>(39,007)</u>	<u>279,202</u>
Net Assets Released from Restriction				
Satisfaction of donor restrictions	338,660	(338,660)	-	-
Expiration of time restrictions:				
Receipt from Bishop's Annual Appeal Charitable Trust	616,000	(616,000)	-	-
Total net assets released from restrictions	<u>954,660</u>	<u>(954,660)</u>	<u>-</u>	<u>-</u>
Total support, revenues, and other gains	<u>2,822,868</u>	<u>(142,735)</u>	<u>(39,007)</u>	<u>2,641,126</u>
Expenses				
Program	2,377,890	-	-	2,377,890
Management and general	105,746	-	-	105,746
Fundraising	183,463	-	-	183,463
Total expenses	<u>2,667,099</u>	<u>-</u>	<u>-</u>	<u>2,667,099</u>
Change in net assets	155,769	(142,735)	(39,007)	(25,973)
Net Assets, Beginning	<u>3,984,191</u>	<u>1,183,974</u>	<u>894,845</u>	<u>6,063,010</u>
Net Assets, Ending	<u>\$ 4,139,960</u>	<u>\$ 1,041,239</u>	<u>\$ 855,838</u>	<u>\$ 6,037,037</u>

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 265,194	\$ (25,973)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,015	62,848
Realized and unrealized investment (gains) losses, net	(197,596)	2,118
Loss on disposal of property and equipment	1,823	1,202
Change in value of beneficial interest	(8,024)	39,007
Changes in assets and liabilities:		
Accounts receivable	17,287	15,320
Diocese receivable	(65,299)	28,725
Pledges receivable	-	30,000
Prepaid expenses	(21,024)	8,773
Accounts payable, trade	563	(336)
Accrued liabilities	29,570	(188)
Accrued compensation	(6,611)	3,732
Accrued unemployment compensation	(1,963)	(14,770)
Deferred revenue	15,487	(7,471)
	<u>73,422</u>	<u>142,987</u>
Net cash provided by operating activities		
	<u>73,422</u>	<u>142,987</u>
Cash Flows from Investing Activities		
Withdrawal from restricted and designated deposits	-	400,000
Purchases of property and equipment	(38,767)	(336,467)
Deposits and interest retained in restricted and designated deposits	(222,357)	(35,743)
Purchases of investments	(49,785)	-
	<u>(310,909)</u>	<u>27,790</u>
Net cash provided by (used in) investing activities		
	<u>(310,909)</u>	<u>27,790</u>
Increase (decrease) in cash and cash equivalents	(237,487)	170,777
Cash and Cash Equivalents, Beginning of Year	<u>424,836</u>	<u>254,059</u>
Cash and Cash Equivalents, End of Year	<u>\$ 187,349</u>	<u>\$ 424,836</u>

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statement of Functional Expenses
 Years Ended June 30, 2017 and 2016

	2017				2016			
	Program Expenses	Management and General	Fundraising Expenses	Total Expenses	Program Expenses	Management and General	Fundraising Expenses	Total Expenses
Salaries and wages	\$ 1,047,788	\$ 60,200	\$ 69,205	\$ 1,177,193	\$ 1,053,604	\$ 66,757	\$ 77,042	\$ 1,197,403
Employee benefits and payroll taxes	347,560	18,702	14,865	381,127	316,496	18,947	16,705	352,148
Program expenses	155,597	-	5,039	160,636	123,114	-	-	123,114
Direct assistance	277,760	-	-	277,760	297,179	-	-	297,179
Occupancy	207,913	3,776	1,713	213,402	321,195	4,969	3,528	329,692
Operating overhead	92,438	-	3,187	95,625	99,237	-	5,838	105,075
Depreciation	39,970	3,628	417	44,015	53,349	8,474	1,025	62,848
Transportation	39,106	318	116	39,540	34,581	179	430	35,190
Outside services	27,096	3,459	1,778	32,333	31,763	3,416	2,337	37,516
Development	-	-	37,207	37,207	-	-	52,248	52,248
Administrative and office	26,535	1,824	18,891	47,250	34,760	1,407	23,467	59,634
Staff development	12,198	1,211	695	14,104	12,612	1,597	843	15,052
Bad debts	363	-	-	363	-	-	-	-
Total expenses	\$ 2,274,324	\$ 93,118	\$ 153,113	\$ 2,520,555	\$ 2,377,890	\$ 105,746	\$ 183,463	\$ 2,667,099

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Catholic Charities of the Diocese of Allentown, Inc. (the "Corporation") provides a wide range of social services to anyone in need, regardless of their faith, residing within the five-county area comprising the Diocese of Allentown ("Diocese"). Programs include Adult Day Care, Infant Adoption, Individual/Marriage/Family Counseling, Immigration, Housing Case Management, Strengthening Families Care Management, Services for Victims of Human Trafficking, Supporting Services for Veterans, Soup Kitchens and Food Pantries.

The Corporation was originally incorporated on June 7, 1954 as The Catholic Social Agency of Lehigh and Northampton Counties; the Corporation changed its name in April 2005. The work of the Corporation is directed from a central administrative office and three regional offices.

Basis of Accounting and Basis of Presentation

The accounts of the Corporation have been maintained and the financial statements have been prepared on the accrual basis of accounting.

Sources of Income

The Corporation's principal sources of funding include government grants and contracts, contributions from the Catholic Charities appeal, support from the Diocese of Allentown, fees for services, private donations, and investment returns.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include investments in highly liquid debt instruments purchased with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon a periodic review of individual accounts. The allowance for doubtful accounts was \$4,420 and \$3,785 at June 30, 2017 and 2016, respectively.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method based upon the estimated useful life of each class of depreciable asset as follows:

Buildings	40 years
Leasehold improvements	10 years
Furniture, vehicles and equipment	5 - 10 years

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Contributions

The Corporation reports gifts of cash and other assets 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Corporation reports the support as unrestricted. In the absence of specific donor restriction, contributions are considered available for unrestricted use.

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 are not included as support until the conditions are substantially met.

Restricted and Designated Deposits

Donor restricted or management designated funds that are not included in investments are held in an individual deposit account in the Allentown Catholic Beneficial Association, Inc. ("ACBA"). The ACBA is an entity established under Canon law that allows Diocese institutions to deposit funds which may be provided to other Diocese entities in the form of loans. Participation is voluntary, and 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.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

Investments and Investment Risk

Investments are recorded at fair value in the accompanying statement of financial position.

The Corporation's investments are comprised of a variety of financial instruments. The fair values reported in the statement 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 and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying statement of financial position could change materially in the near term.

Designated Net Assets

The ability of the Corporation to fulfill its mission of service to society depends upon, among other things, a healthy financial situation. Income for the Corporation's current budgeted operations comes from a number of sources, including support from affiliated entities within the Diocese, government funding, fees, grants/foundations, fundraising, and other donations. In order to strengthen the financial base of the Corporation and to enhance the future capabilities and viability of the Corporation, 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 Corporation as determined by the Executive Director and the Board of Directors. 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 Corporation's strategic planning process.

The Corporation, therefore, has designated a portion of its unrestricted net assets to provide for its long-term needs. The principal of the fund is invested according to the Diocese Investment Policy. Interest and dividend earnings are reinvested, and are also designated by the Board of Directors, as funds functioning as endowment. Funds functioning as endowment are included in designated unrestricted net assets in the statement of financial position.

The Corporation has also designated a portion of its unrestricted net assets related to property and equipment, which is included in designated assets on the statement of financial position.

Temporarily Restricted Net Assets

The Corporation's temporarily restricted net assets include contributions received restricted for specific uses and purposes as specified by the donors. The Corporation has also received certain pledges for future gifts (i.e., time-restricted). The contributions with purpose restrictions primarily provide that they be used for specific program expenses. The Corporation reports release of restricted net assets when the donor stipulations have been met or time restrictions have expired.

Permanently Restricted Net Assets

The Corporation's permanently restricted net assets include gifts and trusts received which are required by donor-imposed restrictions to be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions, subject to limitations specified by Pennsylvania law.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of management's estimate of time and expenses related to providing the respective service. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Corporation.

Subsequent Events

The Corporation evaluated subsequent events for recognition or disclosure through November 14, 2017, the date the financial statements were available to be issued.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018. Early application is permitted for all entities for fiscal years beginning after December 15, 2016. The Corporation has not yet determined the impact of adoption of ASU 2014-09 on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase 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. The ASU is effective for fiscal years beginning after December 15, 2019. Early application is permitted for all entities. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The Corporation has not yet determined the impact of adoption of ASU 2016-02 on its financial statements.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Corporation has not yet determined the impact of adoption of ASU 2016-14 on its financial statements.

2. Investments

Investments at fair value are comprised of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Allentown Catholic Unitized Investment Fund Charitable Trust	\$ 2,341,066	\$ 2,147,615
Investment in Catholic Foundation of Eastern Pennsylvania	52,742	-
Mutual funds	<u>21,822</u>	<u>20,634</u>
Total	<u>\$ 2,415,630</u>	<u>\$ 2,168,249</u>

Investment income and gains and losses on investments for the years ended June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 22,395	\$ 36,455
Investment gains (losses), net	<u>197,596</u>	<u>(2,118)</u>
Net investment income	<u>\$ 219,991</u>	<u>\$ 34,337</u>

Total investments include permanently restricted investments of \$11,309 at June 30, 2017 and 2016, which are restricted for children with special needs.

3. Fair Value Measurements

The FASB issued enhanced guidance for using fair value to measure assets and liabilities. The Corporation adopted the guidance, which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. The adoption of the guidance had no material impact on the Corporation's financial statements, but expanded disclosure about the fair value measurement. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
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The framework that the guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The three levels of the fair value hierarchy under the fair value guidance are described below:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Corporation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

Allentown Catholic Unitized Investment Fund Charitable Trust ("Trust"): 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. The Corporation invests in both the Equity portfolio and the Fixed portfolio of the Trust. Each portfolio holds a diversified mix of investments, and is managed to achieve certain benchmarks as described in the Trust's investment policy.

Mutual funds: Valued at the quoted market prices of shares held by the Corporation at year end.

Catholic Foundation of Eastern Pennsylvania: Valued at the underlying investments held by the Foundation, which approximates the present value of future cash flows.

Beneficial interest in perpetual trusts: Valued at the proportionate share of the underlying investments held by the trusts, which approximates the present value of future cash flows.

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

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2017 and 2016

The following table sets forth by level, the Corporation's assets at fair value.

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Allentown Catholic Unitized Investment Fund:				
Equity fund	\$ -	\$ 1,282,023	\$ -	\$ 1,282,023
Fixed fund	-	1,059,043	-	1,059,043
Beneficial interest in perpetual trusts	-	-	852,553	852,553
Catholic Foundation of Eastern Pennsylvania	-	-	52,742	52,742
Mutual funds	21,822	-	-	21,822
	<u>\$ 21,822</u>	<u>\$ 2,341,066</u>	<u>\$ 905,295</u>	<u>\$ 3,268,183</u>

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Allentown Catholic Unitized Investment Fund:				
Equity fund	\$ -	\$ 1,124,930	\$ -	\$ 1,124,930
Fixed fund	-	1,022,685	-	1,022,685
Beneficial interest in perpetual trusts	-	-	844,529	844,529
Mutual funds	20,634	-	-	20,634
	<u>\$ 20,634</u>	<u>\$ 2,147,615</u>	<u>\$ 844,529</u>	<u>\$ 3,012,778</u>

The following table sets forth a summary of changes in the fair value of the Corporation's Level 3 investments for the year ended June 30, 2017. See Note 5 for activity of the beneficial interest in perpetual trusts.

	Catholic Foundation of Eastern Pennsylvania
Balance, beginning of year	\$ -
Unrealized gains	2,956
Purchases	50,000
Fees	(214)
Balance, end of year	<u>\$ 52,742</u>

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
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4. Pledges Receivable

The Corporation records contributions at the time an unconditional promise to give is made. Certain pledges are received which commit support for future periods for purposes of program support and capital needs.

The Corporation has included the following unconditional promises to give in its pledges receivable at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Private grants due in less than one year	<u>\$ 75,000</u>	<u>\$ 75,000</u>

5. Split-Interest Agreements

The Corporation holds several beneficial interests in perpetual trusts that award the Corporation an annual amount proportional to the Corporation's portion of the fair market value of the trust's assets at the end of each calendar year. The trusts' assets were valued based on quoted market prices for identical securities, which approximate the present value of future cash flows. The trust agreements stipulate any restrictions on the use of these payments.

The Corporation measures its beneficial interests in perpetual trusts on a recurring basis in accordance with accounting standards on fair value measurements based on Level 3 inputs at June 30, 2017 and 2016.

For beneficial interests in perpetual trusts reported within Level 3 in the fair value hierarchy, the activity recognized during the years ended June 30, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 844,529	\$ 883,536
Unrealized gains (losses)	43,081	(4,047)
Contributions	-	-
Distributions	<u>(35,057)</u>	<u>(34,960)</u>
Ending balance	<u>\$ 852,553</u>	<u>\$ 844,529</u>

Distributions from the perpetual trusts that were received by the Corporation are recorded in bequests, and unrealized gains (losses) are reported in the change in value of beneficial interests in the statement of activities for the years ended June 30, 2017 and June 30, 2016.

Catholic Charities of the Diocese of Allentown, Inc.

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6. Property and Equipment, Net

Property and equipment, net is as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 14,600	\$ 14,600
Buildings	355,266	352,307
Leasehold improvements	21,433	21,433
Furniture, vehicles and equipment	<u>477,783</u>	<u>475,649</u>
	869,082	863,989
Less accumulated depreciation	<u>397,037</u>	<u>384,873</u>
Property and equipment, net	<u>\$ 472,045</u>	<u>\$ 479,116</u>

Depreciation expense was \$44,015 in 2017 and \$62,848 in 2016.

7. Lease Commitments

The Corporation is committed under a number of operating leases for rentals of office and office equipment. Rent expense for those leases was \$90,060 and \$161,984 for the years ended June 30, 2017 and 2016, respectively. Future minimum lease payments as of June 30, 2017 are due as follows:

Years ending June 30:	
2018	\$ 67,912
2019	52,412
2020	42,215
2021	43,059
2022	<u>43,920</u>
Total	<u>\$ 249,518</u>

8. Diocesan Pension Plan

The Corporation participates in the Diocese of Allentown Lay Employees Retirement Plan (the "Plan"), a contributory multiemployer defined benefit pension plan covering lay employees of the Diocese who meet certain age and service requirements. On an annual basis, the Corporation contributes a percentage of participants' compensation exclusive of bonus, overtime, and other nonrecurring payments. The Pension Trustees amended the Plan in 2010 to reduce the benefits earned in years beginning on or after January 1, 2011. Additionally, the Plan increased the employer contribution to 3.50% for the fiscal year beginning July 1, 2015. The Pension Trustees and the Diocese continue to monitor and make appropriate changes as necessary to improve the Plan's funded status. The Corporation's contributions are recorded in benefits expense as reported in the table below.

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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.

The Corporation's participation in this multiemployer pension plan for the years ended June 30, 2017 and 2016 is outlined in the table below. The "EIN/PN" column provides the Employer Identification Number (EIN) and the three-digit plan number. The most recent funded status available is for the plan year-end as indicated below. The funded status is based on information that the Corporation received from the Plan's actuary.

The Plan has not received any additional surcharges in addition to its regular plan contributions. Management of the Plan has implemented plans to increase funding to the Plan over the next five years.

Pension Plan	EIN/Pension Plan Number	Funded Status		Contributions by Corporation for the Years Ended June 30		Total Plan Assets 1/1/2016	Total Accumulated Plan Benefits 1/1/2016	Total Contributions to the Plan 2016
		1/1/2016	1/1/2015	2017	2016			
Diocese of Allentown Lay Employees Retirement Plan	23-1598116/001	62.8%	62.6%	\$ 33,824	\$ 24,092	\$ 70,749,039	\$ 112,594,801	\$ 2,793,722

The Corporation did not provide more than 5 percent of total contributions.

At the date the Corporation's financial statements were available to be issued, information was not available for the plan years ending after December 31, 2016.

9. Related Party Transactions

The Corporation was allocated the following revenue from other entities in the Diocese:

	<u>2017</u>	<u>2016</u>
Bishop's Annual Appeal Charitable Trust	\$ 591,000	\$ 602,000
Reimbursement of Holy Family Manor administration	44,600	55,590
	<u>\$ 635,600</u>	<u>\$ 657,590</u>

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
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During the years ended June 30, 2017 and 2016, the Corporation was charged by the Diocese for the following items, in addition to the Lay Employee Pension Plan contributions disclosed in Note 8:

	<u>2017</u>	<u>2016</u>
Insurance	\$ 38,740	\$ 31,632
Computer communications	33,418	36,500
Life insurance and other benefits	22,711	975
Furniture and fixtures	16,380	132
Development	3,367	-
Maintenance	3,191	4,792
Human resources	809	-
Other administrative charges	200	188
Advertising	-	2,491
Attorney insurance	-	2,083
	<u>\$ 118,816</u>	<u>\$ 78,793</u>

At June 30, 2017 and 2016, respectively, affiliates of the Diocese owed the Corporation for the following support and pledges:

	<u>2017</u>	<u>2016</u>
Bishop's Annual Appeal Charitable Trust	\$ 591,000	\$ 602,000
Strengthening our future in faith	74,000	-
Miscellaneous	2,656	357
	<u>\$ 667,656</u>	<u>\$ 602,357</u>

In July 2016, the Corporation entered into a related party lease with another Diocesan entity for office space for the Lehigh and Northampton County location at a monthly rate of \$3,250.

10. Concentration of Credit Risk

The Corporation maintains substantially all of its cash and cash equivalents with one financial institution. Management believes that the Corporation is not exposed to any significant credit risk on its cash and cash equivalents account.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
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11. Net Assets

The Corporation reports gifts of cash and other assets as restricted support if the gifts are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Gifts received requiring perpetual investment by the Corporation are classified as permanently restricted net assets. In addition, the board of directors of the Corporation has designated certain net assets to be used for specific programmatic purposes. The board designated \$77,981 in additional net assets in 2017, and approved the use of \$362,621 of designated net assets in 2016.

Temporarily restricted net assets at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Bishop's Annual Appeal (time-restricted)	\$ 591,000	\$ 602,000
Strengthening Our Future in Faith	223,995	249,696
Other	192,552	189,543
	<u>\$ 1,007,547</u>	<u>\$ 1,041,239</u>

Net assets released from restriction during the year ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Bishop's Annual Appeal	\$ 602,000	\$ 616,000
Strengthening Our Future in Faith	99,701	88,453
Other	166,332	250,207
	<u>\$ 868,033</u>	<u>\$ 954,660</u>

Permanently restricted net assets at June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Endowment	\$ 11,309	\$ 11,309
Beneficial interest in perpetual trusts	852,553	844,529
	<u>\$ 863,862</u>	<u>\$ 855,838</u>

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
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12. Income Taxes

As an agency operated by the Roman Catholic Church in the United States of America, the Corporation is entitled to exemption from federal income tax under the provisions as described in Section 501(c)(3) of the Internal Revenue Code.

The Corporation accounts for uncertainties in income taxes 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, 2017 and 2016.

13. Endowment Funds

The Corporation's endowments consist of two funds - The Guido & Margaret Bartolacci Fund of Catholic Charities for Children of Special Needs (the "Bartolacci Fund") and a fund designated by the Board of Directors to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Corporation's policy is to require the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The purpose of the funds functioning as endowment is to support the Corporation and its mission over the long-term. Accordingly, the primary investment objectives of the endowment are to: (1) preserve the real purchasing power of the principal, and (2) provide a stable source of perpetual financial support in accordance with the objectives of the Board of Directors.

In order to preserve the purchasing power of both principal and of withdrawals made available for spending, the long-term annualized total rate of return objective is inflation plus two percent. To satisfy its long-term rate of return objective, the funds functioning as endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Asset allocation guidelines and the investment manager structure should ensure adequate diversification in order to reduce the volatility of investment returns. The Corporation also holds a portion of its endowment in the ACBA. The amount was \$1,225,553 and \$1,122,258 at June 30, 2017 and 2016, respectively.

The purpose of the Bartolacci Fund is to support Children with Special Needs. The funds are to be invested in high grade mutual stock funds that are invested and administered by Royal Alliance Associates, Inc., Easton, PA. The principal of the fund shall always remain, and if possible (depending on market conditions) will grow yearly. Each year at the direction of the donor, fifty percent will be taken from the accrued interest, dividends, or growth of the principal for children with special needs.

Catholic Charities of the Diocese of Allentown, Inc.Notes to Financial Statements
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Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment net assets	\$ -	\$ -	\$ 11,309	\$ 11,309
Board-designated endowment net assets	<u>3,577,132</u>	<u>-</u>	<u>-</u>	<u>3,577,132</u>
Total endowment net assets	<u>\$ 3,577,132</u>	<u>\$ -</u>	<u>\$ 11,309</u>	<u>\$ 3,588,441</u>

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment net assets	\$ -	\$ -	\$ 11,309	\$ 11,309
Board-designated endowment net assets	<u>3,279,198</u>	<u>-</u>	<u>-</u>	<u>3,279,198</u>
Total endowment net assets	<u>\$ 3,279,198</u>	<u>\$ -</u>	<u>\$ 11,309</u>	<u>\$ 3,290,507</u>

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Changes in endowment net assets for the fiscal year ended June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,279,198	\$ -	\$ 11,309	\$ 3,290,507
Investment return:				
Investment income	22,357	-	-	22,357
Net appreciation (realized and unrealized)	197,596	-	-	197,596
Total investment return	219,953	-	-	219,953
Contributions	77,981	-	-	77,981
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets, end of year	<u>\$ 3,577,132</u>	<u>\$ -</u>	<u>\$ 11,309</u>	<u>\$ 3,588,441</u>

Changes in endowment net assets for the fiscal year ended June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 3,406,311	\$ -	\$ 11,309	\$ 3,417,620
Investment return:				
Investment income	35,743	-	-	35,743
Net appreciation (depreciation) (realized and unrealized)	(2,118)	-	-	(2,118)
Total investment return	33,625	-	-	33,625
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(160,738)	-	-	(160,738)
Endowment net assets, end of year	<u>\$ 3,279,198</u>	<u>\$ -</u>	<u>\$ 11,309</u>	<u>\$ 3,290,507</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported in unrestricted net assets. There were no such deficiencies as of June 30, 2017 or 2016.