Central Administrative Office of the Catholic Diocese of Arlington

Financial Statements
as of June 30, 2022 and 2021 and Report Thereon

CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

Central Administrative Office of the Catholic Diocese of Arlington
Table of Contents
June 30, 2022 and 2021

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Most Reverend Michael F. Burbidge
Bishop of the Catholic Diocese of Arlington
Central Administrative Office of the Catholic Diocese of Arlington
Arlington, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Central Administrative Office of the Catholic Diocese of Arlington (the Chancery) (a component of the Catholic Diocese of Arlington), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery 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). 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 Chancery 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Chancery's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

CLA (CliftonLarsonAllen LLP) is an independent network member of CLA Global. See CLAglobal.com/disclaimer.

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 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, 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 Chancery'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 Chancery'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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
October 28, 2022

Central Administrative Office of the Catholic Diocese of Arlington
Statements of Financial Position
As of June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 8,808,709	$ 8,866,263
Accounts receivable, net	1,775,094	1,746,357
Accrued interest receivable	109,014	76,185
Bishop's Lenten Appeal pledges receivable	3,362,348	2,214,683
Major gifts pledges receivable, net	7,025	26,250
Prepaid expenses and other assets	1,226,029	989,831
Investments	173,220,637	194,860,647
Property and advances provided for development and sale	15,263,565	12,305,850
Bond reserve and project fund	503,836	608,058
Interest rate swap agreement	182,853	-
Property, equipment and land, net	189,235,359	191,763,732
Construction in progress and assets not yet placed in service	38,067	179,550
Land restricted for high school	14,500,000	14,500,000
Total assets	$ 408,232,536	$ 428,137,406
Liabilities and Net Assets		
Liabilities		
Deposits held in custody for others	$ 1,455,747	$ 2,808,881
Accounts payable and accrued expenses	7,206,157	7,421,145
Deferred lease incentives	2,174,044	2,670,900
Unearned revenue	203,643	97,348
Amounts held on behalf of other diocesan entities	2,562,829	2,951,443
Annuity payment liability	410,901	393,165
Accrued pension liability, priests	-	3,185,357
Postretirement health benefit obligation	17,859,188	23,554,719
Bonds payable, net of unamortized bond costs	73,511,715	77,522,521
Total liabilities	105,384,224	120,605,479
Net assets		
Without donor restrictions		
Undesignated for current operations	31,601,208	30,264,777
Invested in property, equipment and land, net of related debt	114,230,346	111,830,198
Designated, other	50,297,799	48,809,680
Total without donor restrictions	196,129,353	190,904,655
With donor restrictions		
Perpetual in nature	68,787,098	86,701,149
Purpose and time restricted	37,931,861	29,926,123
Total with donor restrictions	106,718,959	116,627,272
Total net assets	302,848,312	307,531,927
Total liabilities and net assets	$ 408,232,536	$ 428,137,406

The accompanying notes are an integral part of these financial statements.

Central Administrative Office of the Catholic Diocese of Arlington
Statement of Activities
For the year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Bishop's Lenten Appeal	$ 21,409,114	$ -	$ 21,409,114
Operational assessment	7,275,065	-	7,275,065
Investment income for operations	2,816,900	663,100	3,480,000
Contributions, bequests and major gifts	2,895,294	17,073,170	19,968,464
Contribution, nonfinancial asset	2,800,000	-	2,800,000
Program revenue	3,913,010	-	3,913,010
Net assets released from restrictions	8,398,001	(8,398,001)	-
Total operating revenues and support	49,507,384	9,338,269	58,845,653
Operating expenses			
Program services			
Pastoral	10,997,668	-	10,997,668
Religious personnel development	4,449,830	-	4,449,830
Education	7,759,128	-	7,759,128
Social services	4,099,565	-	4,099,565
Diocesan Bishop and communications	2,184,220	-	2,184,220
Supporting services			
Diocesan administration and parochial support	13,468,169	-	13,468,169
Bishop's Lenten Appeal	926,813	-	926,813
Total operating expenses	43,885,393	-	43,885,393
Change in net assets from operations	5,621,991	9,338,269	14,960,260
Other changes in net assets			
Investment income less amount included in operations, net	(18,003,199)	(16,106,111)	(34,109,310)
Bond interest and related expenses	(1,016,278)	-	(1,016,278)
Unrealized gain on swap agreement	519,508	-	519,508
Insurance programs	1,789,664	-	1,789,664
Change in unfunded pension liability, priests	3,159,108	-	3,159,108
Change in unfunded postretirement health obligation	5,695,531	-	5,695,531
Net property gains	4,275,676	-	4,275,676
Diocesan rental income	3,225,269	-	3,225,269
Diocesan rental expense	(3,183,043)	-	(3,183,043)
Net assets released from restrictions	3,140,471	(3,140,471)	-
Total other changes in net assets	(397,293)	(19,246,582)	(19,643,875)
Change in net assets	5,224,698	(9,908,313)	(4,683,615)
Net assets, beginning of year	190,904,655	116,627,272	307,531,927
Net assets, end of year	$ 196,129,353	$ 106,718,959	$ 302,848,312

The accompanying notes are an integral part of these financial statements.

Central Administrative Office of the Catholic Diocese of Arlington
Statement of Activities
For the year ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Bishop's Lenten Appeal	$ 18,851,081	$ -	$ 18,851,081
Operational assessment	7,428,288	-	7,428,288
Investment income for operations	2,777,000	603,000	3,380,000
Contributions, bequests and major gifts	2,511,279	7,955,712	10,466,991
Program revenue	3,360,355	-	3,360,355
Net assets released from restrictions	7,687,801	(7,687,801)	-
Total operating revenues and support	42,615,804	870,911	43,486,715
Operating expenses			
Program services			
Pastoral	9,344,027	-	9,344,027
Religious personnel development	3,898,039	-	3,898,039
Education	8,658,377	-	8,658,377
Social services	4,069,581	-	4,069,581
Diocesan Bishop and communications	1,932,606	-	1,932,606
Supporting services			
Diocesan administration and parochial support	13,405,523	-	13,405,523
Bishop's Lenten Appeal	811,912	-	811,912
Total operating expenses	42,120,065	-	42,120,065
Change in net assets from operations	495,739	870,911	1,366,650
Other changes in net assets			
Investment income less amount included in operations, net	17,234,127	21,609,065	38,843,192
Bond interest and related expenses	(943,181)	-	(943,181)
Unrealized gain on swap agreement	274,574	-	274,574
Insurance programs	1,888,494	-	1,888,494
Change in unfunded pension liability, priests	6,735,367	-	6,735,367
Change in unfunded postretirement health obligation	(770,858)	-	(770,858)
Diocesan rental income	2,972,017	-	2,972,017
Diocesan rental expense	(2,910,259)	-	(2,910,259)
SBA PPP Loan Forgiveness	2,775,000	-	2,775,000
Net assets released from restrictions	3,785,064	(3,785,064)	-
Total other changes in net assets	31,040,345	17,824,001	48,864,346
Change in net assets	31,536,084	18,694,912	50,230,996
Net assets, beginning of year	159,368,571	97,932,360	257,300,931
Net assets, end of year	$ 190,904,655	$ 116,627,272	$ 307,531,927

The accompanying notes are an integral part of these financial statements.

Central Administrative Office of the Catholic Diocese of Arlington
Statements of Cash Flows
For the years ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	$ (4,683,615)	$ 50,230,996
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of property	5,366,164	5,171,420
(Gain) on sale of assets	(4,275,676)	-
(Gain) on extinguishment of debt	-	(2,775,000)
Bond amortization	12,047	12,047
Contributed real property	(2,800,000)	-
Contributions for long-term purposes	-	(25,000)
Increase in allowance for uncollectible accounts receivable	11,996	18,967
Increase (decrease) in discount and allowance on major gifts pledges receivable	5,400	(125,025)
Unrealized and realized losses (gains) on investments, net	32,547,721	(40,560,230)
Unrealized gain on interest rate swap	(519,508)	(324,574)
(Decrease) in amounts held on behalf of other diocesan entities	(3,000)	-
(Increase) decrease in accounts receivable	(40,733)	195,013
(Increase) decrease in accrued interest receivable	(32,829)	136,801
(Increase) decrease in BLA pledges receivable	(1,147,665)	1,160,930
Decrease in bequests and major gift pledges receivable	13,825	482,542
Decrease in beneficial interest in residuary estates	-	2,365,509
(Increase) in prepaid expenses and other assets	(236,198)	(208,904)
(Decrease) increase in deposits held in custody for others	(1,353,134)	156,221
(Decrease) increase in accounts payable and accrued expenses	(228,164)	1,023,054
Increase in unearned revenue	106,295	5,985
(Decrease) in accrued pension liability, priests	(3,185,357)	(6,735,367)
(Decrease) increase in postretirement health benefit obligation	(5,695,531)	770,858
Increase in annuity payment liability	17,736	19,021
Net cash provided by operating activities	13,879,774	10,995,264
Cash flows from investing activities		
Purchases of equipment and payments made for construction in progress	(4,258,168)	(1,817,210)
Proceeds from sale of property	5,690,511	-
Cash advances for property development	(2,957,715)	(6,971,574)
Distributions from investment trust	4,961,253	-
Purchases of investments	(61,597,862)	(136,155,087)
Sales of investments	48,236,341	140,682,861
Net cash (used in) investing activities	(9,925,640)	(4,261,010)
Cash flows from financing activities		
Repayment of bonds and notes payable	(4,022,853)	(3,824,104)
Contributions received for permanent endowment	-	25,000
Cash received from other diocesan entities for long-term investment	-	2,489,628
Cash returned to other diocesan entities from investments	(93,057)	(5,767,400)
Payments to beneficiaries of split-interest agreements	-	(143,114)
Cash received from donors, split-interest agreements, including held for others	-	50,000
Net cash (used in) financing activities	(4,115,910)	(7,169,990)
Net (decrease) in cash and cash equivalents and restricted cash	(161,776)	(435,736)
Cash and cash equivalents and restricted cash, at beginning of year	9,474,321	9,910,057
Cash and cash equivalents and restricted cash, at end of year	$ 9,312,545	$ 9,474,321

Continued

The accompanying notes are an integral part of these financial statements.

	2022	2021
Supplemental cash flow information		
Interest paid on debt, including capitalized interest	$ 1,004,227	$ 995,638
Supplemental schedule of non-cash investing and financing activities		
Equipment purchases and construction in progress in accounts payable	$ 44,040	$ 191,065
Contributed investment, real property	$ 2,800,000	$ -
Investments held for others transferred to master trust	$ -	$ 179,064,947
Related party receivable exchanged for property	$ -	$ 2,265,981

The following provides a reconciliation of cash and cash equivalents and restricted cash reported in the Statement of Cash Flows to the same amounts reported on the Statement of Financial Postion:

	2022	2021
Cash and cash equivalents	$ 8,808,709	$ 8,866,263
Bond reserve and project fund	503,836	608,058
	$ 9,312,545	$ 9,474,321

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

The content of these financial statements is limited to the Central Administrative Office of the Catholic Diocese of Arlington (the Chancery). The Catholic Diocese of Arlington (the Diocese) consists of the 21 counties of the northern tier of Virginia, including the Northern Neck. The Chancery consists of various offices in order to organize events, monitor activities, coordinate efforts, and support the parishes and schools throughout the Diocese. The offices are classified into the following programs:

- Pastoral includes all offices primarily concerned with evangelization and communicating the Faith, such as the Office for Marriage, Family and Respect Life, Office of Youth, Young Adult and Campus Ministry, Tribunal, Spanish Apostolate, Multicultural Ministries, the San Damiano Spiritual Life Center, and the St. Rose of Lima Priests' Retirement Villa.

- Religious Personnel Development includes offices associated with the formational and educational needs of priests and deacons and related activities, including the Office of Vocations.

- Education includes offices associated with Catholic school administration and oversight of parish-based religious education programs.

- Social Services includes diocesan support of Catholic Charities of the Diocese of Arlington, the Campaign for Human Development, Rice Bowl, Office for Protection of Children and Young People and other charitable contributions.

- Diocesan Bishop and Communications - The Diocesan Bishop is responsible for teaching, governing, and sanctifying the faithful of the diocese. His ministry is provided through personal interactions, by traveling across the diocese for sacramental and pastoral purposes, as well as through digital and media production presence. This ministry may have a connection with other programs but the complete cost remains with this program.

- Diocesan Administration and Parochial Support includes offices concerned with the overall diocesan administration including the Chancery, Planning, Construction and Facilities, Finance and Accounting, Human Resources and Employee Benefits, Development and Information Services. These offices also provide services in support of the parishes and schools of the Diocese.

- Bishop's Lenten Appeal (BLA) includes all expenses associated with the annual fundraising drive.

2. Basis of presentation and summary of significant accounting policies

Basis of presentation and combination

The financial statements include the accounts of the Chancery and centralized administrative and diocesan functions under the control of the Bishop of Arlington (the Diocesan Bishop). They do not include the accounts for the Catholic Charities of the Diocese of Arlington (Catholic Charities), the Arlington Catholic Herald, 200 North Glebe Road, Inc., Arlington Diocesan Investment and Loan Corporation (DIAL Corp), the Catholic Investment Trust of Arlington, The Foundation for the Catholic Diocese of Arlington, Inc. (The Foundation), the Diocese of Arlington Scholarship Foundation, Inc. (Scholarship Foundation) or Boulevard VI Development, LLC (Blvd VI), over which the Diocesan Bishop exercises control, and are reported separately.

The financial statements also do not include the accounts of organizations within the Diocese such as parishes, parish schools, diocesan high schools, cemeteries, homes, and offices and other institutions owned and operated by religious orders of men and women. These organizations may or may not be separate corporations under civil law; however, each is an operating entity distinct from the Chancery, maintains separate accounts and carries on its own services and programs. Transactions between the Chancery and such organizations are recorded on bases agreed upon by the parties.

All properties of parishes and other diocesan-owned entities are legally titled to the Diocesan Bishop and his successors in office. The cost of new properties for future parish sites and diocesan high schools is included in these financial statements. At the time approval is given to proceed with formal planning of construction of a new parish, the parish is granted free use of the property by the Diocesan Bishop. Although civil ownership resides with the Diocese, the parish, a separate canonical entity, receives ownership of the property at the time of donation from the Chancery. Proceeds of the sale of any excess property shall accrue to the Diocese.

Basis of accounting
The Chancery’s financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Classification of net assets
The Chancery's net assets have been grouped into the following two categories, based on the presence or absence of donor-imposed restrictions:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions. The Chancery has designated, from net assets without donor restrictions, net assets for invested in property and equipment (net of related debt) and monies functioning as endowment, quasi-endowment funds, which includes original patrimony of the Diocese.

Although not restricted by donors, additional resources have been internally designated for other purposes including the priests’ mutual aid fund, property and employee benefit self-insurance reserves, special project and program initiatives, scholarship funds, benefactor funds, Rosa Bente Lee and T. Uhl, and property purchase reserve funds.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The corpus of these donations is invested and the earnings are recorded in net assets with donor restrictions until appropriated for spending and utilized for the specified purpose.

Cash and cash equivalents
Cash and short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents, except that any such investments with cash held in trusts or by external endowment investment managers are classified with the deposits and investments, respectively. Cash equivalents are carried at cost which approximates fair value.

Restricted cash
The Chancery maintains in interest bearing checking accounts project funds and required bond reserves related to the Loudoun County Educational Facilities Revenue Bond, Series 2016 for construction of the new facility for Saint Paul VI High School (Note 11).

Accounts and loans receivable
Accounts and loans receivable are stated at the amount management expects to collect from outstanding balances. The Chancery provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and credit to accounts and loans receivable.

Property, equipment and land
Property, equipment and land are carried at cost or, in the case of donated or bequeathed property, at fair value at date of donation. Property, equipment and land include real property, equipment, land and the original buildings and grounds of four regional high schools and other affiliated organizations under the control of the Diocesan Bishop. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, generally over 3 to 50 years. The cost of repairs and maintenance is expensed as incurred. It is the general policy of the Chancery to capitalize all expenditures for property and equipment in excess of $5,000.

Investments and investment valuation
Investments are stated at fair value, as described in Note 8, *Fair value measurements*. Investments consist of money market funds, U.S. Government and sponsored enterprises securities, corporate bonds and equities, beneficial interest in trust, real property and alternative investments.

Investment income and expense
Realized gains and losses on investment transactions are recorded on the average cost method and are included in investment income in the statement of activities. Changes in unrealized appreciation and depreciation for the year are similarly reported. Interest and dividend income are recorded on the accrual basis.

Investment pool and beneficial interest in investment trust
A master investment account was maintained for long-term assets and endowments of the Chancery and certain affiliates. On June 1, 2021, these assets were transferred to the Catholic Investment Trust of Arlington (CITA). The CITA was established as a nontaxable grantors' trust for the purpose to hold, invest, preserve, reinvest, and manage contributions for participating affiliates (grantors), including the Chancery (Note 7). Effective with this transfer, only the Chancery's allocated activity is included in the financial statements.

Realized and unrealized gains and losses from securities in the master investment pool are allocated monthly to the individual participants based on the relationship of the market value of each participant to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts. Chancery's beneficial interest (investment) in the CITA is stated at fair value, determined by the separate account maintained for the Chancery which is credited for additions and allocated investment gains and charged for withdrawals and allocated investment losses and expenses.

Derivative instruments
A derivative financial instrument is used to manage a variable interest rate on long-term debt. The Chancery has entered into an interest rate swap agreement to reduce the impact of changes in the variable interest rate. The Chancery recognizes the interest rate swap agreement as a net asset or liability at fair value on the statements of financial position. Changes in fair value on this agreement are recorded in the statement of activities as non-operating gains or losses.

Revenue recognition
Parishes are billed an operational assessment monthly (Note 9) with the expectation that in exchange they will be provided support services in the areas of human resources, general counsel, information technology and finance. This assessment is billed and recognized monthly, over the period benefits are provided. The Chancery charges for attendance at various program events. Income from program activities received in advance is deferred and recognized in the period the event is held. Various Chancery offices charge affiliates for accounting, information technology, and construction project support. This income is recognized over the period the services are provided.

In 2021 the Chancery made available virtual, on-line student educational services. At the time the contract with parents is entered into an account receivable is recorded, less expected discounts and scholarships. Deferred tuition revenue is also recorded and taken into income as the services are provided over the school year.

Contributions
Contributions are recognized when the donor makes an unconditional promise to transfer assets. These contributions are recorded as with or without donor restrictions depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions and released to net assets without donor restriction in the fiscal year in which the restrictions expire or are satisfied.

The Chancery's policy related to gifts-in-kind is to utilize the assets given to carry out its mission. If an asset is provided that does not allow the Chancery to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

Contributions received by the Chancery on behalf of other related entities are not recorded as contributions on the Chancery's statement of activities. Rather these amounts are agency transactions since the other related entities carry the variance power and not the Chancery.

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

Concentration of credit risk
Financial instruments which potentially subject the Chancery to a concentration of credit risk principally consist of cash and cash equivalents, accounts receivable, and investments. The Chancery maintains cash and investments with several financial institutions. The Chancery performs periodic evaluations of these institutions for relative credit standing. The total deposits at these institutions at times exceed the amount guaranteed by federal agencies and therefore bear some risk since they are not collateralized. Cash on deposit with financial institutions exceeded the federally insured limit by $4,857,315 and $5,602,240 as of June 30, 2022 and 2021, respectively. This includes restricted cash of $503,836 and $608,058 as of June 30, 2022 and 2021, respectively, that is required to be kept on hand in one financial institution, relating to the Saint Paul IV Catholic High School (PVI) project and reserve funds. The Chancery also invests excess funds in overnight investment agreements which are not federally insured but are collateralized by U.S. treasuries or mortgage-backed securities of U.S. government-sponsored enterprises. Amounts held in overnight investments as of June 30, 2022 and 2021 were $4,037,436 and $3,328,940, respectively. Pledges receivable, which have been adjusted for doubtful accounts, are due from individuals, corporations, and foundations. To date, no permanent losses or impairments have been experienced due to concentration in these areas.

Reclassification
Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

Income taxes
The Chancery is exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and related provisions of the Commonwealth of Virginia. They are not subject to the filing requirements of the Form 990. The Chancery may be subject to tax to the extent it has taxable unrelated business income. The Chancery has no unrelated business income and accordingly, no provision for income taxes is provided in the accompanying financial statements. The Chancery believes that it has appropriate support for any tax provisions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Changes in accounting principles
Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively to annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The Chancery has updated disclosures as necessary (Note 21).

New accounting pronouncements effective in future accounting periods
In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the fiscal year ended June 30, 2023. Management is currently evaluating the effects of this new standard on the entity's financial statements.

Subsequent events

In preparing these financial statements, the Chancery has evaluated events and transactions for potential recognition or disclosure through October 28, 2022, the date the financial statements were available to be issued.

3. Financial assets and liquidity

The following reflects the Chancery's financial assets as of the balance sheet date. Financial assets have been reduced to reflect assets not available within one year to meet general expenditures due to external limits imposed by donors or by contract and by internal limits imposed by the Diocesan Bishop.

	2022	2021
Cash and cash equivalents	$ 8,808,709	$ 8,866,263
Accounts receivable and accrued interest	1,884,108	1,822,542
Bequests and major gifts receivable	3,369,373	2,240,933
Investments (net of assets held on behalf of other entitites of $2,562,829 in 2022 and $2,951,443 in 2021)	170,657,808	191,909,204
Financial Assets, end of year	184,719,998	204,838,942
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restriction:		
Restricted by donor with purpose restictions	(23,431,861)	(15,426,123)
Perpetual in nature, net of annual spendable amount	(68,030,598)	(86,038,048)
Deposits held in custody for others, including investments held in annuity trus	(1,866,648)	(3,202,271)
Designated (Note 15), net of annual spendable amount	(49,574,799)	(48,180,681)
Financial assets available within one year to meet cash needs for general expenditures within one year	41,816,092	51,991,819
Other liquidity resources:		
Bank, available line of credit, fiscal year 2022 and 2021	7,000,000	7,000,000
Total financial assets and liquidity resources available within one year	$ 48,816,092	$ 58,991,819

The resources above are available for general expenditures, such as operating expenses not releasing restrictions, principal payments on debt, and operating property and equipment not financed with debt. As part of the Chancery's liquidity management, the Chancery structures its financial assets to be available as its general expenditures and liabilities come due, investing cash in excess of daily requirements in short-term investments.

The Chancery has established a quasi-endowment fund, which includes the original patrimony of the Diocese (Note 15). Although the Chancery does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval, amounts from its quasi-endowment could be made available if necessary.

The Diocesan Bishop has also designated other funds that could be undesignated and made available in the event of immediate needs beyond normal cash flow cycle (Note 15).

The Chancery has recorded accrued priests' pension and post-retirement health benefit obligations. The funding status of these plans are reviewed annually and premiums charged to participating affiliates are calculated in order to meet expected claims.

4. Accounts receivable

The Chancery bills the parishes, schools, other related entities and individuals for various items paid by the Chancery or covered under the diocesan structure. These include the retirement programs for priests and lay employees, diocesan tuition assistance program, unemployment compensation, health and property insurance and advances for security improvements. The Chancery also bills the parishes on a monthly basis for the operational assessment, a percentage of the parish offertory income to help offset the administration of diocesan programs. Accounts receivable are not collateralized.

Accounts receivable are as follows as of June 30:

	2022	2021
Parishes	$ 986,398	$ 969,907
Schools	459,237	431,289
Other diocesan entities	40,450	47,575
Employee advances	-	2,548
Due from brokers	44,702	144,141
Miscellaneous	338,253	232,847
Total accounts receivable	1,869,040	1,828,307
Less: allowance for doubtful accounts	(93,946)	(81,950)
Total accounts receivable, net	$ 1,775,094	$ 1,746,357

5. Bishop's Lenten Appeal pledges receivable

As of June 30, 2022 and 2021, contributors to the Bishop's Lenten Appeal (BLA) have unconditionally promised to give $3,362,348 and $2,214,683, respectively. As the Bishop's Lenten Appeal is an annual campaign, the pledges are due within one year.

6. Major gifts pledges receivable

Unconditional promises to give are as follows as of June 30:

	2022	2021
Receivables due in one to five years	$ 44,735	$ 58,560
Less: allowance for doubtful accounts	(37,710)	(32,310)
Major gifts pledges receivable, net	$ 7,025	$ 26,250

Unconditional promises to give due in more than one year are discounted at rates ranging from 2% to 2.63%.

7. Investments

Investments are stated at fair value. Investments consist of the following at June 30:

	2022	2021
Investments held in trust	$ 46,573,013	$ 39,787,672
Investments in real estate	10,824,142	8,024,142
Alternative investment	97,913	133,254
Beneficial interest in the Catholic Investment Trust of Arlington	115,725,569	146,915,579
Total	$173,220,637	$194,860,647

Endowment funds and long-term investments of the Chancery are invested in the Catholic Investment Trust of Arlington (CITA). CITA was established as a nontaxable grantors' trust for the purpose to hold, invest, preserve, reinvest, and manage contributions of participating affiliates (grantors), including the Chancery. Although assets are pooled for investment purposes, separate accounts are maintained for each grantor, credited for additions and allocated investment gains and charged for withdrawals and allocated investment losses and expenses, and current asset valuations attributable to each grantor. The CITA invests in a diverse portfolio comprised of cash, cash equivalents, fixed instruments, equities and alternative investments under the direction of the Trustees with powers granted them under the Master Trust Agreement. Included in the pooled assets is $80,353 and $101,615 as of June 30, 2022 and 2021, respectively, which makes up an endowment that is held through an affiliate, The Foundation for the Catholic Diocese of Arlington, where investment earnings are used towards operational expenses of the Chancery.

Prior to June 1, 2021, the establishment of CITA, the Chancery held and managed these pooled investments.

The following reflects the Chancery's investments held in trust, real estate, and unitized amounts of the funds held in the CITA as of June 30:

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	$ 13,455,567	$ 13,455,567	$ 8,564,194	$ 8,564,194
U.S. Government and sponsored enterprises securities	3,874,976	3,762,641	3,330,844	3,391,167
Corporate, municipal and foreign bonds and other fixed instruments	8,445,137	7,775,443	6,431,176	6,618,325
Equities, including publicly traded REITs	21,243,651	21,579,362	14,818,651	21,213,986
Beneficial interest in Catholic Investment Trust of Arlington	114,122,738	115,725,569	106,630,866	146,915,579
Real property held for investment	10,824,142	10,824,142	8,024,142	8,024,142
Alternative investments	-	97,913	-	133,254
	$ 171,966,211	$ 173,220,637	$ 147,799,873	$ 194,860,647

Included in investments at June 30, 2022 and 2021 is $719,045 and $846,171, respectively, representing the fair market value of assets held under split interest agreements for which the Chancery is the trustee. Monthly, quarterly or semiannual distributions are made to the donors. The ultimate beneficiaries are the Chancery, Catholic Charities and parishes. The proceeds are expected to be received in five to fourteen years, based on published actuarial tables, and are calculated using discount rates which represent the risk-free rates in existence at the date of the gifts. Amounts due to annuitants and related parties are disclosed as annuity payment liability in the accompanying statements of financial position. A portion of the amounts held in trust are recorded as deposits held in custody for others in the accompanying statement until which time the beneficial interests become irrevocable.

Investments are held for the following purposes:

	2022	2021
Current operations and programs	$ 72,306,183	$ 68,493,309
Long-term purposes, including endowments	96,175,401	119,316,095
Assets held on behalf of others	-	1,673,924
Arlington Diocese Educational Fund (ADEF)	4,739,053	5,377,319
Total	$173,220,637	$194,860,647

Investment income is reported on the statement of activities as follows:

	2022	2021
For Operations	$ 3,480,000	$ 3,380,000
In Other changes in net assets	(34,109,310)	38,843,192
Net investment (losses) gains - Chancery	$ (30,629,310)	$ 42,223,192

Investment income represented in operating revenue represents the amount included in the approved budget based on a spending rate formula.

Total net investment income for the years ended June 30, 2022 and 2021, respectively, consists of the following:

	2022	2021
Chancery		
Interest, dividends and other investment income	$ 2,166,656	$ 2,483,226
Realized gains, net	12,845,663	12,858,544
Unrealized (losses) gains, net	(45,386,451)	27,701,686
Less - investment management expenses	(255,178)	(820,264)
Net investment (losses) gains - Chancery	$ (30,629,310)	$ 42,223,192
Funds held for diocesan entities		
Investment income allocated to diocesan entities	$ 209,977	$ 43,078,830
Total net investment (losses) gains - Chancery and funds held for diocesan entities	$ (30,419,333)	$ 85,302,022

The Chancery invests in a variety of investment securities and therefore, is subject to various risks such as interest rate, credit and overall market volatility risk. Due to continuing market risk and fluctuations, it is reasonably possible that significant changes in investment values will occur in the near term that could materially affect the amounts reported in the statement of financial position and the results of operations.

8. Fair value measurements

The Chancery measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Chancery may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

The inputs used to measure fair value are categorized into the following three categories:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities such as stocks and government bonds.

- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair values of assets measured on a recurring basis by level at June 30, 2022 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Short-term investments	$ 13,455,567	$ -	$ -	$ 13,455,567
U.S. Government and sponsored enterprises securities	2,913,071	849,570	-	3,762,641
Corporate, municipal and foreign bonds and other fixed instruments	-	7,775,443	-	7,775,443
Equities, including publicly traded REITs	21,579,362	-	-	21,579,362
Beneficial interest in the Catholic Investment Trust of Arlington	-	-	115,725,569	115,725,569
Real property held for investment	-	10,824,142	-	10,824,142
	$ 37,948,000	$ 19,449,155	$ 115,725,569	173,122,724
Alternative investments measured at net asset value				97,913
Total investments				$ 173,220,637

Fair values of assets measured on a recurring basis by level at June 30, 2021 are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Short-term investments	$ 8,564,194	$ -	$ -	$ 8,564,194
U.S. Government and sponsored enterprises securities	1,440,603	1,950,564	-	3,391,167
Corporate, municipal and foreign bonds and other fixed instruments	-	6,618,325	-	6,618,325
Equities, including publicly traded REITs	21,213,986	-	-	21,213,986
Beneficial interest in the Catholic Investment Trust of Arlington	-	-	146,915,579	
Real property held for investment	-	8,024,142	-	8,024,142
	$ 31,218,783	$ 16,593,031	$ 146,915,579	194,727,393
Alternative investments measured at net asset value				133,254
Total investments				$ 194,860,647

Alternative investments are equity interests in limited partnerships and companies that hold private investments for which there is no readily determinable fair value. These investments are valued using the net asset value ("NAV") per share (or its equivalent) reported by the fund managers unless it is probable that fund will sell a portion of an investment at an amount different from the net asset valuation. Investments reported at NAV as a practical expedient for fair value have been excluded from the fair value hierarchy in accordance with ASU 2015-07. The fair value amounts presented in the tables are intended to permit reconciliation to the amounts presented in the statement of financial position.

The following is a description of what is included in the categories of investments, along with the valuation methodologies used for measuring assets at fair value.

Short-term investments – These include money market and money market mutual funds, investing primarily in cash, U.S. Treasury obligations, or short-term, high quality fixed income securities.

U.S. Government and sponsored enterprises securities – U.S. Treasury notes and bonds are valued by independent pricing services based on active market data and are categorized as Level 1. U.S. government-sponsored enterprises securities and mortgage-backed securities, categorized as Level 2, are valued by independent pricing services based on inputs that may include issuer type, coupon, cash flows, benchmark yields, reported trades, and bids and offers.

Corporate, municipal and foreign bonds and other fixed instruments – These investments include fixed rate corporate and foreign bonds that are valued based on yields currently available for comparable securities. All investments are categorized as Level 2.

Equity securities, including publicly traded REITs – These investments are individual securities and are valued based on their published closing price in an active market.

Beneficial interest in the Catholic Investment Trust of Arlington – The investment in CITA is considered a Level 3 investment as the Chancery holds a beneficial interest in the Trust in proportion to its contributions and allocated investment income or loss. Information is available to the Chancery and other grantors regarding the CITA's investment policy, asset holdings, performance and third-party audit results, subject to the terms and conditions of the Master Trust Agreement. The Chancery shall upon reasonable notice and at its discretion request withdrawals from their allocable interest in the CITA. Purchases of this level three investment for the years ended June 30, 2022 and 2021 were $0 and $144,185,994, respectively. The purchases in 2021 includes the original investment in CITA of $144,160,994. Distributions from this level three investment for the years ended June 30, 2022 and 2021 were $4,961,253 and $0, respectively.

Real property held for investment – Real estate investment properties, categorized as Level 2, are valued using a market approach based primarily on current appraised values and other information for similar property.

Alternative investments – Comprised of separate private equity interests focusing on a diversified portfolio with concentrations in timber, energy and real estate. These investments are valued at NAV reported by external fund managers as described in the investment funds' financial statements, all of which are subject to a third-party annual audit. Alternative investments cannot be sold or redeemed, except with the consent of the general partner. For these investments, periodic distributions are received through liquidation of the underlying assets of the funds.

The Chancery recognizes transfers into and out of levels at the end of the reporting period.

The estimated fair value of derivative assets and liabilities measured using Level 2 inputs, at June 30 are:

	2022		2021	
	Notional Amount	Fair Value Asset	Notional Amount	Fair Value (Liability)
Interest rate swap agreement	$ 8,998,558	$ 182,853	$ 10,506,246	$ (336,655)

The Chancery has entered into an interest rate swap agreement in association with a financing arrangement of bonds payable (Note 11). The fair value of the interest rate swap agreement is determined by comparing the difference between the present value of the fixed monthly payments and the estimated present value of the floating monthly payments based on estimated forward rates derived from yield curves. The Chancery has recognized in the statement of activities an increase in fair value of the interest rate swap agreement of $519,508 for the year ended June 30, 2022 and an increase of $274,574 for the year ended June 30, 2021. In the accompanying statement of financial position, liabilities related to derivatives are reported in accounts payable and accrued expenses.

Due to the inherent uncertainty involving assumptions and estimation methods, the fair value of the investments and interest rate swap agreements may differ materially from actual results.

9. Related-party transactions

The Chancery has transactions with diocesan parishes, schools, and other related entities. Below is a summary of the impact of significant transactions with these related parties on the statements of financial position and statements of activities:

	2022	2021
Assets:		
Accounts receivable, parishes, schools and other related entities, net	$ 1,486,030	$ 1,448,076
Due from Catholic Charities, split interest annuity	89,528	94,158
Property and advances provided for development and sale	15,263,565	12,305,850
Saint John Paul the Great Catholic High School loan receivable, interest waived for 2022 and 2021, no fixed repayment, repayments accepted as cash is available, net of allowance	-	-
	$ 16,839,123	$ 13,848,084

	2022	2021
Liabilities:		
Accounts payable, parishes, schools, other related entities	$ 14,168	$ 12,770
Due to parishes, split interest annuities	8,708	13,274
Amounts held on behalf of other diocesan entities:		
Parishes, capital campaign and major gift pledges	-	3,000
ADEF funds held for schools	2,562,829	2,948,443
	$ 2,585,705	$ 2,977,487

	2022	2021
Revenues and Support:		
Operational assessment, parishes	$ 7,275,065	$ 7,428,288
Contributions, diocesan tuition assistance program	2,273,458	2,321,340
Contributions, restricted from Saint Paul VI Catholic High School	775,000	2,981,739
Program fees	2,121,649	1,203,893
Information technology, accounting and administrative support	995,085	663,856
Rental income, Catholic Charities	196,889	171,572
Rental income, Arlington Catholic Herald	140,182	131,930
Rental income, Saint John Paul the Great Catholc High School	1,434,456	1,434,456
Rental income, Saint Paul VI Catholc High School	1,517,640	1,264,700
Insurance and risk management premiums billed	23,552,675	22,952,108
	$ 40,282,099	$ 40,553,882

	2022	2021
Expenses:		
Rent paid to 200 N. Glebe Road, Inc.	$ 2,558,128	$ 2,195,146
Contributions, tuition assistance program	2,268,974	2,328,975
Contributions, tuition assistance endowment grants	1,420,000	1,350,000
Contributions, student financial aid	274,000	495,250
Contributions, elementary student financial aid and programs	594,275	245,000
Contribution, subsidy to Catholic Charities	2,467,076	2,510,855
Contribution, Catholic Charities endowment fund	52,475	125,000
Contribution, other program service subsidies	179,930	264,140
Contribution, Cathedral of St. Thomas More renovations	451,175	-
Contributions made to Lay Retirement Plan	1,244,549	1,308,440
Contributions made to Priest Retirement Plan	378,000	366,000
Advertising expense to Arlington Catholic Herald	141,462	137,731
	$ 12,030,044	$ 11,326,537

Affiliates participating in the diocesan sponsored insurance plans are charged premiums to cover estimated claims and program expenses. The net revenue or expense of these programs is reflected under other changes in net assets.

The Chancery bills parishes on a monthly basis an 8% operational assessment, based on prior year's offertory.

Certain parishes have chosen to participate in the Arlington Diocese Educational Foundation (ADEF) program. This program was established to support the cause of Catholic education through endowments or quasi-endowment investment accounts. The assets of ADEF are held in trust with the Chancery being steward and guardian of such endowments.

Endowment funds and long-term investments of the Chancery and certain affiliates are held in the Catholic Investment Trust of Arlington (Note 7).

The Chancery has entered into services agreements with certain affiliates to provide information technology, accounting and administrative support.

Property and equipment includes the original buildings and grounds of four diocesan high schools and a regional elementary school acquired by the Chancery. The Chancery does not charge Bishop O'Connell, or Bishop Ireton Catholic High Schools, nor the regional elementary school, Epiphany Catholic School, for use of the facilities. Improvements and repairs necessary to maintain the property are financed by the schools and carried on their financial statements. The Chancery has joined with Catholic Charities in providing transitional housing and counseling services by providing use of a family housing facility at no charge.

The Chancery has advanced funds to Saint John Paul the Great Catholic High School periodically since its opening in August 2008, to supplement tuition in covering operating costs. In 2018, a reserve was established on the loan. In 2019, the collectability of the loan was reviewed based on current enrollment and operating financial position and $8,541,013 of the loan was forgiven. The remaining balance of $3,575,000, after this forgiveness, continues to be reserved.

The Chancery obtained financing through issuance of tax-exempt revenue bonds with the Prince William County Industrial Authority, a portion of which was used for building renovations and improvements to Saint Paul VI Catholic High School. The Chancery established a loan with PVI in the amount used cover these costs. As part of the plan to redevelop the former PVI Fairfax campus, the Chancery agreed to release PVI from this obligation in exchange for the transfer of control of certain improvements and land that will be used for redevelopment.

Annually, management assesses the adequacy of the allowance for credit losses evaluating required and expected repayment on loans. Changes in the allowance for related party loans receivable as of June 30 are as follows:

	2022	2021
Balance, beginning of year	$ 3,575,000	$ 3,575,000
Loan forgiveness	-	-
Balance, end of year	$ 3,575,000	$ 3,575,000

Property and advances provided for development and sale

The Diocese has entered into a redevelopment agreement to provide for the rezoning, entitlement, development and sale of property which was the previous site of the Saint Paul VI Catholic High School in the city of Fairfax. On September 11, 2018, the Council of the City of Fairfax approved the redevelopment plan. In April 2020, Boulevard VI Development, LLC (Blvd VI) was organized for the purpose of implementing the redevelopment plan. The Chancery has contributed real property to Blvd VI for the mixed-use project. The Chancery has also provided funds for project expenses, as needed and provides use of the Chancery's letter of credit facility. Blvd VI is a separate reporting entity, over which the Diocesan Bishop exercises control.

Distributions from Blvd VI will first go towards reimbursing the Chancery for cash funds provided and the carrying value of property contributed. Due to the uncertainty regarding the eventual timing and proceeds from the sale, the Chancery will not recognize assets in excess of amounts contributed.

10. Property, equipment and land, net

Property, equipment and land, net, consist of the following at June 30:

	2022	2021
Operating properties-buildings	$ 156,288,674	$ 156,164,051
Operating properties-land and land development	43,235,795	41,841,646
Operating properties-improvements	11,682,032	11,366,247
Operating properties-furniture and equipment	11,799,444	11,705,089
Land held for future projects and parishes	11,317,248	10,692,789
Office furniture and equipment	1,218,264	1,050,193
Computer hardware	930,673	864,996
Computer software	1,159,494	1,159,494
Vehicles	882,549	882,549
Leasehold improvements	4,329,522	4,329,522
Total property, equipment and land	242,843,695	240,056,576
Less: accumulated depreciation	(53,608,336)	(48,292,844)
Property, equipment and land, net	$ 189,235,359	$ 191,763,732

Depreciation expense was $5,366,164 and $5,171,420 during the years ended June 30, 2022 and 2021, respectively. Of the total assets listed above, $17,398,365 and $16,669,411 were fully depreciated at June 30, 2022 and 2021, respectively.

In 1998, a conditional gift of approximately forty acres of land in Prince William County was donated to the Chancery. In August 2006, the conditions of this gift were satisfied and the donation was recorded at the appraised value of $14,500,000. The land must be used for educational purposes for a period of thirty years and therefore the donation will remain with donor restrictions until such time this restriction expires.

Construction of Saint John Paul the Great Catholic High School and Saint Paul VI High School were funded, in part, from tax-exempt bonds (Note 11). Interest costs net of interest earned from the temporary investment of the bonds were capitalized. Cumulative investment earnings do not exceed cumulative investment expenses, and therefore the Diocese does not have an arbitrage recapture obligation. Upon completion of the high schools, bond interest cost was charged to expense.

Capitalized interest is included in operating properties. Amortization of capitalized interest of $112,662 and $101,033 for the years ended June 30,2022 and 2021, respectively, is included in depreciation expense.

11. Bonds payable

The Chancery has obtained two separate bank qualified tax-exempt financing arrangements for the construction of two high school facilities. The following bonds were outstanding at June 30:

	Year of Final Maturity	Current Rate 2022	2022	2021
Prince William County, Educational Facilities Revenue Refunding Bond, Series 2016	12/1/2027	2.28%	$ 9,435,090	$ 10,486,452
Loudoun County, Educational Facilities Revenue Bond, Series 2016	2/1/2041	1.81%	64,228,509	67,200,000
			73,663,599	77,686,452
Less unamortized bond issuance costs			151,884	163,931
			$ 73,511,715	$ 77,522,521

In April 2016, the Chancery entered into a refinancing arrangement related to the Prince William County Series 2012 bonds that financed construction of the Saint John Paul the Great High School located in Prince William County, Virginia. The County of Prince William Educational Facilities Revenue Refunding Bond, Series 2016 bear interest at a floating rate of 84% of the 1-month London Interbank Offered Rate (LIBOR) plus .80%. Principal and interest are payable monthly based on a 20 year amortization with a balloon payment due December 2027. The Chancery kept in place an interest rate swap agreement related to Prince William County bonds, securing an effective fixed rate of 2.28% for an original notional amount of $21,405,966, decreasing based on a 15 year amortization, terminating December 1, 2027. The notional amount at June 30, 2022 and 2021 is $8,998,558 and $10,506,246, respectively.

In February 2016, the Chancery secured bank qualified tax-exempt financing, Loudoun County, Education Facilities Revenue Bond, Series 2016 in the amount of $70,000,000 to be used in construction of a new facility for Saint Paul VI Catholic High School. The Loudoun County, Series 2016 bonds payable bear interest at a floating rate, 84% of the 1-month LIBOR plus .92%. The Chancery is required to maintain a debt service reserve fund with the bank for a percentage of the outstanding balance on the bond, $503,836 and $503,584 as of June 30, 2022 and 2021, respectively. The Chancery will be required to make minimum principal reductions through 2025 totaling $44,228,509. The remaining balance of $20,000,000 is to be amortized over 15 years, with a final payment due February 1, 2041.

The bonds contain no pre-payment penalties but require compliance with certain covenants such as operating liquidity, additional indebtedness, maintenance of insurance on the project, use of the bond proceeds, maintenance of tax-exempt status of the Diocese and financial reporting.

Bond interest expense is $1,004,232 and $931,134, reflective of the swap agreement, for the years ended June 30, 2022 and 2021, respectively. Amortization of bond issuance costs is reported as bond interest and related expenses in the statement of activities.

Maturities on the bonds payable annually for the years through 2027 and thereafter are as follows:

2023	11,545,239
2024	12,344,461
2025	12,991,873
2026	12,403,321
2027	2,420,827
Thereafter	21,805,994
	$ 73,511,715

12. Promissory note payable – SBA PPP

On May 8, 2020, the Chancery received loan proceeds in the amount of $2,775,000 under the U.S. Federal Government's Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The PPP loan bears interest at a fixed rate of 1% per annum and has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. The loan and accrued interest are forgivable so long as the borrower uses the loan proceeds for eligible purposes.

The Chancery applied for loan forgiveness and was notified by the lender on June 17, 2021, that the SBA approved full loan forgiveness. Loan proceeds were received by the bank from the SBA on this date and the Chancery was legally released from the debt. The loan forgiveness of $2,775,000 has been recorded as a gain on extinguishment of debt, which is included in other changes in net assets for the year ended June 30, 2021.

The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Chancery's financial position.

13. Pension expense

Pension plan – employees
The Diocese has a noncontributory defined benefit pension plan which covers substantially all lay employees of the Diocese. The plan provides benefits based on a formula which takes into account the lay employees' annual compensation, period of service, and age.

The lay employees' plan is administered by the Chancery, but is a multi-employer plan. The plan covers employees from other diocesan organizations, such as parishes and schools, the Arlington Catholic Herald, and diocesan high schools, which, as noted in Note 2, are not combined with the Chancery for financial reporting purposes. Premiums are calculated based on 10% of eligible participant salaries, and are used toward the quarterly funding of the plan. The cost of the plan for the Chancery and charged to expense was $1,328,060 and $1,308,440 for the years ended June 30, 2022 and 2021, respectively. The plan is not subject to ERISA funding requirements.

Pension plan - priests

The Diocese also has a noncontributory defined benefit plan which covers diocesan priests incardinated in the Diocese and provides benefits based on age and compensation at retirement. As required by generally accepted accounting standards in the United States of America, the full funding status of the defined benefit pension plans, as of the statement of financial position date, is disclosed below. Contributions are made annually to the plan by parishes and the Chancery based on the active priests assigned to each entity. A liability has been recognized to the extent of the underfunded plan status as of year-end. In the event of overfunding at year-end, the excess is reserved for the benefit of all participants and actuarial changes and is not recorded as an asset. The pension benefit obligation for retired priests has been actuarially determined.

The following amounts relate to the diocesan priests' defined benefit pension plan:

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 37,700,575	$ 36,304,944
Service cost	1,310,271	1,245,157
Interest cost	1,037,685	1,035,874
Actuarial (gain) loss	(9,370,211)	410,613
Benefits paid	(1,369,479)	(1,296,013)
Benefit obligation at end of year	29,308,841	37,700,575
Change in plan assets:		
Fair value of plan assets at beginning of year	34,515,218	26,384,220
Return on plan assets	(4,361,174)	7,489,011
Employer contributions	1,922,249	1,938,000
Benefits paid	(1,369,479)	(1,296,013)
Fair value of plan assets at end of year	30,706,814	34,515,218
(Over) under plan status	$ (1,397,973)	$ 3,185,357

Additional employer contributions of $26,249 in 2022 and $0 in 2021 were made available through restricted contributions.

The accumulated benefit obligation at June 30, 2022 and 2021 was $27,381,299 and $34,717,040, respectively. The net periodic pension cost for the years ended June 30, 2022 and 2021 were $468,136 and $1,204,822, respectively. Amounts previously recognized in net assets without donor restriction and not yet recognized as periodic pension cost at June 30:

	2022	2021
Net (loss)	$ (8,688,059)	$ (11,800,399)
Net prior service cost	(183,678)	(200,555)
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic benefit cost	$ (8,871,737)	$ (12,000,954)

The estimated net loss that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost in 2023 is $314,093.

Assumptions used to determine the year-end benefit obligation:

	2022	2021
Discount rate on the benefit obligation	4.70%	2.80%
Rate of expected return on plan assets	6.65%	6.90%
Rate of priests' compensation increase	2.00%	2.00%

The expected return assumption was developed as the weighted average of expected returns determined under a forward looking approach and a historical approach using the plan's target asset assumption. The forward looking assumption was developed based on a market analysis applied to the plan's investment mix. The historical return assumption was developed from a proprietary database of prior investment returns.

The Diocese measures fair value of the plan's assets using a three-level hierarchy based upon observable inputs (Note 8).

Fair values of the plan's assets measured on a recurring basis by level at June 30, 2022 are as follows:

	Fair Value	Level 1	Level 2
Short-term investments	$ 2,420,647	$ 2,420,647	$ -
U.S. Government and sponsored enterprises securities	3,720,346	1,614,489	2,105,857
Corporate and foreign bonds	5,554,472	-	5,554,472
Equities	19,011,349	19,011,349	-
Total	$ 30,706,814	$ 23,046,485	$ 7,660,329

Fair values of the plan's assets measured on a recurring basis by level at June 30, 2021 are as follows:

	Fair Value	Level 1	Level 2
Short-term investments	$ 2,379,682	$ 2,379,682	$ -
U.S. Government and sponsored enterprises securities	4,149,494	1,521,614	2,627,880
Corporate and foreign bonds	5,941,306	-	5,941,306
Equities	22,044,736	22,044,736	-
Total	$ 34,515,218	$ 25,946,032	$ 8,569,186

The Diocese's overall strategy is to invest in high-grade securities and other assets with a minimum risk of market value fluctuation. In general, the Diocese's goal is to maintain the following allocation ranges:

Equity securities	55% - 75%
Fixed income securities	20% - 40%
Short term cash/money market	0% - 10%

The Diocese expects to contribute approximately $1,884,000 to the plan in 2023. Projected benefit payments to be made from the plan for the next ten years are as follows:

2023	$ 1,323,589
2024	1,277,050
2025	1,233,285
2026	1,236,297
2027	1,293,058
2028-2032	7,273,372

Tax-deferred retirement savings plan

The Diocese also sponsors and maintains a tax-deferred 403(b) retirement savings plan for eligible employees and diocesan priests. All contributions are from employee elective salary reduction agreements. Since there is no employer match, there is no expense to the Chancery related to this plan.

14. Postretirement benefits

The Chancery sponsors a post-retirement Medicare supplemental plan for retired priests. The plan pays medical and prescription costs not covered by parts A and B of Medicare. The plan is noncontributory for diocesan priests. The Chancery also sponsors a lay-retiree postretirement plan which provides health benefits to retired lay employees meeting service and other participation requirements. The plan provides benefits to employees of the Chancery and other diocesan organizations, such as parishes, schools, the Arlington Catholic Herald, and diocesan high schools. The lay retirees pay 100% of the stated premium which is a blended rate for both active employees and retirees. Because the true medical costs are higher for retirees than for active employees, the plan is providing an "implicit subsidy" to the retirees. The postretirement obligation for both priests and lay retirees has been actuarially determined.

The following amounts relate to the postretirement health obligation:

	2022	2021
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 23,554,719	$ 22,783,861
Service cost	799,259	776,991
Interest cost	653,805	655,369
Employee contributions	133,113	118,344
Actuarial (gain) loss	(6,767,264)	(150,148)
Benefits paid	(514,444)	(629,698)
Benefit obligation at end of year	17,859,188	23,554,719
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	381,331	511,354
Employee contributions	133,113	118,344
Benefits paid	(514,444)	(629,698)
Fair value of plan assets at end of year	-	-
Post retirement health benefit obligation	$ 17,859,188	$ 23,554,719

The net periodic benefit cost for the years ended June 30, 2022 and 2021 were $1,735,353 and $1,751,644, respectively. Amounts previously recognized in net assets without donor restrictions and not yet recognized as periodic benefit cost at June 30:

	2022	2021
Net (loss)	$ (779,251)	$ (7,828,804)
Net prior service credit	-	-
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic benefit cost	$ (779,251)	$ (7,828,804)

The estimated net loss that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost in 2023 is $(61,196).

Assumptions used to determine the year-end benefit obligation:

	2022	2021
Discount rate on the benefit obligation	4.70%	2.80%

For measurement purposes, a 5.55% increase in the cost of health care benefits was assumed for 2022. This rate was assumed to decrease over a 24 year period to an ultimate rate of 4% by 2046. For 2021, a 5.89% increase in the cost of health care benefits was assumed. This rate was assumed to decrease over a 17 year period to an ultimate rate of 4.5% by 2038.

The Diocese expects to contribute approximately $454,000 to the plan in 2023. Projected benefit payments to be made from the plan for the next ten years are as follows:

2023	$	454,000
2024		473,000
2025		512,000
2026		562,000
2027		605,000
2028-2032		3,662,000

15. Net assets without donor restrictions, internally-designated

The Chancery has internally designated net assets without donor restrictions for the following purposes as of June 30:

	2022	2021
Invested in property and equipment, net of related debt	$ 114,230,346	$ 111,830,198
Designated for:		
Functioning as endowment	17,342,756	21,891,804
Self insurance, property and general liability	2,654,774	3,036,972
Self-insurance, employee benefits	17,155,140	15,423,912
Special project and program initiatives	7,657,048	1,498,310
Priests' mutual aid fund	630,729	557,817
Named benefactor funds & other designated	3,338,096	3,272,052
Scholarship funds	86,202	94,800
Property purchase reserves	1,433,054	3,034,013
	$ 50,297,799	$ 48,809,680

16. Net assets with donor restrictions

Net assets with donor restrictions are available for the following at June 30:

	2022	2021
Subject to expenditure for specific purpose:		
Pastoral Activities:		
Marriage, Family and Respect Life	$ 1,911,701	$ 1,640,990
Youth, Young Adult and Campus Ministry	1,296,340	1,201,271
Permanent Diaconate	165,354	146,091
Evangelization	1,328,497	1,302,212
Multicultural and Dominican Republic Mission	10,382	10,272
Spirituality Center	299,967	292,642
Retired Priest Needs, retirement home	5,496,164	5,538,424
Targeted initiatives and projects	9,554,124	2,081,014
Vocations, Seminarians and Religious Personnel Development	1,451,727	1,494,441
Catholic Education and Tuition Assistance	1,372,212	864,978
Social Service Activities:		
Catholic Charities	-	211,453
Other Charitable Works	507,558	595,034
Communications	37,835	47,301
Subject to spending policy and appropriation:		
Investment in perpetuity, income, which once appropriated, is expendable to support:		
Catholic Education - original donor-restricted gifts	24,072,804	24,072,804
Catholic Education - accumulated endowment earnings	19,669,630	31,091,030
Catechetics - original donor-restricted gifts	2,045,652	2,045,652
Catechetics - accumulated endowment earnings	3,975,844	5,474,743
Youth Ministry - original donor-restricted gifts	510,988	510,988
Youth Ministry - accumulated endowment earnings	637,809	928,340
For General Diocesan Operations - original donor-restricted gifts	14,326,896	14,326,896
For General Diocesan Operations - accumulated endowment earnings	3,547,475	8,250,696
Not Subject to appropriation or expenditure:		
Donated Land restricted for high school	14,500,000	14,500,000
Total	$ 106,718,959	$ 116,627,272

Included in targeted initiatives are amounts where donors have expressed support for stated goals. The actual allocation of these funds among the stated goals will be determined based on need.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

	2022	2021
Purpose restrictions accomplished:		
Pastoral activities	$ 4,219,205	$ 1,617,661
Vocations, Seminarians and Religious Personnel Development	377,109	384,108
Catholic Education and Tuition Assistance	3,358,583	6,219,399
Social Service Activities	1,091,239	921,905
Communications	65,442	43,318
Release of appropriated endowment amounts without purpose restrictions	663,100	603,000
Release of appropriated endowment amounts with purpose restriction	1,763,794	1,683,474
Total net assets released from restrictions	$ 11,538,472	$ 11,472,865

Expenses incurred for program activities such as seminarian education, educational programs, youth ministry, outreach, communications, and operations of the priests' retirement home resulted in a release of restricted net assets which is included in operations. Net assets were also released from restrictions with grants made to related parties for diocesan high school capital needs and charitable programs (Note 9). Affiliates are required to record these contributions as net assets with donor restrictions and released from those restrictions as funds are expended for the donor-specified purposes. Contributions with donor restrictions received for the benefit of retired priests' needs were used, in part, to reduce the unfunded priests' pension liability (Note 13). Contributions in the amount of $2,867,007 and $2,800,000 for the years ended June 30, 2022 and 2021, respectively, were used for the purpose of debt reduction related to the new facility for Saint Paul VI High School, thereby releasing these funds from restriction.

17. Endowments

The Chancery's endowments consist of funds established for various purposes which include catholic education, diocesan operations, catechetics, youth ministry and ADEF education scholarships and include both donor-restricted funds and funds designated by the Diocesan Bishop to function as endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence of donor-imposed restrictions.

Interpretation of relevant law

Donor-restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and thus, the Chancery classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions until the Chancery appropriates such amounts for expenditure and any other purpose restrictions have been met. The Chancery has interpreted the law as requiring the preservation of fair value of the original gift as of the date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result, the Chancery considers a fund to be underwater when the fair value of the fund is less than the sum of the (a) the original value of initial and subsequent gifts donated to fund and (b) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. Additionally, the Chancery has interpreted UPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. The Chancery considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the funds
2. The purposes of the Chancery and the donor-restricted endowment funds
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Chancery
7. The investment policies of the Chancery

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Chancery to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2022 and 2021.

Investment return objectives, risk parameters and strategies

The Chancery has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution ranging from 4% to 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy

The Chancery has a policy of appropriating for distribution each year 4% of its endowment fund average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned except for ADEF education scholarships which is 5% of the average fair value of the three previous calendar years. In establishing these policies, the Chancery considered the long-term expected return on its investment assets. The Chancery expects the current spending policy to allow its endowment funds to grow at a nominal average rate of between 3% and 4% annually over the spending rate. This is consistent with the Chancery's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Board-designated endowment (functioning as endowment)

Certain amounts of net assets without donor restrictions, which include the original patrimony of the Diocese, have been designated by the Diocesan Bishop as functioning as endowment. Since these amounts resulted from an internal designation and are not donor-restricted, they are classified and reported as net assets without donor restrictions (functioning as endowment). This endowment's investment policy, strategy and objectives are similar to the donor-invested policies, except as it relates to investment spending. All investment returns (losses) are added (deducted) to the endowment, net of any spending policy calculations that are taken.

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board-designated endowment funds	$ 17,342,755	$ -	$ 17,342,755
Donor-restricted endowment funds:			
Original donor-restricted gifts	-	40,956,340	40,956,340
Accumulated endowment earnings, subject to appropriation under UPMIFA	-	27,830,758	27,830,758
Total funds	$ 17,342,755	$ 68,787,098	$ 86,129,853

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board-designated endowment funds	$ 21,891,804	$ -	$ 21,891,804
Donor-restricted endowment funds:			
Original donor-restricted gifts	-	40,956,340	40,956,340
Accumulated endowment earnings, subject to appropriation under UPMIFA	-	45,744,809	45,744,809
Total funds	$ 21,891,804	$ 86,701,149	$ 108,592,953

Changes in donor-restricted endowment net assets as of June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 21,891,804	$ 86,701,149	$ 108,592,953
Contributions received in cash	-	-	-
Investment earnings, net	(3,920,049)	(15,487,158)	(19,407,207)
Amounts appropriated for expenditure and satisfying purpose restrictions	(629,000)	(2,426,893)	(3,055,893)
Endowment net assets, end of year	$ 17,342,755	$ 68,787,098	$ 86,129,853

Changes in donor-restricted endowment net assets as of June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 16,457,693	$ 67,218,495	$ 83,676,188
Contributions received in cash	-	25,000	25,000
Investment earnings, net	5,434,111	21,744,128	27,178,239
Amounts appropriated for expenditure and satisfying purpose restrictions		(2,286,474)	(2,286,474)
Endowment net assets, end of year	$ 21,891,804	$ 86,701,149	$ 108,592,953

18. Functional Classification of Expenses

Expenses by both their nature and function for the year ended June 30, 2022 are as follows:

	Program Activities					Diocesan Admin and Parochial support	Bishop's Lenten Appeal	Total expenses
	Pastoral	Religious Personnel Development	Education	Social Services	Diocesan Bishop and Comm.			
Salaries, honoraria, taxes and benefits	$ 5,043,858	1,549,551	1,555,106	691,515	1,368,286	9,010,585	220,993	19,439,894
Professional services and other	1,284,259	257,122	603,837	202,701	110,080	2,048,616	85,497	4,592,112
Materials and supplies	1,051,350	153,362	125,299	11,998	88,740	217,246	477,007	2,125,002
Office and occupancy	1,112,182	284,665	214,988	67,298	193,456	1,123,375	140,809	3,136,773
Education, conferences and development	37,159	2,007,063	300,386	5,976	39,654	285,591	2,507	2,678,336
Contributions and direct assistance	1,318,920	168,807	4,638,011	2,959,765	299,364	-	-	9,384,867
Property, equipment and depreciation	1,149,940	29,260	321,501	160,312	84,640	782,756	-	2,528,409
Total Expenses	$ 10,997,668	4,449,830	7,759,128	4,099,565	2,184,220	13,468,169	926,813	43,885,393

Expenses by both their nature and function for the year ended June 30, 2021 are as follows:

		Program Activities					Diocesan Admin and Parochial support	Bishop's Lenten Appeal	Total expenses
		Pastoral	Religious Personnel Development	Education	Social Services	Diocesan Bishop and Comm.			
Salaries, honoraria, taxes and benefits	$	4,497,042	1,424,745	1,977,723	710,325	1,175,714	9,117,873	222,622	19,126,044
Professional services and other		1,243,335	155,685	879,165	146,534	170,906	1,892,757	20,272	4,508,654
Materials and supplies		427,300	132,664	165,208	3,596	110,568	166,377	466,846	1,472,559
Office and occupancy		789,006	152,892	553,114	63,891	187,979	1,066,778	101,773	2,915,433
Education, conferences and development		85,770	1,809,285	243,004	3,336	16,401	240,834	399	2,399,029
Contributions and direct assistance		1,098,975	190,699	4,499,578	2,984,964	176,948	-	-	8,951,164
Property, equipment and depreciation		1,202,599	32,069	340,585	156,935	94,090	920,904	-	2,747,182
Total Expenses	$	9,344,027	3,898,039	8,658,377	4,069,581	1,932,606	13,405,523	811,912	42,120,065

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and office and occupancy, which are both allocated on a square footage basis, as well as certain salaries and benefits which are allocated on the basis of estimates of time and effort.

19. Insurance programs

The Diocese maintains health, property, general liability and workers compensation insurance plans for the Chancery and participating affiliates. Each entity participating in the plans is charged premiums to cover estimated losses, administrative costs, and excess insurance policy premiums.

Under the medical plan, the self-insured retention layer includes an individual loss limit of $450,000 in plan year 2022 and $275,000 in plan year 2021, as well as an aggregate loss limit of up to 125% of expected claims, or about $24,100,000 in plan year March 2022-February 2023. Losses exceeding these amounts are covered by the stop-loss insurance policy with no annual limit on aggregate losses. Incurred but not reported health claims are estimated to be $2,139,000 and $1,957,000 at June 30, 2022 and 2021, respectively.

The Diocese continues to maintain a multi-tiered approach to its risk financing program which includes both risk retention and risk transferring strategies. The Diocese retains the first layer of coverage for all other property and casualty exposures. The self-insured retention layer is $500,000 per occurrence with an annual aggregate of $1,500,000. The retention amount applies cumulatively to property and liability exposures. With regard to workers compensation, in 2019 the Diocese moved from 100% insured to including this line of coverage in the insurance program with a $250,000 self-insured retention per occurrence. The Chancery's estimated exposure for future payments of this layer is $1,870,000 and $1,956,000 at June 30, 2022 and 2021, respectively. Several layers of excess coverage from various carriers beyond the self-insured retention layer and primary insurance layer exist. The amount of excess coverage differs based on the given line of coverage, and at a minimum provides $1,000,000 of additional insurance.

Prior to July 2007, the second layer of coverage was retained by the Catholic Umbrella Pool II (CUP II) which is a risk retention pool consisting of member dioceses of which Arlington is included. This coverage provided $5,500,000 in excess of the primary layer of $1,500,000 of insurance coverage. Currently there are 39 participants each with equal voting rights. Participation percentages vary annually based on the exposures of the Diocese and the number of participating entities. The Diocese participation interest has averaged 2% of the total contributions to the Pool.

The Diocese does retain an exposure equal to its participation level in any year should the claims in that year exceed contributions collected. The Chancery estimates no material loss with regard to this participation.

Included in accounts payable and accrued expenses are the following:

	2022	2021
Incurred but not reported estimated health claims	$2,139,000	$1,957,000
Estimated property and general liability claims	$1,870,000	$1,956,000

20. Commitments and contingencies

Leases

The Chancery leases office space under a non-cancelable lease agreement with 200 North Glebe Road, Inc., a related entity. A new lease was signed effective July 1, 2020, continuing a five year term with an option to extend for an additional five years. The lease includes certain incentives, including an increase in the leasehold improvement allowance to $3,070,000 and provides for an automatic adjustment of 3% annually. The lease incentives and all rental payments are amortized over the life of the lease on a straight-line basis with the excess of expense over cash paid reflected in deferred lease incentives. In addition to lease payments, the office lease generally requires the Chancery to pay any incremental increases in taxes, insurance and utilities. The Chancery also leases office equipment under operating leases expiring through April 2026. Total rent expense, net of sublease rentals for years ended June 30, 2022 and 2021, is as follows:

	2022	2021
Office space	$ 2,558,128	$ 2,195,146
Office equipment	93,324	98,577
Sublease office rental (related entities)	(337,071)	(303,502)
Net expense	$ 2,314,381	$ 1,990,221

At June 30, 2022, future minimum lease payments are as follows:

	Total Lease	Sublease	Net Lease
2023	$ 2,627,318	$ 366,240	$ 2,261,078
2024	21,064	-	21,064
2025	8,295	-	8,295
2026	2,600	-	2,600
2027	-	-	-
Total future minimum lease payments	$ 2,659,277	$ 366,240	$ 2,293,037

Lines of credit and letters of credit

The Chancery has obtained lines of credit as follows:

	June 30, 2022		June 30, 2021	
	Total Available	Outstanding	Total Available	Outstanding
Operating needs	$ 7,000,000	$ -	$ 7,000,000	$ -
Standby letters of credit for various construction projects	$ 25,000,000	$ 15,182,176	$ 18,000,000	$ 15,572,682

The Chancery has a line of credit and letter of credit facility requiring certain covenants such as operating liquidity, additional indebtedness, and financial reporting. In February 2022, the line of credit for operating needs was renewed with a stated rate of interest based on the Term SOFR rate plus 200 basis points. The revised terms also increased the letter of credit facility to $25,000,000. The issuance fee for standby letters of credit for various parish and Chancery construction projects was 1.5% per annum with a minimum of $200 per letter for the years ended June 30, 2022 and 2021.

Litigation

The Diocese has been named as a defendant in various lawsuits. Coverage for each of the lawsuits is provided by either a self-insurance fund or excess insurance coverage. When applicable, reserves have been established for those cases where the potential liability is estimable and probable. In instances where a loss is reasonably possible, but the amount is not estimable no reserve is established. There was no reserve for 2022 and 2021.

21. Contributed nonfinancial asset

The Chancery received donated property with an estimated, appraised value of $4,100,000 during the year-ended June 30, 2022. The gift was received without restriction. The Chancery recognized a contribution of a nonfinancial asset as of June 30, 2022 for the net realizable value of $2,800,000, adjusted for market conditions, as well as costs necessary for sale. The property is being held for sale and shown in Investments on the Statement of Financial Position as of June 30, 2022.

Global

INDEPENDENT
NETWORK MEMBER

CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAglobal.com/disclaimer.
Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an
SEC-registered investment advisor.