Central Administrative Office of the Catholic Diocese of Arlington

Financial Statements
as of June 30, 2020 and 2019 and Report Thereon

Central Administrative Office of the Catholic Diocese of Arlington
Table of Contents
June 30, 2020 and 2019

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

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, 2020 and 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
October 27, 2020

Central Administrative Office of the Catholic Diocese of Arlington
Statements of Financial Position
As of June 30, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 9,302,379	$ 9,011,663
Accounts receivable, net	1,960,337	1,537,494
Accrued interest receivable	212,986	338,660
Bishop's Lenten Appeal pledges receivable	3,375,613	3,570,160
Bequests and major gifts pledges receivable, net	383,767	658,228
Prepaid expenses and other assets	780,927	1,095,393
Beneficial interest in residuary estates	2,365,509	2,175,000
Investments	296,302,877	288,911,883
Property held for Development and Sale	3,068,295	-
Bond reserve and project fund	607,678	24,892,561
Demand notes and loans receivable		
Paul VI High School	2,265,981	2,537,516
Property, equipment and land, net	104,369,300	108,447,187
Construction in progress and assets not yet placed in service	92,068,491	66,526,135
Land restricted for high school	14,500,000	14,500,000
Total assets	$ 531,564,140	$ 524,201,880
Liabilities and Net Assets		
Liabilities		
Deposits held in custody for others	$ 2,387,178	$ 3,217,904
Accounts payable and accrued expenses	7,627,125	11,064,027
Deferred lease incentives	2,906,739	2,169,468
Unearned revenue	91,363	134,548
Amounts held on behalf of other diocesan entities	144,056,443	136,568,917
Annuity payment liability	380,198	393,753
Accrued pension liability, priests	9,920,724	5,084,692
Postretirement health benefit obligation	22,783,861	17,390,911
Bonds payable, net of unamortized bond costs	81,334,578	82,320,607
Promissory note payable - SBA PPP	2,775,000	-
Total liabilities	274,263,209	258,344,827
Net assets		
Without donor restrictions		
Undesignated for current operations	8,282,743	20,150,798
Invested in property, equipment and land, net of related debt	110,861,559	111,315,603
Designated, other	40,224,269	38,551,927
Total without donor restrictions	159,368,571	170,018,328
With donor restrictions		
Perpetual in nature	67,243,495	65,465,886
Purpose and time restricted	30,688,865	30,372,839
Total with donor restrictions	97,932,360	95,838,725
Total net assets	257,300,931	265,857,053
Total liabilities and net assets	$ 531,564,140	$ 524,201,880

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Bishop's Lenten Appeal	$ 17,488,222	$ -	$ 17,488,222
Operational assessment	6,563,368	-	6,563,368
Investment income for operations	2,757,000	496,350	3,253,350
Contributions, bequests and major gifts	2,351,794	5,717,660	8,069,454
Program revenue	3,893,253	-	3,893,253
Net assets released from restrictions	7,725,526	(7,725,526)	-
Total operating revenues and support	40,779,163	(1,511,516)	39,267,647
Operating expenses			
Program services			
Pastoral	10,177,976	-	10,177,976
Religious personnel development	4,332,027	-	4,332,027
Education	8,661,643	-	8,661,643
Social services	4,077,054	-	4,077,054
Diocesan Bishop and communications	1,876,348	-	1,876,348
Supporting services			
Diocesan administration and parochial support	13,903,463	-	13,903,463
Bishop's Lenten Appeal	914,531	-	914,531
Total operating expenses	43,943,042	-	43,943,042
Change in net assets from operations	(3,163,879)	(1,511,516)	(4,675,395)
Other changes in net assets			
Investment income less amount included in operations, net	277,623	3,697,399	3,975,022
Bond interest and related expenses	(303,038)	-	(303,038)
Unrealized loss on swap agreement	(519,643)	-	(519,643)
Insurance programs	2,552,110	-	2,552,110
Change in unfunded pension liability, priests	(4,846,532)	-	(4,846,532)
Change in unfunded postretirement health obligation	(5,392,950)	-	(5,392,950)
Net property gains	3,439	-	3,439
Diocesan rental income	1,700,518	-	1,700,518
Diocesan rental expense	(1,049,653)	-	(1,049,653)
Net assets released from restrictions	92,248	(92,248)	-
Total other changes in net assets	(7,485,878)	3,605,151	(3,880,727)
Change in net assets	(10,649,757)	2,093,635	(8,556,122)
Net assets, beginning of year	170,018,328	95,838,725	265,857,053
Net assets, end of year	$ 159,368,571	$ 97,932,360	$ 257,300,931

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Bishop's Lenten Appeal	$ 17,195,027	$ -	$ 17,195,027
Operational assessment	7,960,825	-	7,960,825
Investment income for operations	2,599,300	400,700	3,000,000
Contributions, bequests and major gifts	2,412,036	6,842,708	9,254,744
Program revenue	3,489,721	-	3,489,721
Net assets released from restrictions	8,199,610	(8,199,610)	-
Total operating revenues and support	41,856,519	(956,202)	40,900,317
Operating expenses			
Program services			
Pastoral	10,807,974	-	10,807,974
Religious personnel development	4,042,035	-	4,042,035
Education	6,717,530	-	6,717,530
Social services	3,903,385	-	3,903,385
Diocesan Bishop and communications	1,779,959	-	1,779,959
Supporting services			
Diocesan administration and parochial support	13,289,345	-	13,289,345
Bishop's Lenten Appeal	887,488	-	887,488
Total operating expenses	41,427,716	-	41,427,716
Change in net assets from operations	428,803	(956,202)	(527,399)
Other changes in net assets			
Investment income less amount included in operations, net	682,745	3,081,953	3,764,698
Bond interest and related expenses	(327,334)	-	(327,334)
Unrealized loss on swap agreement	(534,509)	-	(534,509)
Insurance programs	(1,102,435)	-	(1,102,435)
Change in unfunded pension liability, priests	(1,028,340)	-	(1,028,340)
Change in unfunded postretirement health obligation	(2,501,940)	-	(2,501,940)
Net property losses	(218,131)	-	(218,131)
Diocesan rental income	1,743,246	-	1,743,246
Diocesan rental expense	(1,082,007)	-	(1,082,007)
Net assets released from restrictions	373,033	(373,033)	-
Total other changes in net assets	(3,995,672)	2,708,920	(1,286,752)
Change in net assets	(3,566,869)	1,752,718	(1,814,151)
Net assets, beginning of year	173,585,197	94,086,007	267,671,204
Net assets, end of year	$ 170,018,328	$ 95,838,725	$ 265,857,053

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, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	(8,556,122)	(1,814,151)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of property	3,283,001	3,079,793
(Gain) loss on sale of assets	(3,439)	218,131
Bond amortization	12,047	12,047
Contributed real property	(500,000)	-
Contributions for long-term purposes	(276,896)	(520,000)
Increase (decrease) in allowance for uncollectible accounts receivable	9,908	(12,254)
(Decrease) increase in discount and allowance on major gifts pledges receivable	(54,357)	50,313
Unrealized and realized (gains) on investments, net	(4,977,314)	(4,451,137)
Unrealized loss on interest rate swap	519,643	534,509
(Decrease) in amounts held on behalf of other diocesan entities	(15,216)	(13,187)
(Increase) in accounts receivable	(432,751)	(134,908)
Decrease (increase) in accrued interest receivable	125,674	(91,750)
Decrease (increase) decrease in BLA pledges receivable	194,547	(26,290)
Decrease in bequests and major gift pledges receivable	328,818	784,255
(Increase) in beneficial interest in residuary estates	(190,509)	(1,505,000)
Decrease (increase) in prepaid expenses and other assets	314,466	(4,817)
(Decrease) in deposits held in custody for others	(670,285)	(160,766)
(Decrease) increase in accounts payable and accrued expenses	(1,444,808)	1,490,322
(Decrease) increase in unearned revenue	(43,185)	(21,940)
Increase in accrued pension liability, priests	4,836,032	985,236
Increase in postretirement health benefit obligation	5,392,950	2,501,940
Increase in annuity payment liability	38,594	62,254
Net cash provided by operating activities	(2,109,202)	962,600
Cash flows from investing activities		
Purchases of equipment and payments made for construction in progress	(29,591,792)	(42,875,073)
Proceeds from sale of property	5,000	-
Decrease in 200 North Glebe Road loan receivable	-	2,234,286
Decrease in Paul VI High School loan receivable	271,535	264,883
Purchases of investments	(141,480,030)	(244,156,169)
Sales of investments	145,505,757	244,229,441
Net cash (used in) investing activities	(25,289,530)	(40,302,632)
Cash flows from financing activities		
Proceeds from SBA PPP Loan	2,775,000	-
Repayment of bonds and notes payable	(998,076)	(1,035,907)
Contributions received for permanent endowment	276,896	520,000
Cash received from other diocesan entities for long-term investment	2,598,950	2,741,002
Cash returned to other diocesan entities from investments	(996,752)	(764,559)
Payments to beneficiaries of split-interest agreements	(251,453)	(140,415)
Cash received from donors, split-interest agreements, including held for others	-	69,574
Net cash provided by financing activities	3,404,565	1,389,695
Net (decrease) in cash and cash equivalents and restricted cash	(23,994,167)	(37,950,337)
Cash and cash equivalents and restricted cash, at beginning of year	33,904,224	71,854,561
Cash and cash equivalents and restricted cash, at end of year	$ 9,910,057	$ 33,904,224

Continued

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, 2020 and 2019

	2020	2019
Supplemental cash flow information		
Interest paid on debt, including capitalized interest	$ 1,889,079	$ 2,372,045
Supplemental schedule of non-cash investing and financing activities		
Equipment purchases and construction in progress in accounts payable	$ 1,331,364	$ 3,968,619
Contributed investment, real property	$ 500,000	$ -
Leasehold improvements provided by lessor incentive	$ 862,789	$ 2,200,000

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:

	2020	2019
Cash and cash equivalents	$ 9,302,379	$ 9,011,663
Bond reserve and project fund	607,678	24,892,561
	$ 9,910,057	$ 33,904,224

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 Family Life, Office of Youth Ministry, Tribunal, Spanish Apostolate, Multicultural Ministries, Campus 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 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.

In fiscal year 2013, the Chancery launched the *Partners United in the Heart of Christ-Leadership Gift Initiative 2015* (LGI), a targeted major gift campaign. The goal of the LGI is to raise a minimum of $55 million in support of the most critical needs of the diocese in the areas of Catholic education, New Evangelization, support for our retired priests, Catholic Charities programs and various capital improvements.

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 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:

> <u>Net assets without donor restrictions</u> – 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, scholarship funds, benefactor funds, Rosa Bente Lee and T. Uhl, and property purchase reserve funds.
>
> <u>Net assets with donor restrictions</u> - 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 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, 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 pools
The Chancery maintains master investment accounts for long-term assets, including certain reserves held on behalf of DIAL Corp and endowments, including those amounts held on behalf of Catholic Charities and The Foundation. Realized and unrealized gains and losses from securities in the master investment accounts 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.

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.

Unearned revenue
Income from program activities received in advance is deferred and recognized in the period the event is held.

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.

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 $5,448,388 and $30,039,870 as of June 30, 2020 and 2019, respectively. This includes restricted cash of $607,678 and $24,892,561 as of June 30, 2020 and 2019, respectively, that is required to be kept on hand in one financial institution, relating to the PVI Catholic High School 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, 2020 and 2019 were $4,093,490 and $4,016,483 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.

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.

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

Changes in Accounting Principles
In June 2018, FASB issued ASU 2018-08, Accounting Guidance for Contributions Received and Made. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional. The financial statements reflect the application of ASU 2018-08 beginning July 1, 2019. The new guidance does not require prior period results to be restated.

New accounting pronouncements effective in future accounting periods
In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-19, Revenue from Contracts with Customers. This guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For those entities that have not yet issued financial statements or made their financial statements available for issuance reflecting the adoption of this standard, the FASB decided to defer the effective dates and issued Accounting Standards Update (ASU) 2020-05. The ASU permits private companies and not-for-profit organizations that have not yet applied the revenue recognition standard to elect to adopt for annual reporting periods beginning after December 15, 2019. Management is currently evaluating the effects of this new standard on the entity's financial statements. The standard will be adopted for the fiscal year ended June 30, 2021.

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; however, early application is permitted. 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 27, 2020, 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.

	2020	2019
Cash and cash equivalents	9,302,379	9,011,663
Accounts receivable and accrued interest	2,173,323	1,876,154
Pledges receivable	3,759,380	4,228,388
Beneficial interests in residuary estates	2,365,509	2,175,000
Investments (net of assets held on behalf of other entitites of $144,056,442 in 2020 and $136,568,917 in 2019)	152,246,434	152,342,966
Financial Assets, end of year	169,847,025	169,634,171
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restriction:		
Restricted by donor with purpose restictions	(16,188,865)	(15,872,839)
Perpetual in nature, net of annual spendable amount, $603,000 in 2020 and $496,350 in 2019	(66,640,495)	(64,969,536)
Deposits held in custody others, including investments held in annuity trust	(2,767,376)	(3,611,657)
Designated (Note 15)	(40,224,269)	(38,551,927)
Financial assets available within one year to meet cash needs for general expenditures within one year	44,026,020	46,628,212
Other liquidity resources:		
Bank, available line of credit, fiscal year 2021 and 2020	7,000,000	5,000,000
Total financial assets and liquidity resources available within one year	51,026,020	51,628,212

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 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:

	2020	2019
Parishes	$ 950,336	$ 852,255
Schools	614,172	461,004
Other diocesan entities	147,060	86,223
Employee advances	100	2,157
Due from brokers	139,562	112,298
Miscellaneous	172,090	76,632
Total accounts receivable	2,023,320	1,590,569
Less: allowance for doubtful accounts	(62,983)	(53,075)
Total accounts receivable, net	$ 1,960,337	$ 1,537,494

5. Bishop's Lenten Appeal pledges receivable

As of June 30, 2020 and 2019, contributors to the Bishop's Lenten Appeal (BLA) have unconditionally promised to give $3,375,613 and $3,570,160, respectively. As the Bishop's Lenten Appeal is an annual campaign, the pledges are due within one year.

6. Bequests and major gifts pledges receivable and Beneficial interest in residuary estates

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

	2020	2019
Receivables due in one year or less	$ 39,367	$ -
Receivables due in one to five years	501,735	869,920
Total unconditional promises to give	541,102	869,920
Less: allowance for doubtful accounts	(155,250)	(198,970)
Less: discount to present value	(2,085)	(12,722)
Pledges receivable, net	$ 383,767	$ 658,228

Pledges receivable include amounts related to the LGI campaign (Note 1). Unconditional promises to give due in more than one year are discounted at rates ranging from 2% to 2.63%.

Beneficial interest in residuary estates

Estimated amounts due as of June 30 are as follows:

	2020	2019
Residuary interests in cash and real property, without donor restriction	$ 2,365,509	$ 2,000,000
Residuary interest in Rosa Bente Lee Trust, for investment in perpetuity, with investment earnings available for general purposes	$ -	$ 175,000
Beneficial interest in residuary estates	$ 2,365,509	$ 2,175,000

7. Investments

Investments are stated at fair value. The cost of investments and related fair values at June 30, 2020 and 2019 consist of the following:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	$ 22,388,005	$ 22,388,005	$ 16,155,196	$ 16,155,196
U.S. Government and sponsored enterprises securities	6,257,298	6,343,168	3,279,808	3,246,208
Corporate, municipal and foreign bonds and other fixed instruments	55,435,193	61,183,255	52,807,394	56,399,297
Equities, including publicly traded REITs	147,399,852	181,222,227	155,267,165	189,664,213
Real property held for investment	8,524,142	8,524,142	8,024,142	8,024,142
Alternative investments	13,693,302	16,642,080	13,610,064	15,422,827
	$ 253,697,792	$ 296,302,877	$ 249,143,769	$ 288,911,883

Included in investments at June 30, 2020 and 2019 is $715,417 and $747,217, 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 six 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:

	2020	2019
Current operations and programs	$ 55,228,287	$ 58,309,678
Long-term purposes, including endowments	93,659,421	90,370,839
Assets held on behalf of other entities, including DIAL Corp	142,822,565	135,659,073
Arlington Diocese Educational Fund (ADEF)	4,592,604	4,572,293
Total	$ 296,302,877	$ 288,911,883

Investments in the amount of $255,524,652 and $249,029,155 as of June 30, 2020 and 2019, respectively, are held in a pool under a trust agreement with a bank in which participants share in allocated investment income and loss.

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

	2020	2019
For Operations	$ 3,253,350	$ 3,000,000
In Other changes in net assets	3,975,022	3,764,698
Net investment gains - Chancery	$ 7,228,372	$ 6,764,698

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, 2020 and 2019, respectively, consists of the following:

	2020	2019
Chancery		
Interest, dividends and other investment income	$ 3,020,613	$ 3,119,034
Realized gains, net	3,534,466	4,145,477
Unrealized gains, net	1,442,848	305,660
Less - investment management expenses	(769,555)	(805,473)
Net investment gains - Chancery	$ 7,228,372	$ 6,764,698
Funds held for diocesan entities		
Investment income allocated to diocesan entities	$ 8,090,702	$ 6,773,071
Total net investment gains - Chancery and funds held for diocesan entities	$ 15,319,074	$ 13,537,769

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. The Chancery has no level three investments for the years 2020 and 2019.

Fair values of assets measured on a recurring basis by level at June 30, 2020 are as follows:

	Level 1	Level 2	Total
Assets			
Investments			
Short-term investments	$ 22,388,005	$ -	$ 22,388,005
U.S. Government and sponsored enterprises securities	4,356,686	1,986,482	6,343,168
Corporate,municipal and foreign bonds and other fixed instruments	-	61,183,255	61,183,255
Equities, including publicly traded REITs	181,222,227	-	181,222,227
Real property held for investment	-	8,524,142	8,524,142
	$ 207,966,918	$ 71,693,879	279,660,797
Alternative investments measured at net asset value			16,642,080
Total investments			$ 296,302,877

Fair values of assets measured on a recurring basis by level at June 30, 2019 are as follows:

	Level 1	Level 2	Total
Assets			
Investments			
Short-term investments	$ 16,155,196	$ -	$ 16,155,196
U.S. Government and sponsored enterprises securities	1,416,524	1,829,684	3,246,208
Corporate,municipal and foreign bonds and other fixed instruments	-	56,399,297	56,399,297
Equities, including publicly traded REITs	189,664,213	-	189,664,213
Real property held for investment	-	8,024,142	8,024,142
	$ 207,235,933	$ 66,253,123	273,489,056
Alternative investments measured at net asset value			15,422,827
Total investments			$ 288,911,883

Alternative investments are equity interests in limited partnerships and companies that hold private investments for which there is no readily determinable interest 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 consist primarily of holdings in three diversified bond funds, two fixed bond funds and one high yield bond fund. Both bond funds invest primarily in U.S. Government, agency, corporate and mortgage-backed securities. The fair value of the bond fund investments are estimated using the net asset value per share of investments provided by the fund manager. Holdings also 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.

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 venture and/or buy-out strategies, investments in real assets, technology and health care, a diversified portfolio with concentrations in timber, energy and real estate, and investment in a private investment partnership. The private investment partnership seeks to attain current income and capital appreciation promoting strategies that are in accordance with Catholic social teaching. 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 reported at net asset value are reflected below:

	2020 Fair Value	2019 Fair Value	Unfunded Commitments June 30, 2020	Redemption Frequency	Redemption Notice Period
Private equity - venture/buyout	$ 7,994,640	$ 6,385,505	$ 1,533,519	N/A	N/A
Private equity - diversifed portfolio	160,039	239,422	143,805	N/A	N/A
Private equity - real estate	-	1,465,272	-	N/A	N/A
Private equity - technology and health care	861,067	-	4,075,000	N/A	N/A
Private investment partnership	7,626,334	7,332,628	-	Up to 50% of capital each rolling 3-month period	95 days
	$ 16,642,080	$ 15,422,827	$ 5,752,324		

The Chancery may not sell, transfer or pledge their interest in the private equity funds, except with the consent of the general partner. For these investments, periodic distributions are received through liquidation of the underlying investments of the fund.

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:

	2020		2019	
	Notional Amount	Fair Value (Liability)	Notional Amount	Fair Value (Liability)
Interest rate swap agreement	$ 11,976,748	$ (611,229)	$ 13,410,980	$ (91,586)

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 a decrease in fair value of the interest rate swap agreement of $519,643 for the year ended June 30, 2020 and a decrease of $534,509 for the year ended June 30, 2019. 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:

	2020	2019
Assets:		
Accounts receivable, parishes, schools and other related entities, net	$ 1,700,308	$ 1,397,167
Parishes, major gift pledges receivable, net	16,250	75,000
Due from Catholic Charities, split interest annuity	100,042	106,737
Paul VI Catholic High School loan receivable, proceeds used for renovations and additions	2,265,981	2,537,516
Saint John Paul the Great Catholic High School loan receivable, interest waived for 2020 and 2019, no fixed repayment, repayments accepted as cash is available, net of allowance	-	-
	$ 4,082,581	$ 4,116,420

	2020	2019
Liabilities:		
Accounts payable, parishes, schools, other related entities	$ 94,196	$ 20,196
Due to parishes, split interest annuities	10,141	10,502
Amounts held on behalf of other diocesan entities:		
DIAL Corp, funds held in investment pool	115,390,252	108,950,259
Catholic Charities, endowment funds held in investment pool	16,079,448	15,614,991
The Foundation, endowment funds held in investment pool	10,024,976	9,384,272
Parishes, capital campaign and major gift pledges	3,000	18,215
ADEF funds held for schools	2,558,767	2,601,180
	$ 144,160,780	$ 136,599,615

	2020	2019
Revenues and Support:		
Operational assessment, parishes	$ 6,563,368	$ 7,960,825
Contributions, diocesan tuition assistance program	2,457,583	2,487,758
Contribution, restricted, from UMW Catholic Campus Ministry	-	140,398
Program fees	2,247,504	2,292,199
Information technology, accounting and administrative support	573,788	438,104
Rental income, Catholic Charities	171,027	155,893
Rental income, Arlington Catholic Herald	131,526	119,886
Rental income, Saint John Paul the Great Catholc High School	1,434,456	1,434,456
Insurance and risk management premiums billed	21,501,450	20,844,216
	$ 35,080,702	$ 35,873,735

	2020	2019
Expenses:		
Rent paid to 200 N. Glebe Road, Inc.	$ 2,132,201	$ 1,921,177
Contributions, tuition assistance program	2,466,656	2,424,249
Contributions, tuition assistance endowment grants	1,287,500	1,200,000
Contributions, student financial aid (LGI)	499,000	419,800
Contribution, subsidy to Catholic Charities	2,374,196	2,338,429
Contribution, Catholic Charities endowment fund (LGI)	143,400	143,400
Contribution, restricted for Catholic Charities programs (LGI)	-	100,000
Contribution, other program service subsidies	191,496	197,043
Contributions made to Lay Retirement Plan	1,244,549	1,213,984
Contributions made to Priest Retirement Plan	402,000	384,000
Advertising expense to Arlington Catholic Herald	142,978	128,480
	$ 10,883,976	$ 10,470,562

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. In recognition of the uncertainty surrounding offertory at the parishes due to the recent pandemic, this assessment was suspended for the months of May and June of 2020, which resulted in reduced revenue of $ 1,300,898 which would otherwise be billed and collected.

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.

The Chancery administers a master investment pool (Notes 2 and 7). Endowment funds and long-term investments of certain affiliates are held in the master pool at their request. Investment income is allocated based on the proportionate market value of investments held by participants.

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

Prior to 2019, University of Mary Washington Catholic Campus Ministry (UMW CCM) operated as separate entity distinct from the Chancery, with the Chancery providing some support in personnel and professional services. In 2019, it was agreed that the entire operations of UMW CCM would be incorporated into the Chancery as a department. As part of this transition, it was also agreed that a contribution would be made from UMW CCM to the Chancery of accumulated cash and investment reserves. This initial contribution in the amount of $140,398 will be restricted for program activities of UMW CCM. In addition to this restricted contribution, continued operations of UMW CCM will be supported by UMW CCM collection income and BLA contributions.

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, Paul VI 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 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 Paul VI Catholic High School. The Chancery established a loan with PVI in the amount of $4,960,000, the original amount of bond proceeds used to cover these costs. In April 2016, the Chancery entered into a refinancing arrangement, prepaying the portion of the bond outstanding that financed the PVI renovations and improvements. The Chancery continued to extend terms of the loan with PVI based on the effective rate of the refinanced bonds, 2.482%. Monthly principal and interest payments of $27,563 are expected to be paid by PVI to the Chancery through maturity, December 1, 2027.

Loans have been made to 200 N. Glebe Road, Inc., a related entity and lessor of office space to the Chancery. The loan to 200 N. Glebe Road, Inc. is due on demand, with repayments accepted as cash is available. The loan was repaid in its entirety in 2019.

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:

	2020	2019
Balance, beginning of year	$ 3,575,000	$ 12,116,013
Loan forgiveness	-	(8,541,013)
Balance, end of year	$ 3,575,000	$ 3,575,000

10. Property, equipment and land, net

Property, equipment and land

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

	2020	2019
Operating properties-buildings	$ 87,119,003	$ 88,318,126
Operating properties-land and land development	24,330,639	27,393,046
Operating properties-improvements	10,687,788	10,039,514
Operating properties-furniture and equipment	4,225,084	4,155,468
Land held for future projects and parishes	12,897,782	12,897,782
Office furniture and equipment	1,050,193	1,083,401
Computer hardware	858,211	833,308
Computer software	1,671,385	1,475,951
Vehicles	882,549	836,159
Leasehold improvements	4,329,522	3,509,495
Total property, equipment and land	148,052,156	150,542,250
Less: accumulated depreciation	(43,682,856)	(42,095,063)
Property, equipment and land, net	$ 104,369,300	$ 108,447,187

Depreciation expense was $3,283,001 and $3,079,793 during the years ended June 30, 2020 and 2019, respectively. Of the total assets listed above, $15,391,747 and $16,668,426 were fully depreciated at June 30, 2020 and 2019, respectively.

Construction in progress and assets not yet placed in service includes costs related to the planning, design and construction of the new facility for Paul VI Catholic High School to be located in Loudoun County. In August 2020, construction of the high school was completed and the assets placed in service.

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 was funded, in part, from tax-exempt bonds (Note 11). Interest costs, net of interest earned from the temporary investment of the bonds were capitalized. Upon completion of the high school, bond interest cost was charged to expense.

Capitalized interest is included in operating properties. Amortization of capitalized interest is included in depreciation expense. Capitalized interest at June 30 was:

	2020	2019
Net amount capitalized, beginning of year	$ 768,114	$ 787,746
Less: amortization expense	19,632	19,632
Net amount capitalized, end of year	$ 748,482	$ 768,114

Cumulative investment earnings do not exceed cumulative investment expenses, and therefore the Diocese does not have an arbitrage recapture obligation.

Interest incurred on the Loudoun County bond to be used in construction of a new facility for Paul VI Catholic High School (Note 11) is included in construction in progress and will be included in operating properties when placed in service.

Property held for Development and Sale

The Chancery has entered into a redevelopment agreement to provide for the rezoning, entitlement, development and sale of property which was the previous site of the 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 will contribute real property to Blvd VI for the mixed-use project. The Chancery will also provide funds for project expenses, as needed and provide use of the Chancery's letter of credit facility. Blvd VI is a separate reporting entity, over which the Diocesan Bishop exercises control.

Land and building to be contributed has been reclassified and reported as Property Held for Development and Sale. Due to the uncertainty regarding the eventual timing and proceeds from the sale, the Chancery has not adjusted the value of the assets that could be impacted by the divesture from the property.

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 2020	2020	2019
Prince William County, Educational Facilities Revenue Refunding Bond, Series 2016	12/1/2027	2.86%	$ 11,510,556	$ 12,508,632
Loudoun County, Educational Facilities Revenue Bond, Series 2016	2/1/2041	1.07%	70,000,000	70,000,000
			81,510,556	82,508,632
Less unamortized bond issuance costs			175,978	188,025
			$ 81,334,578	$ 82,320,607

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, 2020 and 2019 is $11,976,748 and $13,410,980, 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 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%. As of June 30, 2020, $70,000,000 in proceeds have been advanced on the loan, $104,384 held separately in an interest-bearing checking account to be used exclusively for payment of project expenditures. The Chancery is required to maintain a debt service reserve fund with the bank for a percentage of the outstanding balance on the bond, $503,294 and $500,608 as of June 30, 2020 and 2019, respectively. Following a five year interest only period, the Chancery will be required to make minimum principal reductions through 2025 totaling $51,237,116. The remaining balance of $18,762,884 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 $290,992 and $315,287, reflective of the swap agreement, for the years ended June 30, 2020 and 2019, 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 2025 and thereafter are as follows:

2021	1,012,057
2022	15,039,315
2023	16,066,729
2024	6,094,461
2025	11,741,873
Thereafter	31,380,143
	$ 81,334,578

12. Promissory note payable – SBA PPP

On May 8, 2020, the Chancery received loan proceeds in the amount of $2,775,000 under the 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 original loan terms specified repayment over a 24-month period after a seven-month deferral from the date of loan funding. The loans and accrued interest are forgivable so long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels during the covered period. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period.

Subsequent to the loan, the Paycheck Protection Program Flexibility Act of 2020 was enacted, retroactively changing the deferral and loan repayment terms. The PPP loan bears interest at a fixed rate of 1% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lendor or if the Chancery fails to apply forgiveness with 10 months after the covered period, the payment of principal and interest shall begin on that date.

The Chancery has accounted for its PPP Loan in accordance with Accounting Standards Codification 470, Debt and reports the outstanding balance as a liability as of June 30, 2020. The Chancery intends to use the loan proceeds for qualifying expenses and apply for forgiveness but the ultimate outcome cannot be determined at this time.

13. Pension expense

Pension plan - employees

The Diocese has a noncontributory defined benefit pension plan which covers substantially all lay employees within 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 $1,244,549 and $1,213,984 for the years ended June 30, 2020 and 2019, 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, has been recognized as an asset (overfunded plan) or as a liability (underfunded plan). The pension benefit obligation for retired priests has been actuarially determined.

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

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 29,644,809	$ 26,453,707
Service cost	1,038,472	937,270
Interest cost	1,076,226	1,116,115
Actuarial (gain) loss	5,535,756	2,211,642
Benefits paid	(990,319)	(1,073,925)
Benefit obligation at end of year	36,304,944	29,644,809
Change in plan assets:		
Fair value of plan assets at beginning of year	24,560,117	22,354,251
Return on plan assets	797,372	1,295,387
Employer contributions	2,017,050	1,984,404
Benefits paid	(990,319)	(1,073,925)
Fair value of plan assets at end of year	26,384,220	24,560,117
Accrued pension liability, priests	$ 9,920,724	$ 5,084,692

Additional employer contributions of $37,050 in 2020 and $46,404 in 2019 were made available through restricted contributions.

The accumulated benefit obligation at June 30, 2020 and 2019 was $33,423,509 and $27,423,981, respectively. The net periodic pension cost for the years ended June 30, 2020 and 2019 were $788,936 and $776,183, respectively. Amounts previously recognized in net assets without donor restriction and not yet recognized as periodic pension cost at June 30:

	2020	2019
Net (loss)	$ (17,785,711)	$ (11,704,688)
Net prior service cost	(217,432)	(234,309)
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic benefit cost	$ (18,003,143)	$ (11,938,997)

The estimated net loss that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost in 2021 is $771,822.

Assumptions used to determine the year-end benefit obligation:

	2020	2019
Discount rate on the benefit obligation	2.90%	3.70%
Rate of expected return on plan assets	7.25%	7.25%
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, 2020 are as follows:

	Fair Value	Level 1	Level 2
Short-term investments	$ 2,238,531	$ 2,238,531	$ -
U.S. Government and sponsored enterprises securities	4,011,688	1,956,781	2,054,907
Corporate and foreign bonds	3,101,413	-	3,101,413
Equities	17,032,588	17,032,588	-
Total	$ 26,384,220	$ 21,227,900	$ 5,156,320

Fair values of the plan's assets measured on a recurring basis by level at June 30, 2019 are as follows:

	Fair Value	Level 1	Level 2
Short-term investments	$ 1,081,585	$ 1,081,585	$ -
U.S. Government and sponsored enterprises securities	3,919,550	1,916,431	2,003,119
Corporate and foreign bonds	3,802,379	-	3,802,379
Equities	15,756,603	15,756,603	-
Total	$ 24,560,117	$ 18,754,619	$ 5,805,498

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 $1,968,000 to the plan in 2021. Projected benefit payments to be made from the plan for the next ten years are as follows:

2021	$	1,170,320
2022		1,201,148
2023		1,202,709
2024		1,154,404
2025		1,176,076
2026-2030		6,335,998

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:

	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 17,390,911	$ 14,888,971
Service cost	569,194	496,213
Interest cost	637,624	634,870
Employee contributions	123,819	96,354
Actuarial (gain) loss	4,309,525	1,556,139
Benefits paid	(247,212)	(281,636)
Benefit obligation at end of year	22,783,861	17,390,911
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	123,393	185,282
Employee contributions	123,819	96,354
Benefits paid	(247,212)	(281,636)
Fair value of plan assets at end of year	-	-
Post retirement health benefit obligation	$ 22,783,861	$ 17,390,911

The net periodic benefit cost for the years ended June 30, 2020 and 2019 were $1,333,681 and $1,185,847, respectively. Amounts previously recognized in net assets without donor restrictions and not yet recognized as periodic benefit cost at June 30:

	2020	2019
Net (loss)	$ (8,298,236)	$ (4,115,574)
Net prior service credit	-	-
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic benefit cost	$ (8,298,236)	$ (4,115,574)

The estimated net loss that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost in 2021 is $319,284.

Assumptions used to determine the year-end benefit obligation:

	2020	2019
Discount rate on the benefit obligation	2.90%	3.70%

For measurement purposes, a 6.14% increase in the cost of health care benefits was assumed for 2020. This rate was assumed to decrease over a 18 year period to an ultimate rate of 4.5% by 2038. For 2019, a 6.39% increase in the cost of health care benefits was assumed. This rate was assumed to decrease over a 19 year period to an ultimate rate of 4.5% by 2038.

The Diocese expects to contribute approximately $370,000 to the plan in 2021. Projected benefit payments to be made from the plan for the next ten years are as follows:

2021	$	370,000
2022		391,000
2023		422,000
2024		435,000
2025		487,000
2026-2030		3,062,000

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:

	2020	2019
Invested in property and equipment, net of related debt	$ 110,861,559	$ 111,315,603
Designated for:		
Functioning as endowment	16,457,693	15,539,180
Self insurance, property and general liability	3,275,724	2,467,215
Self-insurance, employee benefits	13,751,780	12,460,618
Priests' mutual aid fund	471,531	392,488
Named benefactor funds	3,211,319	3,124,310
Scholarship funds	78,523	76,116
Property purchase reserves	2,977,699	4,492,000
	$ 40,224,269	$ 38,551,927

16. Net assets with donor restrictions

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

	2020	2019
Subject to expenditure for specific purpose:		
Pastoral Activities:		
Marriage, Family and Respect Life	$ 1,518,847	$ 1,428,695
Youth, Young Adult and Campus Ministry	1,179,362	1,066,705
Permanent Diaconate	121,278	108,165
Evangelization	1,278,042	1,243,414
Multicultural and Dominican Republic Mission	26,697	19,739
Spirituality Center	287,220	283,641
Retired Priest Needs, retirement home	5,795,093	5,262,513
Bishop's targeted initiatives	2,043,252	1,980,057
Vocations, Seminarians and Religious Personnel Development	1,370,249	1,322,948
Catholic Education and Tuition Assistance	1,706,746	2,139,819
Social Service Activities:		
Catholic Charities	346,855	464,885
Other Charitable Works	493,456	523,057
Communications	21,768	29,201
Subject to spending policy and appropriation:		
Investment in perpetuity, income, which once appropriated, is expendable to support:		
Catholic Education - original donor-restricted gifts	24,047,804	24,022,804
Catholic Education - accumulated endowment earnings	18,797,732	17,819,566
Catechetics - original donor-restricted gifts	2,045,652	2,045,652
Catechetics - accumulated endowment earnings	3,689,447	3,496,380
Youth Ministry - original donor-restricted gifts	510,988	510,988
Youth Ministry - accumulated endowment earnings	599,698	561,129
For General Diocesan Operations - original donor-restricted gifts	14,326,896	14,075,000
For General Diocesan Operations - accumulated endowment earnings	3,200,278	2,709,367
Endowment Pledges Receivable	25,000	225,000
Not Subject to appropriation or expenditure:		
Donated Land restricted for high school	14,500,000	14,500,000
Total	$ 97,932,360	$ 95,838,725

Included in Bishop's targeted initiatives are amounts raised through the LGI campaign, where the donors have expressed support for all the stated campaign goals (Note 1). 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.

	2020	2019
Purpose restrictions accomplished:		
Pastoral activities	$ 1,318,866	$ 2,303,260
Vocations, Seminarians and Religious Personnel Development	256,593	256,970
Catholic Education and Tuition Assistance	2,990,036	2,877,745
Social Service Activities	1,037,796	1,068,079
Communications	89,444	96,752
Release of appropriated endowment amounts without purpose restrictions	496,350	400,700
Release of appropriated endowment amounts with purpose restriction	1,628,689	1,569,137
Total net assets released from restrictions	$ 7,817,774	$ 8,572,643

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).

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, 2020 and 2019.

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, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board-designated endowment funds	$ 16,457,693	$ -	$ 16,457,693
Donor-restricted endowment funds:			
Original donor-restricted gifts	-	40,931,340	40,931,340
Accumulated endowment earnings, subject to appropriation under UPMIFA		26,287,155	26,287,155
Total funds	$ 16,457,693	$ 67,218,495	$ 83,676,188

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board-designated endowment funds	$ 15,539,180	$ -	$ 15,539,180
Donor-restricted endowment funds:			
Original donor-restricted gifts	-	40,654,444	40,654,444
Accumulated endowment earnings, subject to appropriation under UPMIFA		24,586,442	24,586,442
Total funds	$ 15,539,180	$ 65,240,886	$ 80,780,066

Changes in donor-restricted endowment net assets as of June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 15,539,180	$ 65,240,886	$ 80,780,066
Contributions received in cash	-	276,896	276,896
Investment earnings, net	918,513	3,825,753	4,744,266
Amounts appropriated for expenditure and satisfying purpose restrictions		(2,125,040)	(2,125,040)
Endowment net assets, end of year	$ 16,457,693	$ 67,218,495	$ 83,676,188

Changes in donor-restricted endowment net assets as of June 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 14,782,509	$ 63,570,586	$ 78,353,095
Contributions received in cash	-	520,975	520,975
Investment earnings, net	756,671	3,119,162	3,875,833
Amounts appropriated for expenditure and satisfying purpose restrictions		(1,969,837)	(1,969,837)
Endowment net assets, end of year	$ 15,539,180	$ 65,240,886	$ 80,780,066

18. Functional Classification of Expenses

Expenses by both their nature and function for the year ended June 30, 2020 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.	Programs total			
Salaries, honoraria, taxes and benefits	$ 4,703,827	1,459,569	1,512,569	722,443	1,180,758	9,579,166	8,979,780	261,656	18,820,602
Professional services and other	1,295,697	409,005	410,240	175,907	145,121	2,435,970	2,096,447	63,502	4,595,919
Materials and supplies	557,065	157,049	114,856	8,812	55,855	893,637	263,546	495,519	1,652,702
Office and occupancy	1,144,473	303,131	236,739	70,562	184,353	1,939,258	1,066,822	92,037	3,098,117
Education, conferences and development	42,833	1,789,844	283,059	1,255	37,187	2,154,178	243,828	1,817	2,399,823
Contributions and direct assistance	1,292,970	178,072	5,763,656	2,939,834	178,649	10,353,181	26,050	-	10,379,231
Property, equipment and depreciation	1,141,111	35,357	340,524	158,241	94,425	1,769,658	1,226,990	-	2,996,648
Total Expenses	$ 10,177,976	4,332,027	8,661,643	4,077,054	1,876,348	29,125,048	13,903,463	914,531	43,943,042

Expenses by both their nature and function for the year ended June 30, 2019 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.	Programs total			
Salaries, honoraria, taxes and benefits	$	4,584,433	1,391,249	1,430,954	569,348	1,085,640	9,061,624	8,158,008	251,287	17,470,919
Professional services and other		1,364,430	219,994	461,243	171,363	125,916	2,342,946	2,322,467	86,624	4,752,037
Materials and supplies		1,046,896	174,358	118,601	16,141	41,474	1,397,470	347,420	415,505	2,160,395
Office and occupancy		1,219,993	345,747	171,683	36,113	299,771	2,073,307	1,041,228	132,034	3,246,569
Education, conferences and development		165,948	1,712,379	198,759	12,867	29,467	2,119,420	307,552	2,038	2,429,010
Contributions and direct assistance		1,406,943	178,248	4,044,549	2,951,986	174,760	8,756,486	2,000	-	8,758,486
Property, equipment and depreciation		1,019,331	20,060	291,741	145,567	22,931	1,499,630	1,110,670	-	2,610,300
Total Expenses	$	10,807,974	4,042,035	6,717,530	3,903,385	1,779,959	27,250,883	13,289,345	887,488	41,427,716

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, $275,000 in plan years 2020 and 2019, as well as an aggregate loss limit of up to 125% of expected claims, or about $22,017,146 in plan year March 2020-February 2021. 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 $1,764,000 and $1,931,000 at June 30, 2020 and 2019, 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 $1,033,000 and $2,099,000 at June 30, 2020 and 2019, 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:

	2020	2019
Incurred but not reported estimated health claims	$1,764,000	$1,931,000
Estimated property and general liability claims	$1,033,000	$2,099,000

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 January 2024. Total rent expense, net of sublease rentals for years ended June 30, 2020 and 2019, is as follows:

	2020	2019
Office space	$ 2,132,201	$ 1,921,177
Office equipment	109,961	114,098
Sublease office rental (related entities)	(302,553)	(275,780)
Net expense	$ 1,939,609	$ 1,759,495

At June 30, 2020, future minimum lease payments are as follows:

	Total Lease	Sublease	Net Lease
2021	$ 2,281,154	$ 302,654	$ 1,978,500
2022	2,534,398	311,672	2,222,726
2023	2,569,704	321,058	2,248,646
2024	9,010	-	9,010
Total future minimum lease payments	$ 7,394,266	$ 935,384	$ 6,458,882

Lines of credit and letters of credit

The Chancery has obtained lines of credit as follows:

	June 30, 2020		June 30, 2019	
	Total Available	Outstanding	Total Available	Outstanding
Operating needs	$ 15,000,000	$ -	$ 5,000,000	$ -
Standby letters of credit for various construction projects	$ 10,000,000	$ 8,509,647	$ 10,000,000	$ 8,069,942

The Chancery has a line of credit and letter of credit facility requiring certain covenants such as operating liquidity, additional indebtedness, and financial reporting. The line of credit for operating needs had a stated rate of interest based on the 30-day LIBOR plus 195 basis points for the years ended June 30, 2020 and 2019. 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, 2020 and 2019. These facilities are subject to annual renewals by our financial institutions. Subsequent to year-end, in August 2020, the terms of the agreement were revised increasing the letter of credit facility to $18,000,000 and decreasing the line of credit facility to $7,000,000.

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 2020 and 2019.

Construction and development agreements

In connection with the construction of the PVI Catholic High School Loudoun County campus, the Chancery is committed under contracts with remaining amounts of $910,712.

Contingencies

In March 2020, the World Health Organization declared the spread of the coronavirus disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on the global markets, supply chains, businesses and communities. Specific to the Chancery, COVID-19 may impact various parts of its 2021 operations and financial results including, but not limited to decrease in contributions and parish operational assessments, costs for increased use of technology, and potential loss of program revenue. Management believes the Chancery is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.