

Catholic Charities of the Diocese of Allentown, Inc.

Financial Statements

June 30, 2020 and 2019

Catholic Charities of the Diocese of Allentown, Inc.

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Catholic Charities of the Diocese of Allentown, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019 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, 2020 and 2019 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 US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Allentown, Pennsylvania
September 23, 2020

Catholic Charities of the Diocese of Allentown, Inc.

Statements of Financial Position

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>		<u>2020</u>	<u>2019</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 742,590	\$ 289,516	Accounts payable, trade	\$ 35,391	\$ 13,637
Accounts receivable, net	137,556	87,959	Accrued liabilities	9,749	39,330
Related party receivables	541,000	541,059	Accrued compensation	112,186	93,553
Grants receivable	80,000	105,000	Accrued unemployment compensation	26,068	8,701
Prepaid expenses	<u>51,172</u>	<u>46,963</u>	Refundable advances	<u>460,049</u>	<u>986</u>
Total current assets	1,552,318	1,070,497	Total current liabilities	643,443	156,207
Restricted and Designated Deposits Held in the Allentown Catholic Beneficial Association, Inc.	339,612	532,685	Net Assets		
Investments	3,458,929	3,402,432	Without donor restrictions:		
Beneficial Interest in Perpetual Trusts	811,197	853,490	Undesignated	-	-
Property and Equipment, Net	437,138	450,837	Designated, endowment	3,803,552	3,749,095
			Designated, property and equipment	437,138	450,837
			Designated, other	<u>233,626</u>	<u>375,868</u>
			Total net assets without donor restrictions	4,474,316	4,575,800
			With donor restrictions	<u>1,481,435</u>	<u>1,577,934</u>
			Total net assets	<u>5,955,751</u>	<u>6,153,734</u>
Total assets	<u>\$ 6,599,194</u>	<u>\$ 6,309,941</u>	Total liabilities and net assets	<u>\$ 6,599,194</u>	<u>\$ 6,309,941</u>

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statements of Activities

Year Ended June 30, 2020

(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support, Revenues and Other Gains				
Public support:				
Government grants and awards	\$ 613,889	\$ 36,216	\$ 650,105	\$ 560,169
Private support:				
Bequests	37,816	-	37,816	112,178
Donations	519,691	5,529	525,220	430,039
Bishop's Annual Appeal	-	541,000	541,000	541,000
Grants	186,680	115,750	302,430	314,803
Special events	274,045	-	274,045	272,792
Total private support	1,018,232	662,279	1,680,511	1,670,812
Revenue and other gains (losses):				
Program fees	109,862	-	109,862	136,319
Third-party fees	139,365	-	139,365	89,307
Interest and dividends	6,927	-	6,927	19,482
Change in value of beneficial interest	-	(42,293)	(42,293)	(3,628)
Investment gains, net	56,497	-	56,497	99,956
Loss on disposal of property and equipment	(8,733)	-	(8,733)	-
Miscellaneous income	198	-	198	400
Total revenue and other gains (losses)	304,116	(42,293)	261,823	341,836
Net Assets Released From Restriction				
Satisfaction of donor restrictions	211,701	(211,701)	-	-
Expiration of time restrictions:				
Receipt from Bishop's Annual Appeal Charitable Trust	541,000	(541,000)	-	-
Total net assets released from restrictions	752,701	(752,701)	-	-
Total support, revenues and other gains (losses)	2,688,938	(96,499)	2,592,439	2,572,817
Expenses				
Program	2,229,713	-	2,229,713	2,198,373
Management and general	293,307	-	293,307	266,128
Fundraising	267,402	-	267,402	246,220
Total expenses	2,790,422	-	2,790,422	2,710,721
Change in net assets	(101,484)	(96,499)	(197,983)	(137,904)
Net Assets, Beginning	4,575,800	1,577,934	6,153,734	6,291,638
Net Assets, Ending	\$ 4,474,316	\$ 1,481,435	\$ 5,955,751	\$ 6,153,734

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statement of Activities

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support, Revenues and Other Gains			
Public support:			
Government grants and awards	\$ 560,169	\$ -	\$ 560,169
Private support:			
Bequests	112,178	-	112,178
Donations	412,282	17,757	430,039
Bishop's Annual Appeal	-	541,000	541,000
Grants	111,453	203,350	314,803
Special events	256,142	16,650	272,792
Total private support	892,055	778,757	1,670,812
Revenue and other gains:			
Program fees	136,319	-	136,319
Third-party fees	89,307	-	89,307
Interest and dividends	19,482	-	19,482
Change in value of beneficial interest	-	(3,628)	(3,628)
Investment gains, net	99,956	-	99,956
Miscellaneous income	400	-	400
Total revenue and other gains	345,464	(3,628)	341,836
Net Assets Released From Restriction			
Satisfaction of donor restrictions	377,507	(377,507)	-
Expiration of time restrictions:			
Receipt from Bishop's Annual Appeal			
Charitable Trust	542,000	(542,000)	-
Total net assets released from restrictions	919,507	(919,507)	-
Total support, revenues and other gains	2,717,195	(144,378)	2,572,817
Expenses			
Program	2,198,373	-	2,198,373
Management and general	266,128	-	266,128
Fundraising	246,220	-	246,220
Total expenses	2,710,721	-	2,710,721
Change in net assets	6,474	(144,378)	(137,904)
Net Assets, Beginning	4,569,326	1,722,312	6,291,638
Net Assets, Ending	\$ 4,575,800	\$ 1,577,934	\$ 6,153,734

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statements of Functional Expenses
Years Ended June 30, 2020 and 2019

	2020				2019			
	Program Expenses	Management and General Expenses	Fundraising Expenses	Total Expenses	Program Expenses	Management and General Expenses	Fundraising Expenses	Total Expenses
Salaries and wages	\$ 992,085	\$ 182,841	\$ 144,593	\$ 1,319,519	\$ 962,052	\$ 154,571	\$ 124,776	\$ 1,241,399
Employee benefits and payroll taxes	337,170	49,971	34,135	421,276	324,045	46,953	31,602	402,600
Program expenses	188,752	1,220	-	189,972	210,682	1,305	5,120	217,107
Direct assistance	358,342	-	-	358,342	297,678	-	-	297,678
Occupancy	212,624	19,010	-	231,634	236,133	19,641	119	255,893
Depreciation	33,543	3,967	603	38,113	34,678	3,995	526	39,199
Transportation	18,634	2,194	1,472	22,300	36,183	2,138	440	38,761
Outside services	45,231	27,295	1,641	74,167	37,878	26,580	1,287	65,745
Development and special events	-	-	46,766	46,766	-	-	48,199	48,199
Administrative supplies and office	26,473	4,698	26,646	57,817	31,035	8,759	20,468	60,262
Staff development	15,673	2,111	1,546	19,330	28,414	2,186	3,683	34,283
Bad debts (recovery)	1,186	-	10,000	11,186	(405)	-	10,000	9,595
Total expenses	<u>\$ 2,229,713</u>	<u>\$ 293,307</u>	<u>\$ 267,402</u>	<u>\$ 2,790,422</u>	<u>\$ 2,198,373</u>	<u>\$ 266,128</u>	<u>\$ 246,220</u>	<u>\$ 2,710,721</u>

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statements of Cash Flows

Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets	\$ (197,983)	\$ (137,904)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	38,113	39,199
Realized and unrealized investment gains, net	(56,497)	(99,956)
Loss on disposal of property and equipment	8,733	-
(Decrease) increase in allowance for uncollectible receivables	(9,599)	9,081
Change in value of beneficial interest	42,293	3,628
Changes in assets and liabilities:		
Accounts receivable	(39,998)	8,285
Related party receivable	59	1,093
Grants receivable	25,000	(40,000)
Prepaid expenses	(4,209)	(8,737)
Accounts payable, trade	21,754	(16,744)
Accrued liabilities	(29,581)	31,723
Accrued compensation	18,633	(816)
Accrued unemployment compensation	17,367	(3,999)
Refundable advances	459,063	986
Net cash provided by (used in) operating activities	293,148	(214,161)
Cash Flows From Investing Activities		
Withdrawal from restricted and designated deposits	200,000	970,000
Deposits and interest retained in restricted and designated deposits	(6,927)	(19,482)
Purchases of property and equipment	(33,147)	(24,084)
Proceeds from sale of investments	122,000	2,440,810
Purchases of investments	(122,000)	(3,235,000)
Net cash provided by investing activities	159,926	132,244
Increase (decrease) in cash and cash equivalents	453,074	(81,917)
Cash and Cash Equivalents, Beginning	289,516	371,433
Cash and Cash Equivalents, Ending	<u>\$ 742,590</u>	<u>\$ 289,516</u>

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Catholic Charities of the Diocese of Allentown, Inc. (the Organization) 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, Adoption Search & Reunion, Individual/Marriage/Family Counseling, Community Supportive Services, Chew Street Community Center, Pregnancy & Parenting Support, Immigration, Services for Older Adults and Soup Kitchens.

The Organization's principal sources of funding include government grants and contracts, contributions from various Catholic Charities appeals and events, support from the Bishop's Annual Appeal Charitable Trust, fees for services, private donations and investment returns.

Basis of Accounting and Basis of Presentation

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

Cash and Cash Equivalents

For purposes of the statements 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 \$4,690 and \$14,289 at June 30, 2020 and 2019, respectively.

Property and Equipment

Property and equipment acquisitions are recorded at cost, or fair value if donated. 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

Gifts of long-lived assets such as land, buildings or equipment are reported as without donor restrictions 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 with donor restrictions. Release of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

Revenue Recognition and Contributions

The Organization recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. 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 met. The Organization reports contributions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as net assets without donor restrictions. In the absence of specific donor restriction, contributions are considered available for unrestricted use.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Organization received cost-reimbursable grants of approximately \$640,000 that have not been recognized at June 30, 2020 because qualifying expenditures have not yet been incurred, with advance payments of \$460,049 recognized in the statement of financial position as refundable advances.

In April 2020, the Organization applied for and was approved for a loan pursuant to the Paycheck Protection Program (PPP), administered by the U.S. Small Business Administration. The PPP was authorized in the Coronavirus Aid, Relief and Economic Security (CARES) Act. The Organization received proceeds of \$315,000 on April 23, 2020, and there are no collateral or guarantee requirements. Management believes that the Organization has met certain eligibility and certification requirements under the PPP which would allow some or all of the loan amount to be forgiven, and expects forgiveness to be granted during 2021. The PPP balance of \$315,000 is included in refundable advances as of June 30, 2020.

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.

Program and third-party fee revenue is recognized at the time services are provided based on the estimated net realizable amount.

The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

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, 2020 and 2019

Investments and Investment Risk

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

The Organization's investments are comprised of a variety of financial instruments. The fair values reported in the 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 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 statements of financial position could change materially in the near term.

Designated Net Assets

The ability of the Organization to fulfill its mission of service to society depends upon, among other things, a healthy financial situation. Income for the Organization'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 Organization and to enhance the future capabilities and viability of the Organization, 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 Organization 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 Organization's strategic planning process.

The Organization, therefore, has designated a portion of its net assets without donor restrictions 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 net assets without donor restrictions in the statements of financial position.

The Organization has also designated a portion of its net assets without donor restrictions related to property and equipment, which is included in designated net assets on the statements of financial position.

Net Assets With Donor Restrictions

The Organization's net assets with donor restrictions include contributions received restricted for specific uses and purposes as specified by the donors. The Organization 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 Organization reports release of net assets with donor restrictions when the donor stipulations have been met or time restrictions have expired. The Organization's net assets with donor restrictions also 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.

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

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 Organization.

Subsequent Events

The Organization evaluated subsequent events for recognition or disclosure through September 23, 2020, the date the financial statements were available to be issued.

New Accounting Pronouncement Adopted

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The adoption of ASU No. 2018-08 did not have a significant impact on the Organization's financial statements.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 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 year 2021. The Organization has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

In February 2016, the 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 year 2023. 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 Organization has not yet determined the impact of adoption of ASU 2016-02 on its financial statements.

2. Investments

Investments at fair value are comprised of the following at June 30, 2020 and 2019:

	2020	2019
Beneficial interest in Catholic Foundation of Eastern Pennsylvania	\$ 1,095,487	\$ 1,096,222
Mutual funds	1,418,141	1,325,647
Fixed income funds	936,098	970,525
Money market fund	9,203	10,038
Total	\$ 3,458,929	\$ 3,402,432

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

Investment income and gains and losses on investments for the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	2019
Interest and dividends	\$ 6,927	\$ 19,482
Investment gains, net	56,497	99,956
Net investment income	<u>\$ 63,424</u>	<u>\$ 119,438</u>

Total investments include investments with donor restrictions of \$11,309 at June 30, 2020 and 2019, 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 Organization adopted the guidance, which defines fair value, establishes a framework for measuring fair value under U.S. GAAP and enhances disclosures about fair value measurements. The adoption of the guidance had no material impact on the Organization'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.

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 Organization 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.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

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, 2020 and 2019.

Mutual funds: Certain mutual funds are valued at the quoted market prices of shares held by the Organization at year-end, and are classified as Level 1. The diversified bond fund is a closed end fund, and is not traded on an open market, so other observable inputs are used to determine the value. This fund is classified as Level 2.

Catholic Foundation of Eastern Pennsylvania: Valued at the underlying investments held by the Foundation.

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.

Money market funds: Valued at the quoted net asset value of shares held by the Organization at year-end.

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 Organization 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.

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

Assets at Fair Value as of June 30, 2020				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 1,418,141	\$ 936,098	\$ -	\$ 2,354,239
Catholic Foundation of Eastern Pennsylvania	-	-	1,095,487	1,095,487
Beneficial interest in perpetual trusts	-	-	811,197	811,197
Money market funds	9,203	-	-	9,203
	<u>\$ 1,427,344</u>	<u>\$ 936,098</u>	<u>\$ 1,906,684</u>	<u>\$ 4,270,126</u>
Assets at Fair Value as of June 30, 2019				
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 1,325,647	\$ 970,525	\$ -	\$ 2,296,172
Catholic Foundation of Eastern Pennsylvania	-	-	1,096,222	1,096,222
Beneficial interest in perpetual trusts	-	-	853,490	853,490
Money market funds	10,038	-	-	10,038
	<u>\$ 1,335,685</u>	<u>\$ 970,525</u>	<u>\$ 1,949,712</u>	<u>\$ 4,255,922</u>

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

The following tables set forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30, 2020 and 2019. See Note 4 for additional information related to the beneficial interest in perpetual trusts.

	Catholic Foundation of Eastern Pennsylvania	Beneficial Interest in Perpetual Trusts
Balance, beginning of year July 1, 2018:	\$ 66,696	\$ 857,118
Unrealized gains	29,526	31,342
Purchases	1,000,000	-
Distributions	-	(34,970)
Balance, end of year June 30, 2019	<u>\$ 1,096,222</u>	<u>\$ 853,490</u>
Balance, beginning of year July 1, 2019:	\$ 1,096,222	\$ 853,490
Unrealized gains (losses)	(735)	(8,474)
Distributions	-	(33,819)
Balance, end of year June 30, 2020	<u>\$ 1,095,487</u>	<u>\$ 811,197</u>

4. Split-Interest Agreements and Beneficial Interests

The Organization holds several beneficial interests in perpetual trusts that award the Organization an annual amount proportional to the Organization's portion of the fair market value of the trusts' assets at the end of each calendar year. The trust agreements stipulate any restrictions on the use of these payments.

Distributions from the perpetual trusts that were received by the Organization are recorded in bequests, and unrealized gains are reported in the change in value of beneficial interests in the statements of activities for the years ended June 30, 2020 and June 30, 2019.

During 2017, the Organization transferred assets without donor restrictions to the Catholic Foundation of Eastern Pennsylvania (Foundation), and named itself the beneficiary of those assets. U.S. GAAP requires that if a foundation accepts a contribution from an organization and agrees to transfer those assets, or the return earned on those assets, or both back to the donating organization, then these contributions are presented as a liability on the financial statements of the foundation and as an asset on the financial statements of the donating organization. As a result, the Organization has recorded a beneficial interest in the Foundation, which is included in investments in the statements of financial position as of June 30, 2020 and 2019. The Foundation has variance power over investments and distributions of the assets it holds.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

5. Property and Equipment, Net

Property and equipment, net is as follows:

	2020	2019
Land	\$ 14,600	\$ 14,600
Buildings	355,266	355,266
Leasehold improvements	53,977	52,760
Furniture, vehicles and equipment	497,293	504,037
Construction in process	-	3,760
	921,136	930,423
Less accumulated depreciation	483,998	479,586
Property and equipment, net	<u>\$ 437,138</u>	<u>\$ 450,837</u>

Depreciation expense was \$38,113 in 2020 and \$39,199 in 2019.

6. Lease Commitments

The Organization is committed under a number of operating leases for rentals of office and office equipment. Rent expense for all leases was \$84,946 and \$101,208 for the years ended June 30, 2020 and 2019, respectively. Future minimum lease payments as of June 30, 2020 are due as follows:

Years ending June 30:	
2021	\$ 52,659
2022	43,920
2023	44,799
2024	45,695
2025	46,609
Total	<u>\$ 233,682</u>

7. Diocesan Pension Plan

The Organization 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 Organization 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 4.25 percent for the fiscal year beginning July 1, 2018. The Pension Trustees and the Diocese continue to monitor and make appropriate changes as necessary to improve the Plan's funded status. The Organization's contributions are recorded in benefits expense as reported in the table 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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The Organization's participation in this multiemployer pension plan for the years ended June 30, 2020 and 2019 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 Organization 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 Organization for the Years Ended June 30		Total Plan Assets 1/1/2017	Total Accumulated Plan Benefits 1/1/2017	Total Contributions to the Plan 2017
		1/1/2017	1/1/2016	2020	2019			
Diocese of Allentown Lay Employees Retirement Plan	23-1598116/001	63.1%	62.8%	\$ 46,159	\$ 37,464	\$ 73,144,730	\$ 115,861,555	\$ 5,314,333

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

At the date the Organization's financial statements were available to be issued, final information was not available for the plan years ending after December 31, 2017.

8. Related-Party Transactions

The Organization was allocated \$541,000 in revenue from the Bishop's Annual Appeal Charitable Trust in 2020 and 2019.

During the years ended June 30, 2020 and 2019, the Organization was charged by the Diocese for the following items, in addition to the Lay Employee Pension Plan contributions disclosed in Note 7:

	2020	2019
Insurance	\$ 48,960	\$ 44,428
Computer communications	22,702	28,773
Secretarial fees	35,719	12,989
Furniture and fixtures	4,001	7,702
Development	3,943	3,954
Human resources	-	970
Maintenance	2,600	221
Other administrative charges	300	60
Legal Fees	979	-
Total	\$ 119,204	\$ 99,097

At June 30, 2020 and 2019, affiliates of the Diocese owed the Organization for the following support and pledges:

	2020	2019
Bishop's Annual Appeal Charitable Trust	\$ 541,000	\$ 541,000
Miscellaneous	-	59
Total	\$ 541,000	\$ 541,059

In July 2016, the Organization entered into a related party lease with another Diocesan entity for office space for the Lehigh and Northampton County location at an initial monthly rate of \$3,250, increasing annually upon renewal by 2 percent.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

9. Concentration of Credit Risk and Contingencies

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

The Organization participates in state and federally assisted grant programs. These programs may be subject to program compliance audits by the grantors or their representatives. The Organization is potentially liable for any expenditure which may be disallowed pursuant to the terms of the grant programs.

In the normal course of business, the Organization may be subject to pending or threatened lawsuits. Management is not aware of unfavorable outcomes that would be material to these financial statements.

10. Net Assets

The Board of the Organization has several standing board policies that affect the presentation of board designations on net assets. Bequests without donor restrictions are designated for long-term investment (quasi-endowment). The quasi-endowment fund balance totaled \$3,803,552 and \$3,749,095 at June 30, 2020 and 2019, respectively.

Net asset presentation on the statements of financial position with expanded disclosure for the amount and purpose of designations is as follows:

	2020	2019
Net Assets		
Without donor restrictions:		
Invested in property, plant and equipment	\$ 437,138	\$ 450,837
Funds held for long-term investment (endowment)	3,803,552	3,749,095
Designated by Board for other projects	233,626	375,868
	4,474,316	4,575,800
With donor restrictions:		
Purpose restricted	658,929	713,135
Restricted in perpetuity	822,506	864,799
	1,481,435	1,577,934
Total net assets	\$ 5,955,751	\$ 6,153,734

11. Income Taxes

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

The Organization 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, 2020 and 2019.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements

June 30, 2020 and 2019

12. Endowment Funds

The Organization'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 U.S. GAAP, 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 Organization'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 Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment and (c) accumulations to the 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 Organization 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 2 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 Organization also holds a portion of its endowment in the ACBA. The amount was \$344,605 and \$370,588 at June 30, 2020 and 2019, 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, 50 percent will be taken from the accrued interest, dividends or growth of the principal for children with special needs.

Changes in endowment net assets for the fiscal years ended June 30, 2020 and 2019 is as follows:

	2020		
	Board Designated	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 3,749,095	\$ 11,309	\$ 3,760,404
Investment return:			
Investment income	6,927	-	6,927
Net appreciation (realized and unrealized)	56,497	-	56,497
Total investment return	63,424	-	63,424
Appropriation of endowment assets for expenditure	(8,967)	-	(8,967)
Endowment net assets, ending	\$ 3,803,552	\$ 11,309	\$ 3,814,861

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Notes to Financial Statements

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Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

	2019		
	Board Designated	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 3,721,729	\$ 11,309	\$ 3,733,038
Investment return:			
Investment income	19,482	-	19,482
Net appreciation (realized and unrealized)	99,956	-	99,956
Total investment return	119,438	-	119,438
Appropriation of endowment assets for expenditure	(92,072)	-	(92,072)
Endowment net assets, ending	\$ 3,749,095	\$ 11,309	\$ 3,760,404

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 Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature would be reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2020 or 2019.

13. Liquidity and Availability

The following reflects the Organization's financial assets as of June 30, 2020 and 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the statement of financial position date have not been subtracted as unavailable.

	2020	2019
Financial assets, at year-end	\$ 6,110,884	\$ 5,812,141
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(1,481,435)	(1,577,934)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(3,803,552)	(3,749,095)
Other designations	(233,626)	(375,868)
Financial assets available to meet cash needs for general expenditures within one year	\$ 592,271	\$ 109,244

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In the event of an unanticipated liquidity need, the Organization also could draw upon its quasi-endowment fund.