

Catholic Charities of the Diocese of Allentown, Inc.

Financial Statements and
Supplementary Information

June 30, 2022 and 2021

Catholic Charities of the Diocese of Allentown, Inc.

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June 30, 2022 and 2021

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Catholic Charities of the Diocese of Allentown, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Allentown, Pennsylvania
January 6, 2023

Catholic Charities of the Diocese of Allentown, Inc.

Statements of Financial Position
June 30, 2022 and 2021

		2022	2021			2022	2021
Assets				Liabilities and Net Assets			
Current Assets				Current Liabilities			
Cash and cash equivalents		\$	1,187,067	Accounts payable, trade	\$	8,810	\$ 30,346
Accounts receivable, net			248,745	Accrued liabilities		20,249	11,493
Related party receivables			394,000	Accrued compensation		63,753	116,792
Prepaid expenses			27,595	Accrued unemployment compensation		7,780	11,996
				Refundable advances		481,976	459,851
Total current assets			1,857,407				
				Total current liabilities		582,568	630,478
Restricted and Designated Deposits Held in the Allentown Catholic Beneficial Association, Inc.				Net Assets			
			654,012	Without donor restrictions:			
				Undesignated		-	-
				Designated, endowment		5,144,302	5,274,024
				Designated, property and equipment		405,733	422,554
				Designated, other		31,150	231,151
				Total net assets without donor restrictions		5,581,185	5,927,729
Property and Equipment, Net				With donor restrictions		1,246,867	1,546,075
				Total net assets		6,828,052	7,473,804
Total assets		\$	7,410,620	Total liabilities and net assets	\$	7,410,620	\$ 8,104,282

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statements of Activities

Year Ended June 30, 2022

(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
Support, Revenues and Other Gains				
Public support:				
Government grants and awards	\$ 4,799,459	\$ -	\$ 4,799,459	\$ 2,526,383
Private support:				
Bequests	148,643	-	148,643	63,084
Donations	575,557	1,855	577,412	635,296
Bishop's Annual Appeal	-	394,000	394,000	528,000
Grants	391,632	61,946	453,578	403,258
Contributions of nonfinancial assets	211,917	-	211,917	185,062
Special events	236,722	21,850	258,572	57,000
Total private support	1,564,471	479,651	2,044,122	1,871,700
Revenue and other gains (losses):				
Program fees	321,904	-	321,904	284,344
Interest and dividends	6,906	-	6,906	7,495
Change in value of beneficial interest	-	(133,933)	(133,933)	109,823
Investment gains (losses), net	(625,849)	-	(625,849)	894,929
Gain on disposal of property and equipment	2,558	-	2,558	2,964
Miscellaneous income	740	-	740	701
Total revenue and other gains (losses)	(293,741)	(133,933)	(427,674)	1,300,256
Net Assets Released From Restriction				
Satisfaction of donor restrictions	116,926	(116,926)	-	-
Expiration of time restrictions:				
Receipt from Bishop's Annual Appeal Charitable Trust	528,000	(528,000)	-	-
Total net assets released from restrictions	644,926	(644,926)	-	-
Total support, revenues and other gains (losses)	6,715,115	(299,208)	6,415,907	5,698,339
Expenses				
Program	6,495,933	-	6,495,933	3,701,124
Management and general	325,807	-	325,807	296,080
Fundraising	239,919	-	239,919	183,082
Total expenses	7,061,659	-	7,061,659	4,180,286
Change in net assets	(346,544)	(299,208)	(645,752)	1,518,053
Net Assets, Beginning	5,927,729	1,546,075	7,473,804	5,955,751
Net Assets, Ending	\$ 5,581,185	\$ 1,246,867	\$ 6,828,052	\$ 7,473,804

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statement of Activities

Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support, Revenues and Other Gains			
Public support:			
Government grants and awards	\$ 2,526,383	\$ -	\$ 2,526,383
Private support:			
Bequests	63,084	-	63,084
Donations	609,928	25,368	635,296
Bishop's Annual Appeal	-	528,000	528,000
Grants	281,008	122,250	403,258
Contributions of nonfinancial assets	185,062	-	185,062
Special events	57,000	-	57,000
Total private support	1,196,082	675,618	1,871,700
Revenue and other gains:			
Program fees	284,344	-	284,344
Interest and dividends	7,495	-	7,495
Change in value of beneficial interest	-	109,823	109,823
Investment gains, net	894,929	-	894,929
Gain on disposal of property and equipment	2,964	-	2,964
Miscellaneous income	701	-	701
Total revenue and other gains	1,190,433	109,823	1,300,256
Net Assets Released From Restriction			
Satisfaction of donor restrictions	179,801	(179,801)	-
Expiration of time restrictions:			
Receipt from Bishop's Annual Appeal Charitable Trust	541,000	(541,000)	-
Total net assets released from restrictions	720,801	(720,801)	-
Total support, revenues and other gains	5,633,699	64,640	5,698,339
Expenses			
Program	3,701,124	-	3,701,124
Management and general	296,080	-	296,080
Fundraising	183,082	-	183,082
Total expenses	4,180,286	-	4,180,286
Change in net assets	1,453,413	64,640	1,518,053
Net Assets, Beginning	4,474,316	1,481,435	5,955,751
Net Assets, Ending	\$ 5,927,729	\$ 1,546,075	\$ 7,473,804

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statements of Functional Expenses

	2022			2021				
	Program Expenses	Management and General Expenses	Fundraising Expenses	Total Expenses	Program Expenses	Management and General Expenses	Fundraising Expenses	Total Expenses
Salaries and wages	\$ 1,066,720	\$ 178,147	\$ 112,628	\$ 1,357,495	\$ 1,064,721	\$ 180,724	\$ 110,431	\$ 1,355,876
Employee benefits and payroll taxes	402,416	52,758	32,642	487,816	359,045	55,403	29,196	443,644
Program expenses	518,260	684	375	519,319	425,730	569	356	426,655
Direct assistance	3,807,521	-	-	3,807,521	1,432,972	-	-	1,432,972
Occupancy	248,512	12,943	4,715	266,170	205,683	10,950	4,436	221,069
Depreciation	37,294	4,166	732	42,192	33,749	3,819	1,020	38,588
Transportation	29,695	2,608	18	32,321	16,381	1,974	200	18,555
Outside services	339,573	60,186	724	400,483	101,390	34,784	1,816	137,990
Development and special events	-	-	53,535	53,535	-	-	529	529
Administrative supplies and office	41,580	6,452	33,606	81,638	49,969	6,395	30,792	87,156
Staff development	4,622	7,863	944	13,429	10,266	1,462	1,406	13,134
Bad debts (recovery)	(260)	-	-	(260)	1,218	-	2,900	4,118
Total expenses	\$ 6,495,933	\$ 325,807	\$ 239,919	\$ 7,061,659	\$ 3,701,124	\$ 296,080	\$ 183,082	\$ 4,180,286

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (645,752)	\$ 1,518,053
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	42,192	38,588
Realized and unrealized investment losses (gains), net	625,849	(894,929)
Gain on disposal of property and equipment	(2,558)	(2,964)
Increase (decrease) in allowance for uncollectible receivables	(3,550)	1,630
Change in value of beneficial interest	133,933	(109,823)
Changes in assets and liabilities:		
Accounts receivable	123,630	(232,899)
Related party receivable	134,000	13,000
Grants receivable	-	80,000
Prepaid expenses	(12,316)	35,893
Accounts payable, trade	(21,536)	(5,045)
Accrued liabilities	8,756	1,744
Accrued compensation	(53,039)	4,606
Accrued unemployment compensation	(4,216)	(14,072)
Refundable advances	22,125	(198)
Net cash provided by operating activities	<u>347,518</u>	<u>433,584</u>
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	2,960	4,300
Purchases of property and equipment	(25,773)	(25,340)
Proceeds from sale of investments	1,296,928	216,629
Purchases of investments	<u>(1,296,928)</u>	<u>(195,000)</u>
Net cash (used in) provided by investing activities	<u>(22,813)</u>	<u>589</u>
Increase in cash and cash equivalents	324,705	434,173
Cash and Cash Equivalents, Beginning	<u>1,516,374</u>	<u>1,082,201</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,841,079</u>	<u>\$ 1,516,374</u>
Reconciliation of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 1,187,067	\$ 869,268
Restricted and designated deposits held in the ACBA, Inc.	<u>654,012</u>	<u>647,106</u>
Cash and cash equivalents	<u>\$ 1,841,079</u>	<u>\$ 1,516,374</u>

See notes to financial statements

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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 Presentation

The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America including accounting regulations as they relate to financial statements of not-for-profit organizations. The Financial Accounting Standards Board (FASB) guidance requires the reporting of total assets, liabilities and net assets in a statement of financial position; reporting the change in net assets in a statement of activities; providing expense detail by natural and functional classification and reporting the sources and uses of cash and cash equivalents in a statement of cash flows.

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 action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Net Assets With Donor Restrictions - Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these 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. Additionally, funds received as gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity are reported as net assets with donor restrictions. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. 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.

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, as well as restricted and designated deposits held in the Allentown Catholic Beneficial Association, Inc. (ACBA).

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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 \$2,770 and \$6,320 at June 30, 2022 and 2021, 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.

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. 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, state and local 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 \$1,278,000 and \$4,945,000 that have not been recognized at June 30, 2022 and 2021, respectively, because qualifying expenditures have not yet been incurred, with advance payments of \$481,976 and \$459,851 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 (SBA). The PPP was authorized in the Coronavirus Aid, Relief and Economic Security (CARES) Act. The Organization received proceeds of \$315,100 on April 23, 2020, and there are no collateral or guarantee requirements. In January 2021, the SBA formally forgave the PPP loan, and the Organization recorded \$315,100 as government grants and awards in the accompanying statement of activities for 2021.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

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 when the event takes place and contribution income for the excess received.

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.

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.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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.

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.

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 January 6, 2023, the date the financial statements were available to be issued.

New Accounting Pronouncement Adopted

During 2022, the Organization adopted FASB Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The Organization has adjusted the presentation of these financial statements accordingly. ASU No. 2020-07 has been applied retrospectively to all periods presented.

As a result of the adoption of ASU No. 2020-07, the statement of activities of the Organization for the year ended June 30, 2021 was adjusted as follows:

	After Adoption of ASU No. 2020-07	As Originally Presented	Effect of Change
Program expenses (direct assistance)	\$ 3,701,124	\$ 3,516,062	\$ 185,062
Contributions of nonfinancial assets	185,062	-	185,062

Accounting Pronouncements Not Yet Adopted

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. 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.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

2. Investments

Investments at fair value are comprised of the following at June 30, 2022 and 2021:

	2022	2021
Beneficial interest in Catholic Foundation of Eastern Pennsylvania	\$ 1,314,222	\$ 1,367,318
Mutual funds	2,376,433	1,795,660
Fixed income funds	9,241	1,161,270
Money market fund	6,485	7,982
Total	<u>\$ 3,706,381</u>	<u>\$ 4,332,230</u>

Investment income and gains and losses on investments for the years ended June 30, 2022 and 2021 are summarized as follows:

	2021	2020
Interest and dividends, net of fees	\$ 6,906	\$ 7,495
Investment gains (losses), net	(625,849)	894,929
Net investment income (loss)	<u>\$ (618,943)</u>	<u>\$ 902,424</u>

3. Fair Value Measurements

The FASB issued enhanced guidance for using fair value to measure assets and liabilities. 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.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 and 2021.

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

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 and beneficial interest in perpetual trusts: Valued using the Organization's percentage of the earnings of the underlying trust assets applied to the fair value of the underlying assets. This is considered a Level 3 measurement because even though the measurement is based on the underlying fair value of the trust assets as reported by the respective trustees, the Organization will never receive those assets or have the ability to direct the trustee to redeem them. There were no significant purchases, sales or redemptions in 2022 or 2021.

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, 2022			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,376,432	\$ 9,241	\$ -	\$ 2,385,673
Catholic Foundation of Eastern Pennsylvania	-	-	1,314,222	1,314,222
Beneficial interest in perpetual trusts	-	-	787,087	787,087
Money market fund	6,485	-	-	6,485
	<u>\$ 2,382,917</u>	<u>\$ 9,241</u>	<u>\$ 2,101,309</u>	<u>\$ 4,493,467</u>
	Assets at Fair Value as of June 30, 2021			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 1,795,660	\$ 1,161,270	\$ -	\$ 2,956,930
Catholic Foundation of Eastern Pennsylvania	-	-	1,367,318	1,367,318
Beneficial interest in perpetual trusts	-	-	921,020	921,020
Money market fund	7,982	-	-	7,982
	<u>\$ 1,803,642</u>	<u>\$ 1,161,270</u>	<u>\$ 2,288,338</u>	<u>\$ 5,253,250</u>

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and 2021.

During 2017 and again in 2022, 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, 2022 and 2021. The Foundation has variance power over investments and distributions of the assets it holds.

5. Property and Equipment, Net

Property and equipment, net is as follows:

	2022	2021
Land	\$ 14,600	\$ 14,600
Buildings	355,265	355,265
Leasehold improvements	54,839	52,539
Furniture, vehicles and equipment	488,512	474,411
	913,216	896,815
Less accumulated depreciation	507,483	474,261
Property and equipment, net	\$ 405,733	\$ 422,554

Depreciation expense was \$42,192 in 2022 and \$38,588 in 2021.

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 \$83,300 and \$71,523 for the years ended June 30, 2022 and 2021, respectively. Future minimum lease payments as of June 30, 2022 are due as follows:

Years ending June 30:	
2023	\$ 65,541
2024	50,743
2025	51,707
2026	51,824
Total	\$ 219,815

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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 4.50% for the fiscal year beginning July 1, 2020 and 4.75% for the fiscal year beginning July 1, 2021. The Pension Trustees and the Diocese continue to monitor and make appropriate changes as necessary to improve the Plan's funded status. The 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.

The Organization's participation in this multiemployer pension plan for the years ended June 30, 2022 and 2021 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 1/1/2018	Total Accumulated Plan Benefits 1/1/2018	Total Contributions to the Plan 2018
		1/1/2018	1/1/2017	2022	2021			
Diocese of Allentown Lay Employees Retirement Plan	23-1598116/001	69.5%	63.1%	\$ 52,934	\$ 44,037	\$ 80,830,637	\$ 116,274,286	\$ 2,863,862

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

At the date the Organization's financial statements were available to be issued, financial information was not available for the plan years ending after December 31, 2018.

8. Related-Party Transactions

The Organization was allocated \$394,000 and \$528,000, respectively, in revenue from the Bishop's Annual Appeal Charitable Trust in 2022 and 2021.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

During the years ended June 30, 2022 and 2021, the Organization was charged by the Diocese for the following items, in addition to the Lay Employee Pension Plan contributions disclosed in Note 7:

	2022	2021
Insurance	\$ 43,375	\$ 44,978
Computers	10,904	-
Computer communications	34,963	24,687
Secretarial fees	22,800	22,372
Furniture and fixtures	-	13,567
Other administrative charges	1,113	-
Legal fees	15,405	3,430
Total	\$ 128,560	\$ 109,034

At June 30, 2022 and 2021, affiliates of the Diocese owed the Organization for the following support and pledges:

	2022	2021
Bishop's Annual Appeal Charitable Trust	\$ 394,000	\$ 528,000
Total	\$ 394,000	\$ 528,000

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%.

Subsequent to year end, the Organization terminated the office space lease noted above. A new lease agreement for a new office location was signed.

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 \$5,144,302 and \$5,274,024 at June 30, 2022 and 2021, respectively.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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

	2022	2021
Net Assets		
Without donor restrictions:		
Invested in property, plant and equipment	\$ 405,733	\$ 422,554
Funds held for long-term investment (endowment)	5,144,302	5,274,024
Designated by Board for other projects	31,151	231,151
	<u>5,581,186</u>	<u>5,927,729</u>
With donor restrictions:		
Purpose restricted	448,471	613,746
Perpetual trusts	787,087	921,020
Restricted in perpetuity	11,309	11,309
	<u>1,246,867</u>	<u>1,546,075</u>
Total net assets	<u>\$ 6,828,053</u>	<u>\$ 7,473,804</u>

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, 2022 and 2021.

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.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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%. 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 and cash accounts for liquidity purposes. That amount was \$1,437,921 and \$941,794 at June 30, 2022 and 2021, 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% may be taken from the accrued interest, dividends or growth of the principal for children with special needs. Total investments include investments with donor restrictions of \$11,309 at June 30, 2022 and 2021, which are restricted for this purpose.

Changes in endowment net assets for the fiscal year ended June 30, 2022 is as follows:

	2022		
	Board Designated	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 5,274,024	\$ 11,309	\$ 5,285,333
Investment return:			
Investment income	6,906	-	6,906
Net realized and unrealized losses	(623,292)	-	(623,292)
Total investment return	(616,386)	-	(616,386)
Contributions	486,664	-	486,664
Endowment net assets, ending	\$ 5,144,302	\$ 11,309	\$ 5,155,611

Changes in endowment net assets for the fiscal year ended June 30, 2021 is as follows:

	2021		
	Board Designated	With Donor Restrictions	Total
Endowment net assets, beginning	\$ 3,803,552	\$ 11,309	\$ 3,814,861
Investment return:			
Investment income	7,495	-	7,495
Net realized and unrealized gains	897,893	-	897,893
Total investment return	905,388	-	905,388
Contributions	565,084	-	565,084
Endowment net assets, ending	\$ 5,274,024	\$ 11,309	\$ 5,285,333

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and 2021.

13. Liquidity and Availability

The following reflects the Organization's financial assets as of June 30, 2022 and 2021, 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.

	2022	2021
Financial assets, at year-end	\$ 6,977,292	\$ 7,666,449
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(1,246,867)	(1,546,075)
Board designations:		
Quasi-endowment fund, primarily for long-term investing	(5,144,302)	(5,274,024)
Other designations	(31,151)	(231,151)
Financial assets available to meet cash needs for general expenditures within one year	\$ 554,972	\$ 615,199

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.

14. Contributed Nonfinancial Assets

For the years ended June 30, contributed nonfinancial assets recognized within the statements of activities included:

	2022	2021
Food contributions	\$ 90,000	\$ 77,224
Meals served	99,128	90,571
Miscellaneous contributions	22,789	17,267
	\$ 211,917	\$ 185,062

The Organization recognized contributed nonfinancial assets within revenue, including contributed boxes of food, meals served at both food kitchens and through other miscellaneous donations. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions. The Organization's policy is to receive contributed food and other miscellaneous donations and utilize those goods for its mission instead of monetizing the goods.

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Financial Statements
June 30, 2022 and 2021

The Organization serves meals at both Ecumenical Kitchen in Allentown and at the Pottsville Soup Kitchen in Pottsville. The average cost per meal is \$3, in line with the Federal Emergency Management Agency and Emergency Food and Shelter Program standards.

Contributed food was utilized at the food kitchen in providing meals to individuals utilizing the food kitchens at both locations. In valuing household goods and food, the Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States. Other miscellaneous contributions consist of baby formula, donated gift cards, and household goods to donate to individuals in need. These are based on the actual expense incurred from purchasing these items to donate to individuals in need and is tracked within the Organization's Awards system.

**Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards**

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Catholic Charities of the Diocese of Allentown, Inc. (the Organization), which comprise the Organization's statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 6, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Allentown, Pennsylvania
January 6, 2023

**Report on Compliance
for the Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditors' Report

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Catholic Charities of the Diocese of Allentown, Inc.'s (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2022. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly US, LLP

Allentown, Pennsylvania
January 6, 2023

Catholic Charities of the Diocese of Allentown, Inc.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

Federal Grantor/ Program Title	Assistance Listing Number	Pass-Through Agency	Pass-Through Agency Grant Number	Federal Expenditures
Federal Programs				
U.S. Department of Housing and Urban Development				
Community Development Block Grant	14.228	Lehigh County	N/A	\$ 67,607
Community Development Block Grant	14.228	Schuylkill County	N/A	9,331
Total Community Development Block Grant				76,938
Comprehensive Housing Counseling Grant	14.169	Catholic Charities - USA	N/A	15,156
Total U.S. Department of Housing and Urban Development				92,094
U.S. Department of Treasury				
Passed through Pennsylvania Department of Human Services				
COVID-19 - Emergency Rental Assistance Program	21.023	Lehigh County	N/A	430,102
COVID-19 - Emergency Rental Assistance Program	21.023	Berks County	N/A	670
COVID-19 - Emergency Rental Assistance Program	21.023	Carbon County	N/A	3,121,455
Total Emergency Rental Assistance Program				3,552,227
Total U.S. Department of Treasury				3,552,227
U.S. Department of Veterans Affairs				
Supportive Services for Veteran Families	64.033	N/A	N/A	596,494
U.S. Department of Homeland Security				
Emergency Food and Shelter National Board Program	97.024	N/A	N/A	56,235
Total expenditures of federal awards				\$ 4,297,050

See notes to schedule of expenditures of federal awards

Catholic Charities of the Diocese of Allentown, Inc.

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Catholic Charities of the Diocese of Allentown, Inc. (the Organization) under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Catholic Charities of the Diocese of Allentown, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I - Summary of Auditors' Results**Financial Statements**

Type of auditors' report issued on whether the financial statements being audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes

 X no

Significant deficiency(ies) identified?

_____ yes

 X none reported

Noncompliance material to financial statements noted?

_____ yes

 X no

Federal Awards

Internal control over major federal program:

Material weakness(es) identified?

_____ yes

 X no

Significant deficiency(ies) identified?

_____ yes

 X none reported

Type of auditors' report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X yes

_____ no

Identification of major federal program:

Assistance Listing Number(s)

Name of Federal Program or Cluster

21.023

Emergency Rental Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee

_____ yes

 X no

Catholic Charities of the Diocese of Allentown, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

Finding 2022-001 - Eligibility

Federal Program: Emergency Rental Assistance Program
Federal Agency: U.S. Department of Treasury
Pass-Through Entity: PA Department of Human Services and Carbon County
Assistance Listing Number: 21.023
Federal Award Year: July 1, 2021 to June 30, 2022

Criteria: Section 501 of the Consolidated Appropriations Act, 2021 requires certain documentation must be maintained to support the eligibility of direct assistance payments made under this program.

Condition: During our audit, for 1 out of 40 individuals selected for testing, the Organization did not maintain eligibility or self-certification documentation.

The sample was not a statistically valid sample but was determined using Chapter 21 - *Audit Sampling Considerations of Uniform Guidance Compliance Audits* of the Government Auditing Standards and Single Audit Guide.

Cause: The paper application was misplaced during a move between office locations. Note that completing a paper application is a practice that is no longer continued with this program.

Effect: The accuracy of client records depends heavily on the accuracy and timeliness of the staff. If the Organization does not complete or review within a timely manner, records may be inaccurate or incomplete.

Questioned Costs: \$5,250 of direct assistance payments were paid despite not having appropriate eligibility documentation on file.

Recommendation: The Organization should exclusively utilize an electronic application system and should develop a process to review the applications that were previously accepted in paper format to ensure they include all of the required supporting documentation.

Views of Responsible Officials and Planned Corrective Actions: The Organization agrees with the finding. Paper applications are no longer accepted for this program due to the efficiency of tracking online applications.

Section IV - Summary Schedule of Prior Audit Findings

None.