

Diocese of Allentown

Combined Financial Statements

June 30, 2025 and 2024

Diocese of Allentown

Table of Contents
June 30, 2025 and 2024

	<u>Page</u>
Independent Auditors' Report	1
Combined Financial Statements	
Combined Statements of Financial Position	3
Combined Statements of Activities	5
Combined Statements of Functional Expenses	7
Combined Statements of Cash Flows	9
Notes to Combined Financial Statements	10

Independent Auditors' Report

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

Opinion

We have audited the combined financial statements of Diocese of Allentown (the Diocese), which comprise the combined statements of financial position as of June 30, 2025 and 2024, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Diocese as of June 30, 2025 and 2024, 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 (GAAP).

Basis for Opinion

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

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Combined Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Diocese's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern for a reasonable period of time.

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

Baker Tilly US, LLP

Allentown, Pennsylvania
February 24, 2026

Diocese of Allentown

Combined Statements of Financial Position
June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and Cash Equivalents	\$ 27,755,987	\$ 26,041,783
Assessments and Premiums Receivable, Net	2,372,381	3,229,970
Pledges Receivable, Net	337,431	330,310
Other Receivables, Net	548,252	557,214
Accrued Interest Receivable	30,962	54,066
Prepaid Expenses and Other Assets	990,648	1,095,663
Investments	24,455,213	24,260,025
Assets Whose Use is Limited	2,300,000	2,300,000
Assets Whose Use is Contractually Committed	6,428,358	5,611,791
Notes Receivable	1,814,105	20,000
Property and Equipment, Net	5,752,501	3,508,100
Right-of-Use Assets	3,894,595	4,367,982
Cemetery Lots, Mausolea and Burial Rights, Net	<u>2,512,658</u>	<u>1,243,787</u>
Total assets	<u>\$ 79,193,091</u>	<u>\$ 72,620,691</u>

See notes to combined financial statements

Diocese of Allentown

Combined Statements of Financial Position
June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Liabilities and Net Assets		
Accounts Payable and Accrued Expenses	\$ 2,285,971	\$ 2,208,244
Contributions Payable, Bishop's Annual Appeal and Forward With Christ	1,617,607	1,580,522
Accrued Compensation and Related Benefits	441,598	233,132
Scholarships Payable	6,859,644	5,320,294
Escrow Funds	802,644	1,331,073
Deferred Revenue and Contract Liabilities	1,607,284	1,422,554
Annuities Payable	247,910	192,427
Accrual for Self-Insurance	3,458,526	4,424,582
Lease Liabilities		
Operating	835,363	921,472
Finance	<u>3,323,741</u>	<u>3,642,340</u>
Total lease liabilities	<u>4,159,104</u>	<u>4,563,812</u>
Postretirement Benefit Obligation, Net	<u>16,813,140</u>	<u>13,320,518</u>
Total liabilities	<u>38,293,428</u>	<u>34,597,158</u>
Net Assets		
Without donor restrictions:		
Undesignated, operating	(9,331,296)	(6,974,885)
Contractually committed	6,428,358	5,611,791
Designated	<u>18,538,010</u>	<u>17,654,113</u>
Total net assets without donor restrictions	15,635,072	16,291,019
With donor restrictions	<u>25,264,591</u>	<u>21,732,514</u>
Total net assets	<u>40,899,663</u>	<u>38,023,533</u>
Total liabilities and net assets	<u>\$ 79,193,091</u>	<u>\$ 72,620,691</u>

See notes to combined financial statements

Diocese of Allentown

Combined Statement of Activities

Year Ended June 30, 2025

(With Comparative Totals for 2024)

	Without Donor Restrictions	With Donor Restrictions	2025 Total	2024 Total
Private and Public Support				
Assessments charged to parishes	\$ 6,021,651	\$ -	\$ 6,021,651	\$ 6,070,383
Contributions of cash and other financial assets:				
Eastern Pennsylvania Scholarship Foundation	6,150,974	-	6,150,974	4,939,499
Other contributions, gifts, grants and bequests	219,965	1,246,044	1,466,009	1,114,896
Contributions of nonfinancial assets:				
Donated property	2,450,000	-	2,450,000	-
Total public and private support	14,842,590	4,983,307	19,825,897	16,072,218
Revenues, Gains and Other				
Sales, fees and insurance premiums	27,969,804	-	27,969,804	27,055,808
Insurance rate stabilization refunds	4,748	-	4,748	476,415
Cemetery revenue	1,981,509	-	1,981,509	1,847,247
Investment income, net	3,711,693	1,655,265	5,366,958	4,693,832
Perpetual care fees	137,772	-	137,772	123,186
Income from perpetual care fund	672,323	-	672,323	526,208
Rent	29,331	-	29,331	2,111
Interest from notes receivable	55,561	-	55,561	2,820
(Loss) gain on sale of assets	(138,000)	-	(138,000)	97,589
Other	1,248,978	-	1,248,978	923,126
Total revenues, gains and other	35,673,719	1,655,265	37,328,984	35,748,342
Net Assets Released From Restrictions				
Satisfaction of donor purpose	3,106,495	(3,106,495)	-	-
Total support, revenues, gains and other	53,622,804	3,532,077	57,154,881	51,820,560
Expenses and Other Changes				
High school and educational support services	1,856,087	-	1,856,087	1,733,458
Central Diocesan services	29,220,089	-	29,220,089	27,388,558
Clergy benefits	4,143,813	-	4,143,813	3,452,368
Seminarians, priests and deacons	1,909,914	-	1,909,914	2,378,502
Diocesan cemeteries	1,119,000	-	1,119,000	1,113,374
Stewardship and development, campaigns and endowments	9,406,365	-	9,406,365	7,684,360
Evangelization and communication	713,918	-	713,918	621,423
Total expenses	48,369,186	-	48,369,186	44,372,043
Change in net assets from operating activities	5,253,618	3,532,077	8,785,695	7,448,517
Postretirement Benefit Changes Other Than Net Periodic Postretirement Benefit Costs				
	(5,909,565)	-	(5,909,565)	1,680,068
Change in net assets	(655,947)	3,532,077	2,876,130	9,128,585
Net Assets, Beginning	16,291,019	21,732,514	38,023,533	28,894,948
Net Assets, Ending	<u>\$ 15,635,072</u>	<u>\$ 25,264,591</u>	<u>\$ 40,899,663</u>	<u>\$ 38,023,533</u>

See notes to combined financial statements

Diocese of Allentown

Combined Statement of Activities

Year Ended June 30, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Private and Public Support			
Assessments charged to parishes	\$ 6,070,383	\$ -	\$ 6,070,383
Contributions:			
Bishop's Annual Appeal	-	3,947,440	3,947,440
Other contributions, gifts, grants and bequests	53,980	1,060,916	1,114,896
Total public and private support	11,063,862	5,008,356	16,072,218
Revenues, Gains and Other			
Sales, fees and insurance premiums	27,055,808	-	27,055,808
Insurance rate stabilization refunds	476,415	-	476,415
Cemetery revenue	1,847,247	-	1,847,247
Investment income, net	3,415,211	1,278,621	4,693,832
Perpetual care fees	123,186	-	123,186
Gain from perpetual care fund	526,208	-	526,208
Rent	2,111	-	2,111
Interest from notes receivable	2,820	-	2,820
Gain on sale of assets	97,589	-	97,589
Other	923,126	-	923,126
Total revenues, gains and other	34,469,721	1,278,621	35,748,342
Net Assets Released From Restrictions			
Satisfaction of donor purpose	2,304,548	(2,304,548)	-
Total support, revenues, gains and other	47,838,131	3,982,429	51,820,560
Expenses and Other Changes			
High school and educational support services	1,733,458	-	1,733,458
Central Diocesan services	27,388,558	-	27,388,558
Clergy benefits	3,452,368	-	3,452,368
Seminarians, priests and deacons	2,378,502	-	2,378,502
Diocesan cemeteries	1,113,374	-	1,113,374
Stewardship and development, campaigns and endowments	7,684,360	-	7,684,360
Evangelization and communication	621,423	-	621,423
Total expenses	44,372,043	-	44,372,043
Change in net assets from operating activities	3,466,088	3,982,429	7,448,517
Postretirement Benefit Changes Other Than Net Periodic Postretirement Benefit Costs			
	1,680,068	-	1,680,068
Change in net assets	5,146,156	3,982,429	9,128,585
Net Assets, Beginning	11,144,863	17,750,085	28,894,948
Net Assets, Ending	\$ 16,291,019	\$ 21,732,514	\$ 38,023,533

See notes to combined financial statements

Diocese of Allentown
Combined Statement of Functional Expenses

Year Ended June 30, 2025

	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 Communication
Clergy, religious and lay salaries and payroll taxes	\$ 6,363,209	\$ 631,525	\$ 3,240,291	\$ 706,663	\$ 567,649	\$ 436,002	\$ 455,297	\$ 325,782
Clergy, religious and lay employee benefits	1,787,833	158,476	654,457	217,460	463,837	93,047	135,382	65,174
Diocesan clergy benefits	2,391,081	-	-	2,391,081	-	-	-	-
Diocesan employee benefits premiums and claims	17,683,334	-	17,683,334	-	-	-	-	-
Property and casualty insurance premiums and claims	4,262,380	-	4,197,517	64,863	-	-	-	-
Unemployment claims	124,100	-	124,100	-	-	-	-	-
Program expenses	1,284,632	213,615	431,152	2,400	297,122	49,463	157,096	133,784
Scholarships	6,236,525	-	-	-	-	-	6,236,525	-
Secondary and elementary school subsidies	734,132	734,132	-	-	-	-	-	-
Occupancy	1,281,718	264	1,048,448	148,702	19,699	57,448	3,008	4,149
General and administrative, other	598,974	37,370	253,691	27,305	22,412	53,928	38,222	166,046
Professional fees	1,975,346	79,655	1,001,592	386,885	34,292	213,810	240,129	18,983
Depreciation and amortization	404,837	-	258,071	146,766	-	-	-	-
Bishop's Annual Appeal allocations	1,727,633	-	-	-	-	-	1,727,633	-
Parish rebates on contributions	68,588	-	-	-	-	-	68,588	-
Tuition assistance, seminarians and clergy	556,899	-	309	51,688	504,902	-	-	-
Forward with Christ allocations	64,870	-	-	-	-	-	64,870	-
Banking service fees	39,714	-	6,944	-	1	13,198	19,571	-
Grants	201,050	1,050	-	-	-	-	200,000	-
Fund raising and development expenses	60,044	-	-	-	-	-	60,044	-
National and state Catholic Conference assessments	213,427	-	213,427	-	-	-	-	-
Cost of burial rights and mausolea	202,159	-	55	-	-	202,104	-	-
Interest	625	-	625	-	-	-	-	-
Charitable gift annuity distributions	106,076	-	106,076	-	-	-	-	-
Total expenses	\$ 48,369,186	\$ 1,856,087	\$ 29,220,089	\$ 4,143,813	\$ 1,909,914	\$ 1,119,000	\$ 9,406,365	\$ 713,918

See notes to combined financial statements

Diocese of Allentown
Combined Statement of Functional Expenses

Year Ended June 30, 2024

	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 Communication
Clergy, religious and lay salaries and payroll taxes	\$ 5,911,733	\$ 573,580	\$ 2,953,312	\$ 724,478	\$ 539,721	\$ 421,877	\$ 447,342	\$ 251,423
Clergy, religious and lay employee benefits	1,823,963	146,774	456,246	313,960	663,065	86,180	117,898	39,840
Diocesan clergy benefits	1,761,185	-	-	1,761,185	-	-	-	-
Diocesan employee benefits premiums and claims	15,717,267	-	15,717,267	-	-	-	-	-
Property and casualty insurance premiums and claims	4,403,419	-	4,334,827	68,592	-	-	-	-
Unemployment claims	100,007	-	100,007	-	-	-	-	-
Program expenses	1,278,404	150,840	408,982	619	394,020	51,071	145,573	127,299
Scholarships	5,043,501	-	-	-	-	-	5,043,501	-
Secondary and elementary school subsidies	918,103	769,800	148,303	-	-	-	-	-
Occupancy	1,246,939	53,623	959,879	114,119	17,970	97,161	1,022	3,168
General and administrative, other	825,007	24,938	522,970	20,530	11,059	45,495	23,219	176,793
Professional fees	2,037,613	13,888	1,197,717	332,070	62,596	186,517	221,938	22,887
Depreciation and amortization	373,187	-	260,957	112,230	-	-	-	-
Bishop's Annual Appeal allocations	1,518,302	-	-	-	-	-	1,518,302	-
Parish rebates on contributions	50,828	-	-	-	-	-	50,828	-
Tuition assistance, seminarians and clergy	694,152	-	-	4,585	689,567	-	-	-
Forward with Christ allocations	66,000	-	-	-	-	-	66,000	-
Banking service fees	36,679	15	5,554	-	504	10,499	20,094	13
Fund raising and development expenses	28,643	-	-	-	-	-	28,643	-
National and state Catholic Conference assessments	230,655	-	230,655	-	-	-	-	-
Cost of burial rights and mausolea	214,574	-	-	-	-	214,574	-	-
Charitable gift annuity distributions	91,882	-	91,882	-	-	-	-	-
Total expenses	\$ 44,372,043	\$ 1,733,458	\$ 27,388,558	\$ 3,452,368	\$ 2,378,502	\$ 1,113,374	\$ 7,684,360	\$ 621,423

See notes to combined financial statements

Diocese of Allentown**Combined Statements of Cash Flows**
Years Ended June 30, 2025 and 2024

	2025	2024
Cash Flows From Operating Activities		
Change in net assets	\$ 2,876,130	\$ 9,128,585
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	404,837	373,187
Cost of cemetery lots, mausolea and burial rights sold	69,856	83,690
Change in allowance for credit losses	(330,235)	(695,000)
Postretirement benefit changes other than net periodic postretirement benefit costs	5,909,565	(1,680,068)
Donated property	(2,450,000)	-
Realized and unrealized gains on investments, net	(2,468,358)	(2,305,392)
Realized and unrealized gains in perpetual care fund	(672,323)	(526,208)
Loss (gain) on sale of property and equipment, net	138,000	(97,589)
Amortization of right-of-use assets	387,278	388,939
Changes in assets and liabilities:		
Other receivables	8,962	(15,554)
Assessments and premiums receivable	1,187,824	(539,234)
Pledges receivable	(7,121)	40,701
Accrued interest and dividends receivable	23,104	7,209
Prepaid expenses and other assets	105,015	(115,691)
Accounts payable and accrued expenses	77,727	846,899
Contributions payable	37,085	56,823
Accrued compensation and related benefits	208,466	22,972
Scholarships payable	1,539,350	(902,382)
Escrow funds	(528,429)	594,454
Deferred revenue and contract liabilities	184,730	(202,110)
Annuities payable	55,484	(64,135)
Accrual for self-insurance	(966,056)	(391,418)
Postretirement benefit obligation	80,284	(24,713)
Additions to postretirement benefit fund	(2,497,227)	(2,072,383)
Net cash provided by operating activities	<u>3,373,948</u>	<u>1,911,582</u>
Cash Flows From Investing Activities		
Cash paid for property, equipment and cemetery assets	(1,537,965)	(678,814)
Proceeds from sale of property and equipment	-	211,027
Purchases of investments	(306,992)	(2,122,612)
Proceeds from sales of investments	2,602,388	2,315,480
Issuance of notes receivable	(1,794,105)	(5,000)
Net cash used in investing activities	<u>(1,036,674)</u>	<u>(279,919)</u>
Cash Flows From Financing Activities		
Additions to perpetual care fund	(304,471)	(119,989)
Principal payments on finance leases	(318,599)	(300,513)
Net cash used in financing activities	<u>(623,070)</u>	<u>(420,502)</u>
Increase in cash and cash equivalents	1,714,204	1,211,161
Cash and Cash Equivalents, Beginning	<u>26,041,783</u>	<u>24,830,622</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 27,755,987</u></u>	<u><u>\$ 26,041,783</u></u>
Supplementary Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 625</u>	<u>\$ -</u>
Donated property	<u><u>\$ 2,450,000</u></u>	<u><u>\$ -</u></u>

See notes to combined financial statements

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2025 and 2024

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, a Pennsylvania unincorporated association, and Roman Catholic Diocese of Allentown Charitable Trust, a Pennsylvania charitable trust.

The accompanying combined financial statements also include the following:

The offices directing the central administration of the Diocese, including the: (a) Chancery office; (b) the Secretariat for Administration; (c) the Secretariat for Evangelization, Education and Formation; (d) the Secretariat for the Clergy; and (e) the Secretariat for Catholic Health and Human Services and Youth Protection (other than Catholic Charities and Holy Family Senior Living).

Bishop's Annual Appeal Charitable Trust, which holds funds for the case-components of the Bishop's Annual Appeal.

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

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

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

Eastern Pennsylvania Scholarship Foundation Charitable Trust, which 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. In April 2025, the Diocese announced that all of its activities related to the state tax credit programs of the Eastern Pennsylvania Scholarship Foundation will be transferred to another entity outside of the Diocese's organizational structure.

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

Allentown Catholic Communications Inc., a Pennsylvania not-for-profit corporation, which operates the official newspaper of the Diocese.

Catholic Relief Insurance Company of America II Participant, which is a participant in a sponsored captive insurance company formed under Vermont law for the purpose of insuring or reinsuring certain risks of the Diocese.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

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

Central Diocesan Services - Includes the Chancery office, the Secretariat for Administration (other than cemeteries and the office for Stewardship & Development), 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 office for Stewardship & Development, 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 Communication - Includes the offices for Catholic Life & Evangelization and for Communications, 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 office 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.

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 \$1,308,749 and \$1,005,729 related to development and fundraising for the years ended June 30, 2025 and 2024, 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.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

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 improvements 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, healthcare, 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 carriers who pay the healthcare claims to providers. Through December 31, 2022, the carriers invoiced and collected premiums directly from parishes, schools and the other entities. After deducting claims and fees, the carrier paid remaining premium balances to the Diocese as Insurance Rate Stabilization Refunds. These refunds were recorded as revenue when received. Effective January 1, 2023, the Diocese began invoicing and collecting the premiums. Revenues for healthcare premiums invoiced by the Diocese are recorded as revenue as described above, and are included in Sales, Fees and Insurance Premiums in the combined statement of activities.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

Cemetery revenue is recorded on sales of burial rights in grave plots, crypts, niches and on sales of private mausolea, monuments and other markers. 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. Sales and cost of sales relating to private mausolea, monuments and other markers are recognized over time as construction and/or installation occurs. Customers are allowed to purchase pre-need burial rights, private mausolea, monuments and other markers 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 60-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 (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 a 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. The Diocese's policy is to evaluate contributed nonfinancial assets on a case-by-case basis to determine whether they will be monetized or utilized in operations.

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, 2025 and 2024.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

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.

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 restrictions. 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 \$1,423,913 and \$1,369,697 at June 30, 2025 and 2024, 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, 2025 and 2024.

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.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

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 8).

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.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

Accounts, Assessments and Premiums Receivable

Accounts, assessments and premiums receivable are reported at amounts the Diocese ultimately expects to receive. Premiums and assessments are charged on a monthly basis to the parishes, schools and other entities within the Diocese. The allowance for uncollectible accounts prior to July 1, 2023 was estimated based upon a periodic review of individual accounts.

The following allowances have been recorded as of June 30, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Assessments and premiums receivable	\$ 17,111,423	\$ 17,636,701
Allowance for credit losses	<u>(14,739,042)</u>	<u>(14,406,731)</u>
Assessments and premiums receivable, net	<u>\$ 2,372,381</u>	<u>\$ 3,229,970</u>

Effective July 1, 2023, the Diocese recognizes an allowance for credit losses for assessments and premiums receivable to present the net amount expected to be collected as of the statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on our expectation as of the statement of financial position date. Receivables are written off when the Diocese determined that such receivables are deemed uncollectible. The Diocese pools its receivables based on similar risk characteristics in estimating its expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the Diocese measures those receivables individually. The Diocese also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

The allowance for credit losses is estimated based upon a periodic review of each individual accounts' past payment trend, current ability to repay, and expected future financial resources and obligations. The following is a description of the receivable pools:

Healthcare Self-Insurance - No losses have historically been incurred for healthcare self-insurance premiums, and only minor past-due accounts receivable balances exist.

Parish Charges - Unpaid balances of parishes (including those previously merged or consolidated) for assessments, premiums, and other charges at least one year old are charged to the allowance for credit losses.

School Charges - Unpaid balances of closed schools for premiums, and other charges are charged to the allowance for credit losses. Only minor past-due accounts receivable balances exist for operating schools.

Others - Unpaid charges of others are individually evaluated and charged to the allowance for credit losses based upon management's assessment.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

The following tables present the gross accounts receivables excluding allowances as of June 30, 2025 and 2024.

	2025				
	Total	Healthcare Self-Insurance	Parish Charges	School Charges	Others
Balance, July 1, 2024	\$ 17,636,701	\$ 1,906,443	\$ 14,803,672	\$ 599,023	\$ 327,563
Current year charges	35,725,803	17,680,058	14,129,279	2,656,588	1,259,877
Payments received	(36,251,081)	(18,518,546)	(13,894,044)	(2,538,607)	(1,299,883)
Balance, June 30, 2025	<u>\$ 17,111,423</u>	<u>\$ 1,067,955</u>	<u>\$ 15,038,907</u>	<u>\$ 717,004</u>	<u>\$ 287,557</u>
	2024				
	Total	Healthcare Self-Insurance	Parish Charges	School Charges	Others
Balance, July 1, 2023	\$ 15,707,467	\$ 464,844	\$ 14,463,669	\$ 558,417	\$ 220,537
Current year charges	34,829,763	16,881,229	14,199,222	2,460,131	1,289,181
Payments received	(32,900,529)	(15,439,630)	(13,859,219)	(2,419,525)	(1,182,155)
Balance, June 30, 2024	<u>\$ 17,636,701</u>	<u>\$ 1,906,443</u>	<u>\$ 14,803,672</u>	<u>\$ 599,023</u>	<u>\$ 327,563</u>

Changes in the allowance for credit losses for the years ended June 30, 2025 and 2024, are summarized as follows:

	Total	Healthcare Self-Insurance	Parish Charges	School Charges	Others
Balance, July 1, 2023	\$ 13,711,731	\$ -	\$ 13,126,731	\$ 485,000	\$ 100,000
Charge offs	-	-	-	-	-
Recoveries	(63,333)	-	(63,333)	-	-
Provision for loan losses	761,333	-	666,333	20,000	75,000
Balance, June 30, 2024	14,406,731	-	13,726,731	505,000	175,000
Charge offs	(58,960)	-	(58,960)	-	-
Recoveries	(114,000)	-	(100,000)	(14,000)	-
Provision for loan losses	505,271	-	501,271	4,000	-
Balance, June 30, 2025	<u>\$ 14,739,042</u>	<u>\$ -</u>	<u>\$ 14,069,042</u>	<u>\$ 495,000</u>	<u>\$ 175,000</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 \$3,458,526 and \$4,424,582 at June 30, 2025 and 2024, respectively.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

Notes Receivable

Notes receivable consist primarily of unsecured loans made to Diocesan organizations and are stated at their outstanding principal balances, adjusted by an allowance for credit losses, if any. Notes receivable are classified as current or noncurrent based on contractual maturity dates or demand features.

Leases

Accounting Standard Update (ASU) No. 2016-02, *Leases*, requires lessees to recognize the assets and liabilities that arise from leases on the statements of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating leases are expensed on a straight-line basis as lease expense over the noncancelable lease term. Expenses for finance leases are comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. The Diocese has entered into a variety of operating and financing leases for office space.

The Diocese has made the following policy elections:

- When the rate implicit in the lease is not determinable, rather than use the Diocese's incremental borrowing rate, the Diocese elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for or only those for which this policy was elected.
- The Diocese elected not to apply the recognition requirements to leases with an original term of 12 months or less, for which the Diocese is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America (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.

Reclassifications

Certain reclassifications were made to the 2024 combined financial statements to conform to the current year presentation.

Subsequent Events

Subsequent events were evaluated for recognition or disclosure through February 24, 2026, the date the combined financial statements were available to be issued.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

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, 2025 and 2024 by caption on the combined statements of financial position by the valuation hierarchy defined above:

June 30, 2025				
	Level 1	Level 2	Level 3	Total
Investments and assets whose use is limited:				
Money market funds	\$ 1,200,248	\$ -	\$ -	\$ 1,200,248
Government Bond Index Funds	2,587,307	-	-	2,587,307
TNCRRG equity	-	-	884,021	884,021
Mutual funds and exchange traded funds:				
Equities	165,372	3,816,172	-	3,981,544
Fixed income	124,723	2,501,943	-	2,626,666
Alternatives	15,367	-	-	15,367
Allentown Catholic Unitized Investment Fund:				
Equity pool	-	10,674,002	-	10,674,002
Fixed pool	-	4,786,058	-	4,786,058
Total investments and assets whose use is limited	\$ 4,093,017	\$ 21,778,175	\$ 884,021	\$ 26,755,213

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Investments and assets whose use is limited:				
Money market funds	\$ 3,581,033	\$ -	\$ -	\$ 3,581,033
Government Bond Index Funds	2,447,895	-	-	2,447,895
TNCRRG equity	-	-	721,531	721,531
Mutual funds and exchange traded funds:				
Equities	166,854	3,659,367	-	3,826,221
Fixed income	141,445	1,817,067	-	1,958,512
Alternatives	16,683	-	-	16,683
Allentown Catholic Unitized Investment Fund:				
Equity pool	-	9,429,705	-	9,429,705
Fixed pool	-	4,578,445	-	4,578,445
Total investments and assets whose use is limited	<u>\$ 6,353,910</u>	<u>\$ 19,484,584</u>	<u>\$ 721,531</u>	<u>\$ 26,560,025</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.

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, 2024 and 2023 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 12, *Self Insurance Risk Retention Group and Insurance Pool Participation*.

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.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

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, 2025 and 2024.

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, 2025 and 2024. These assets are held in trust at US Bank and are invested primarily in money markets and government bond indexes. The value of these assets was \$2,587,307 and \$2,447,896 as of June 30, 2025 and 2024, 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:

	2025	2024
Bishop's Annual Appeal	\$ 337,431	\$ 330,310
Total unconditional promises to give due in less than one year	<u>\$ 337,431</u>	<u>\$ 330,310</u>

4. Property and Equipment

Property and equipment is as follows:

	2025	2024
Land	\$ 3,109,140	\$ 1,009,140
Buildings and building and land improvements	7,782,818	7,241,530
Furniture and equipment	2,956,063	2,865,000
Automobiles and trucks	<u>500,203</u>	<u>500,203</u>
Total	14,348,224	11,615,873
Less accumulated depreciation	<u>(9,112,304)</u>	<u>(8,707,467)</u>
Total	5,235,920	2,908,406
Construction-in-progress	<u>516,581</u>	<u>599,694</u>
Property and equipment, net	<u>\$ 5,752,501</u>	<u>\$ 3,508,100</u>

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

As a condition of sale for a parcel of land 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 \$983,000 and \$845,000 is reflected in deferred revenue and contract liabilities within the accompanying combined statements of financial position at June 30, 2025 and 2024, respectively.

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:

	2025	2024
Cash and cash equivalents	\$ 3,712,579	\$ 6,481,165
Assessment receivables	2,372,381	3,229,970
Notes receivable	1,792,097	-
Other receivables	491,752	550,659
	<u>\$ 8,368,809</u>	<u>\$ 10,261,794</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 \$18,538,010 and \$17,654,113 at June 30, 2025 and 2024, 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.

6. Lease Commitments

Right-of-use assets represent the right to use an underlying asset for the lease term, while lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Diocese's sole discretion. Renewal and early termination options are regularly evaluated and when they are reasonably certain of exercise, such options are included in the lease term. Additionally, upon adoption of the new standard, the judgments were made regarding lease terms for certain real property leases that were in month-to-month status or that contained auto-renewal clauses. Lease end dates were estimated based on the required length of usage of the property and a right-of-use asset and lease liability were calculated with the resulting estimated lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the rate implicit in the lease is used, or if not readily available, a risk-free rate based on U.S. Treasury notes or bond rates for a similar term is used.

Right-of-use assets are assessed for impairment in accordance with the Diocese's long-lived asset policy. The Diocese reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with ASU 2016-02, *Leases* (Topic 842).

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

The following significant assumptions and judgments were made:

- Whether a contract contains a lease was evaluated, by considering factors such as whether substantially all rights to control an identifiable underlying asset was obtained and whether the lessor has substantive substitution rights.
- Whether contracts contain embedded leases.
- Evaluation of leases with similar commencement dates, lengths of term, renewal options or other contract terms, which therefore meet the definition of a portfolio of leases, whether to apply the portfolio approach to such leases.
- Determine for leases that contain a residual value guarantee, whether a payment at the end of the lease term was probable and, accordingly, whether to consider the amount of a residual value guarantee in future lease payments.

The Diocese has material leasing transactions with related parties. These leases include administrative offices from the Retirement Plan for the Ordained Priests of the Diocese of Allentown and the Diocese of Allentown Lay Pension Plan, the bishop's residence from Priest Pension, minor storage or other space from parishes/schools.

The following table summarizes the lease right-of-use assets and lease liabilities as of June 30, 2025 and 2024:

	2025	2024
Right-of-use assets:		
Operating leases	\$ 822,801	\$ 911,452
Finance leases	3,071,794	3,456,530
Total right-of-use assets	<u>\$ 3,894,595</u>	<u>\$ 4,367,982</u>
Lease liabilities:		
Current operating lease liabilities	\$ 90,559	\$ 86,109
Current finance lease liabilities	276,255	318,599
Long-term operating lease liabilities	744,804	835,363
Long-term finance lease liabilities	3,047,486	3,323,741
Total lease liabilities	<u>\$ 4,159,104</u>	<u>\$ 4,563,812</u>

Below is a summary of expenses incurred pertaining to leases during the years ended June 30, 2025 and 2024:

	2025	2024
Finance lease expense:		
Amortization of right-of-use assets	\$ 433,651	\$ 509,371
Interest on lease liabilities	115,052	124,636
Operating lease expense	114,251	147,538
Short-term lease expense	59,371	40,800
Total lease expense	<u>\$ 722,325</u>	<u>\$ 822,345</u>

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

The following table presents supplemental information related to leases:

	2025	2024
Weighted average remaining lease term (in years):		
Operating leases	10.76	11.07
Finance leases	12.65	13.48
Weighted average discount rate:		
Operating leases	3.24 %	3.22 %
Finance leases	3.34 %	3.31 %

The table below summarizes the Diocese's scheduled future minimum lease payments for years ending after June 30, 2025:

	Operating Leases	Finance Leases
Years ending June 30:		
2026	\$ 115,963	\$ 381,512
2027	117,727	267,516
2028	119,829	272,867
2029	122,558	278,324
2030	58,324	282,422
Thereafter	452,008	2,654,783
Total lease payments	986,409	4,137,424
Less present value discount	(151,046)	(813,683)
Total lease liabilities	835,363	3,323,741
Less current portion	(90,559)	(276,255)
Long-term lease liabilities	<u>\$ 744,804</u>	<u>\$ 3,047,486</u>

7. 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 rate to 5.25% for the fiscal year beginning July 1, 2021, 5.75% for the fiscal year beginning July 1, 2022, 7.50% for the fiscal year beginning July 1, 2023, and 10.00% for the fiscal year beginning July 1, 2024 and thereafter.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

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.

Participation by the various organizations included herein in pension plans (Plans) for the years ended June 30, 2025 and 2024 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 2025 and 2024 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	
		2025	2024	2025	2024
Diocese of Allentown Lay Employees Retirement Plan	(a) 23-1598116/001	53.0% as of 1/1/2023	69.0% as of 1/1/2022	\$ 346,710	\$ 238,615
Retirement Plan for the Ordained Diocesan Priests of the Diocese of Allentown	(b) 20-8045588/001	103.1% as of 7/1/2024	98.4% as of 7/1/2023	241,756	264,630

The various organizations included herein provided more than 5% of total contributions for each of the plans for 2025 and 2024.

- (a) The Plan's financial statements for the years ended December 31, 2023 and 2022 (latest available information) indicated total net assets of \$69,504,898 and \$65,754,796, respectively; total actuarial present value of accumulated plan benefits of as of January 2023 and 2022 are \$122,426,434 and \$122,180,335, respectively; and total contributions for all participating employers of \$3,921,023 and \$3,413,098, respectively.
- (b) The Plan's financial statements for the years ended June 30, 2024 and 2023 indicated total net assets of \$14,884,920 and \$13,280,264, respectively; total actuarial present value of accumulated plan benefits of \$14,442,667 and \$13,498,340, respectively; and total contributions for all participating employers of \$1,298,016 and \$1,153,338, respectively.

8. 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.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

The following is a summary of the plan's funded status at June 30, 2025 and 2024:

	2025	2024
Fair value of plan assets	\$ 15,652,304	\$ 13,250,762
Accumulated benefit obligation	(32,465,444)	(26,571,280)
Funded status of plan	<u>\$ (16,813,140)</u>	<u>\$ (13,320,518)</u>

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.

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 65% equity pool and 35% 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 \$350,000 in 2025 and 2024. Management estimates that total contributions to the plan during 2026 will be approximately \$700,000.

The following tables present the plan assets measured at fair value at June 30, 2025 and 2024 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, 2025				
	Level 1	Level 2	Level 3	Total
Plan assets:				
Cash and cash equivalents	\$ 35,888	\$ -	\$ -	\$ 35,888
Pledges receivable	-	-	1,042	1,042
Accrued income and other receivables	19,100	-	-	19,100
Deposits held in the A.C.B.A.	-	1,435,501	-	1,435,501
Money market funds	127,710	-	-	127,710
Domestic common stocks, Small cap core equity	706,107	-	-	706,107
Corporate bonds	-	962,602	-	962,602
U.S. Treasury notes	319,535	-	-	319,535
U.S. government agency obligations	-	868,624	-	868,624
Foreign bonds	-	103,184	-	103,184
Foreign common stocks	35,674	-	-	35,674
Mutual funds and exchange traded funds:				
International equities	1,333,940	1,901,350	-	3,235,290
Small cap equities	-	465,876	-	465,876
Large cap equities	-	5,000,833	-	5,000,833
Fixed income	-	1,781,196	-	1,781,196
Alternatives	-	554,142	-	554,142
Total plan assets	<u>\$ 2,577,954</u>	<u>\$ 13,073,308</u>	<u>\$ 1,042</u>	<u>\$ 15,652,304</u>

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Plan assets:				
Cash and cash equivalents	\$ 26,590	\$ -	\$ -	\$ 26,590
Pledges receivable	-	-	2,217	2,217
Deposits held in the A.C.B.A.	-	720,805	-	720,805
Money market funds	79,045	-	-	79,045
Domestic common stocks, Small cap core equity	467,989	-	-	467,989
Corporate bonds	-	847,977	-	847,977
U.S. Treasury notes	377,950	-	-	377,950
U.S. government agency obligations	-	770,579	-	770,579
Foreign bonds	-	134,430	-	134,430
Foreign common stocks	16,914	-	-	16,914
Mutual funds and exchange traded funds:				
Equities	1,314,264	6,301,299	-	7,615,563
Fixed income	-	1,688,455	-	1,688,455
Alternatives	-	502,248	-	502,248
Total plan assets	<u>\$ 2,282,752</u>	<u>\$ 10,965,793</u>	<u>\$ 2,217</u>	<u>\$ 13,250,762</u>

Other than plan assets, management designated funds have been established for priest life insurance (Note 9).

Net periodic postretirement benefit cost, contributions and benefits paid related to the plan are as follows for 2025 and 2024:

	2025	2024
Service cost	\$ 480,582	\$ 488,778
Interest cost on accumulated benefit obligation	1,402,204	860,911
Expected return on assets	(794,996)	(694,858)
Amortization of unrecognized prior service cost	(209,178)	(209,286)
Amortization of gains	(894,013)	(834,460)
Net periodic postretirement benefit income	<u>\$ (15,401)</u>	<u>\$ (388,915)</u>
Employer contributions	<u>\$ 2,497,227</u>	<u>\$ 2,045,553</u>
Benefits paid	<u>\$ 1,778,918</u>	<u>\$ 1,760,571</u>

The measurement date used to determine the plan asset and benefit obligation information was June 30, 2025 and 2024.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

Total postretirement benefit expense included in clergy benefits expenses is as follows for 2025 and 2024:

	2025	2024
Clergy benefits, net periodic postretirement benefit income	\$ (15,401)	\$ (388,915)
Changes other than net periodic postretirement benefit cost:		
Amortization of prior service cost	209,178	209,286
Net loss (gain)	5,700,387	(1,889,354)
Total other changes	5,909,565	(1,680,068)
Total	\$ 5,894,164	\$ (2,068,983)

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, 2025 benefit obligation, are as follows:

2026	\$ 1,976,423
2027	2,070,130
2028	2,112,308
2029	2,148,748
2030	2,200,141
2031 - 2035	11,394,693

Postretirement benefit obligation at June 30:

	2025	2024
Retirees	\$ 15,677,684	\$ 13,892,835
Other eligible and active plan participants	16,787,760	12,678,445
Accumulated postretirement benefit obligation	\$ 32,465,444	\$ 26,571,280
Healthcare costs	\$ 14,572,001	\$ 10,691,290
Care-level facilities	16,141,500	14,277,004
Life insurance	1,379,863	1,254,036
Other	372,080	348,950
Accumulated postretirement benefit obligation	\$ 32,465,444	\$ 26,571,280
Items not yet recognized as a component of net periodic cost:		
Prior service cost	\$ (907,833)	\$ (1,117,011)
Net gain	(10,237,530)	(16,261,242)
Total	\$ (11,145,363)	\$ (17,378,253)

The not yet recognized net gain of \$(10,237,530) is greater than 10% of the accumulated postretirement benefit obligation on June 30, 2025, and therefore will need to be amortized in the net periodic postretirement cost for the fiscal year ending June 30, 2026.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

Assumptions used in determining the postretirement benefit cost and the accumulated postretirement benefit obligation were as follows for the years ended June 30, 2025 and 2024:

	2025	2024
Discount rate	5.53 %	5.46 %
Expected long-term rate of return on plan assets	6.00	6.00 to 7.50
Increase rates for Medicare Healthcare costs (all years)	4.45	4.45
Increase rates for Non-Medicare Healthcare costs (all years)	7.90 to 4.45	8.50 to 4.45
Increase rates for Holy Family Villa costs	3.50	3.50
Mortality table	Pri-2012	RP-2000

Changes in assumptions and other factors caused a net increase in the postretirement benefit obligation totaling \$5,894,164 for the year ended June 30, 2025. Significant changes were as follows:

- Decrease in the discount rate;
- Change in the mortality table;
- Decrease due to changes in census.

9. Net Assets

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

	2025	2024
Self-insurance reserves	\$ 14,007,870	\$ 12,759,510
Other clergy benefit and retirement funds	1,640,939	1,521,260
Seminarian fund	2,194,065	2,456,741
Other management designated funds	695,136	916,602
Total	<u>\$ 18,538,010</u>	<u>\$ 17,654,113</u>

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

	2025	2024
Forward With Christ campaign	\$ 4,384,998	\$ 4,137,688
Forward With Christ endowment	2,207,370	2,207,370
Other endowments	329,374	329,187
Bishop's Annual Appeal	6,670,368	5,462,112
Endowment annuity	82,155	163,548
Seminarian fund	338,606	401,279
Priest postretirement benefits	10,175,448	8,020,616
Other	1,076,273	1,010,714
Total	<u>\$ 25,264,592</u>	<u>\$ 21,732,514</u>

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

Net assets released from restrictions consisted of the following for the years ended June 30:

	2025	2024
Forward With Christ campaign	\$ 64,889	\$ 66,000
Bishop's Annual Appeal	2,461,284	1,770,964
Seminarian fund	424,512	136,675
Endowment annuity	137,451	128,694
Priest postretirement benefits	17,359	28,670
Other	1,000	173,545
Total	<u>\$ 3,106,495</u>	<u>\$ 2,304,548</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. In 2022, the Diocese returned \$250,000 to the FWC funds. The funds owed to the FWC campaign are included in FWC net assets with donor restrictions.

10. 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 donor-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, 2025 and 2024 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, 2025				
	Level 1	Level 2	Level 3	Total
Assets:				
Deposits held in the A.C.B.A.	\$ -	\$ 421,166	\$ -	\$ 421,166
U.I.F.:				
Equity Pool	-	4,578,800	-	4,578,800
Fixed Pool	-	1,428,392	-	1,428,392
Total plan assets	<u>\$ -</u>	<u>\$ 6,428,358</u>	<u>\$ -</u>	<u>\$ 1,428,392</u>

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Certificates of deposit	\$ -	\$ 159,566	\$ -	\$ 159,566
Deposits held in the A.C.B.A.	-	598,324	-	598,324
U.I.F.:				
Equity Pool	-	3,620,924	-	3,620,924
Fixed Pool	-	1,232,977	-	1,232,977
Total plan assets	\$ -	\$ 5,611,791	\$ -	\$ 5,611,791

Change in contractually committed net assets for the years ended June 30, 2025 and 2024 is as follows:

	2025	2024
Contractually committed net assets, beginning balance	\$ 5,611,791	\$ 4,965,593
Investment return	672,322	526,208
Contributions and new designations	144,245	119,990
Contractually committed net assets, ending balance	\$ 6,428,358	\$ 5,611,791

The Diocese undertook a study in 2022 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 \$175,000 were assumed to escalate at a rate of 3.0% per year, with a discount rate of 6.0%. Commitments for permanent maintenance are substantial and, based upon the assumptions noted above, the present value of future care payouts approximates \$5,800,000. No contractually committed net assets were withdrawn for current maintenance costs in 2024 or 2025, nor is a withdrawal of assets planned in 2026.

11. 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.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2025 and 2024

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, 2025 and 2024 is as follows:

	2025	2024
	With Donor Restrictions	With Donor Restrictions
Endowment net assets, beginning balance	\$ 2,924,337	\$ 2,877,061
Investment return	29,715	41,276
Contributions and new designations	8,366	160,675
Appropriation of endowment net assets for expenditure	(99,512)	(136,675)
Endowment net assets, ending balance	<u>\$ 2,862,906</u>	<u>\$ 2,942,337</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. There were no such deficiencies at June 30, 2025 or 2024.

12. 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 2025 and 2024. The shareholder interest in TNCRRG has been recorded as an investment in the combined financial statements.

Diocese of Allentown

Notes to Combined Financial Statements

June 30, 2025 and 2024

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 2025 and 2024.

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, 2025. 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. \$26,356 and \$38,047 was recognized in 2025 and 2024, 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 \$200,692 and \$127,348 at June 30, 2025 and 2024, respectively, which could be returned over the next 10 years, subject to Pool performance. The balance in the participant fund has not been recorded in the combined financial statements.

13. Concentration of Credit Risk

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

14. 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 combined 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.

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.

Diocese of Allentown

Notes to Combined Financial Statements
June 30, 2025 and 2024

15. Notes Receivable

At June 30, 2025, notes receivable consisted of two notes receivable from Diocesan organizations that were loaned in order to provide operational assistance.

One note receivable was granted to a Diocesan school to fund operations and had an outstanding principal balance of \$20,596 as of June 30, 2025. The note was interest-bearing at a rate of 4.0% and payable on demand, and is unsecured. This note matured in August 2025 and was paid in full.

The second note receivable arose from a promissory note dated November 15, 2024, which established a revolving line of credit for a Diocesan senior living facility with a maximum borrowing capacity of \$2,000,000. Advances under the line of credit may be drawn and repaid from time to time; however, all advances are treated as a single loan. As of June 30, 2025, outstanding advances totaled \$1,792,097.

The note bears interest at a variable rate equal to 75% of the Federal Reserve System monthly bank prime loan rate, adjusted on the first day of each month. Monthly interest-only payments commenced on December 25, 2024. The note matured on April 30, 2025, at which time all outstanding principal and accrued interest became due and payable. However, no payment on the matured note has been made as of January 2026. The senior living facility is expected to receive cash proceeds in excess of the outstanding balance owed to the Diocese from the refinancing of their other debt during the 2026 fiscal year. No interest was unpaid or accrued as of June 30, 2025.

Both notes are unsecured and governed by the laws of the Commonwealth of Pennsylvania. As of June 30, 2025, the outstanding balances were classified as current assets, as the notes were either payable on demand or past their stated maturity date.

The Diocese evaluates expected credit losses on notes receivable in accordance with ASC 326, *Financial Instruments—Credit Losses*. Notes receivable are evaluated on an individual basis, as they are not part of a homogeneous pool. In estimating expected credit losses, management considered relevant information, including the borrower's financial condition and liquidity, historical payment performance, the past-due status of the matured note, expected receipt of third-party funding, ongoing refinancing activities, and reasonable and supportable forecasts of future conditions. Management concluded that the notes receivable were expected to be collected in full and that no allowance for credit losses was required as of June 30, 2025. Interest income earned on the notes receivable during the year ended June 30, 2025 is included in interest from notes receivable in the statement of activities.

16. Donated Property

During the fiscal year ended June 30, 2025, the Diocese recognized contributed nonfinancial assets within contribution revenue, which consisted of a donated home and land of a former bishop. The donated property will be used for Diocesan meetings and events. There were no donor-imposed restrictions for this contributed property. In valuing the contributed building and land, which is located in Avalon, New Jersey, the Diocese estimated the fair value of the property on the basis of an appraisal, which compared recent comparable sales prices in Avalon's real estate market.