Central Administrative Office of the Catholic Diocese of Arlington

Financial Statements
as of June 30, 2021 and 2020 and Report Thereon

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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, 2021 and 2020, 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, 2021 and 2020, 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
November 10, 2021

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Central Administrative Office of the Catholic Diocese of Arlington
Statements of Financial Position
As of June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 8,866,263	$ 9,302,379
Accounts receivable, net	1,746,357	1,960,337
Accrued interest receivable	76,185	212,986
Bishop's Lenten Appeal pledges receivable	2,214,683	3,375,613
Bequests and major gifts pledges receivable, net	26,250	2,749,276
Prepaid expenses and other assets	989,831	780,927
Investments	194,860,647	296,302,877
Property and advances provided for development and sale	12,305,850	3,068,295
Bond reserve and project fund	608,058	607,678
Demand notes and loans receivable		
Paul VI High School	-	2,265,981
Property, equipment and land, net	191,763,732	104,369,300
Construction in progress and assets not yet placed in service	179,550	92,068,491
Land restricted for high school	14,500,000	14,500,000
Total assets	$ 428,137,406	$ 531,564,140
Liabilities and Net Assets		
Liabilities		
Deposits held in custody for others	$ 2,808,881	$ 2,387,178
Accounts payable and accrued expenses	7,421,145	7,627,125
Deferred lease incentives	2,670,900	2,906,739
Unearned revenue	97,348	91,363
Amounts held on behalf of other diocesan entities	2,951,443	144,056,443
Annuity payment liability	393,165	380,198
Accrued pension liability, priests	3,185,357	9,920,724
Postretirement health benefit obligation	23,554,719	22,783,861
Bonds payable, net of unamortized bond costs	77,522,521	81,334,578
Promissory note payable - SBA PPP	-	2,775,000
Total liabilities	120,605,479	274,263,209
Net assets		
Without donor restrictions		
Undesignated for current operations	30,264,777	8,282,743
Invested in property, equipment and land, net of related debt	111,830,198	110,861,559
Designated, other	48,809,680	40,224,269
Total without donor restrictions	190,904,655	159,368,571
With donor restrictions		
Perpetual in nature	86,701,149	67,243,495
Purpose and time restricted	29,926,123	30,688,865
Total with donor restrictions	116,627,272	97,932,360
Total net assets	307,531,927	257,300,931
Total liabilities and net assets	$ 428,137,406	$ 531,564,140

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

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

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

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

Central Administrative Office of the Catholic Diocese of Arlington
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
Statements of Cash Flows
For the years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	50,230,996	(8,556,122)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation of property	5,171,420	3,283,001
(Gain) loss on sale of assets	-	(3,439)
(Gain) on extinguishment of debt	(2,775,000)	-
Bond amortization	12,047	12,047
Contributed real property	-	(500,000)
Contributions for long-term purposes	(25,000)	(276,896)
Increase (decrease) in allowance for uncollectible accounts receivable	18,967	9,908
(Decrease) increase in discount and allowance on major gifts pledges receivable	(125,025)	(54,357)
Unrealized and realized (gains) on investments, net	(40,560,230)	(4,977,314)
Unrealized loss on interest rate swap	(324,574)	519,643
(Decrease) in amounts held on behalf of other diocesan entities	-	(15,216)
(Increase) in accounts receivable	195,013	(432,751)
Decrease (increase) in accrued interest receivable	136,801	125,674
Decrease (increase) decrease in BLA pledges receivable	1,160,930	194,547
Decrease in bequests and major gift pledges receivable	482,542	328,818
(Increase) in beneficial interest in residuary estates	2,365,509	(190,509)
Decrease (increase) in prepaid expenses and other assets	(208,904)	314,466
(Decrease) in deposits held in custody for others	156,221	(670,285)
(Decrease) increase in accounts payable and accrued expenses	1,023,054	(1,444,808)
(Decrease) increase in unearned revenue	5,985	(43,185)
Increase in accrued pension liability, priests	(6,735,367)	4,836,032
Increase in postretirement health benefit obligation	770,858	5,392,950
Increase in annuity payment liability	19,021	38,594
Net cash provided by (used in) operating activities	10,995,264	(2,109,202)
Cash flows from investing activities		
Purchases of equipment and payments made for construction in progress	(1,817,210)	(29,591,792)
Proceeds from sale of property	-	5,000
Cash advances for property development	(6,971,574)	-
Decrease in Paul VI High School loan receivable	-	271,535
Purchases of investments	(136,155,087)	(141,480,030)
Sales of investments	140,682,861	145,505,757
Net cash (used in) investing activities	(4,261,010)	(25,289,530)
Cash flows from financing activities		
Proceeds from SBA PPP Loan	-	2,775,000
Repayment of bonds and notes payable	(3,824,104)	(998,076)
Contributions received for permanent endowment	25,000	276,896
Cash received from other diocesan entities for long-term investment	2,489,628	2,598,950
Cash returned to other diocesan entities from investments	(5,767,400)	(996,752)
Payments to beneficiaries of split-interest agreements	(143,114)	(251,453)
Cash received from donors, split-interest agreements, including held for others	50,000	-
Net cash (used in) provided by financing activities	(7,169,990)	3,404,565
Net (decrease) in cash and cash equivalents and restricted cash	(435,736)	(23,994,167)
Cash and cash equivalents and restricted cash, at beginning of year	9,910,057	33,904,224
Cash and cash equivalents and restricted cash, at end of year	$ 9,474,321	$ 9,910,057

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, 2021 and 2020

	2021	2020
Supplemental cash flow information		
Interest paid on debt, including capitalized interest	$ 995,638	$ 1,889,079
Supplemental schedule of non-cash investing and financing activities		
Equipment purchases and construction in progress in accounts payable	$ 191,065	$ 1,331,364
Contributed investment, real property	$ -	$ 500,000
Leasehold improvements provided by lessor incentive	$ -	$ 862,789
Investments held for others transferred to master trust	$ 179,064,947	$ -
Related party receivable exchanged for property	$ 2,265,981	$ -

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

	2021	2020
Cash and cash equivalents	$ 8,866,263	$ 9,302,379
Bond reserve and project fund	608,058	607,678
	$ 9,474,321	$ 9,910,057

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.

2. Basis of presentation and summary of significant accounting policies

Basis of presentation and combination

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

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

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

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

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

<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 Saint Paul VI High School (Note 11).

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

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

Investments and investment valuation
Investments are stated at fair value, as described in Note 8, *Fair value measurements*. Investments consist of money market funds, U.S. Government and sponsored enterprises securities, corporate bonds and equities, 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
A master investment account was maintained for long-term assets and endowments of the Chancery and certain affiliates. On June 1, 2021 these assets were transferred to the Catholic Investment Trust of Arlington, a separate entity, that manages assets for several affiliates, including the Chancery. Effective with this transfer, only the Chancery's allocated activity is included in the financial statements.

Realized and unrealized gains and losses from securities in the master investment pools 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.

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

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

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

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 $5,602,240 and $5,448,388 as of June 30, 2021 and 2020, respectively. This

includes restricted cash of $608,058 and $607,678 as of June 30, 2021 and 2020, 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, 2021 and 2020 were $3,328,940 and $4,093,490 respectively. Pledges receivable, which have been adjusted for doubtful accounts, are due from individuals, corporations, and foundations. To date, no permanent losses or impairments have been experienced due to concentration in these areas.

Reclassification

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

Income taxes

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

Changes in Accounting Principles

In 2021, the Chancery adopted the Financial Accounting Standards Board's (FASB), Accounting Standard Codification Topic 606, *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. The adoption of the standard did not have a material impact on its financial statements.

The FASB issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820); Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement.* The ASU removes and modifies disclosure requirements retrospectively for nonpublic entities. The financial statements reflect the application of the ASU using a retrospective approach to each period presented.

New accounting pronouncements effective in future accounting periods

In February 2016, FASB issued ASU 2016-02 Leases (Topic 842). This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the fiscal year ended June 30, 2023; 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 November 10, 2021, 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.

	2021	2020
Cash and cash equivalents	8,866,263	9,302,379
Accounts receivable and accrued interest	1,822,542	2,173,323
Bequests and major gifts receivable	2,240,933	6,124,889
Investments (net of assets held on behalf of other entitites of $2,951,443 in 2021 and $144,056,443 in 2020)	191,909,204	152,246,434
Financial Assets, end of year	204,838,942	169,847,025
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restriction:		
Restricted by donor with purpose restictions	(15,426,123)	(16,188,865)
Perpetual in nature, net of annual spendable amount, $663,100 in 2021 and $603,000 in 2020	(86,038,048)	(66,640,495)
Deposits held in custody others, including investments held in annuity trust	(3,202,271)	(2,767,376)
Designated (Note 15), net of annual spendable amount, $629,000 in 2021	(48,180,681)	(40,224,269)
Financial assets available within one year to meet cash needs for general expenditures within one year	51,991,819	44,026,020
Other liquidity resources:		
Bank, available line of credit, fiscal year 2021 and 2020	7,000,000	7,000,000
Total financial assets and liquidity resources available within one year	58,991,819	51,026,020

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:

	2021	2020
Parishes	$ 969,907	$ 950,336
Schools	431,289	614,172
Other diocesan entities	47,575	147,060
Employee advances	2,548	100
Due from brokers	144,141	139,562
Miscellaneous	232,847	172,090
Total accounts receivable	1,828,307	2,023,320
Less: allowance for doubtful accounts	(81,950)	(62,983)
Total accounts receivable, net	$ 1,746,357	$ 1,960,337

5. Bishop's Lenten Appeal pledges receivable

As of June 30, 2021 and 2020, contributors to the Bishop's Lenten Appeal (BLA) have unconditionally promised to give $2,214,683 and $3,375,613, 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

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

	2021	2020
Residuary interests in cash and real property, without donor restriction	$ -	$ 2,365,509
Receivables due in one year or les	-	39,367
Receivables due in one to five years	58,560	501,735
Total unconditional promises to give	58,560	2,906,611
Less: allowance for doubtful accounts	(32,310)	(155,250)
Less: discount to present value	-	(2,085)
Bequests and pledges receivable, net	$ 26,250	$ 2,749,276

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

7. Investments

Investments are stated at fair value. Investments at June 30, 2021 and 2020 consist of the following:

	2021	2020
Investments held in trust	$ 39,920,926	$ 32,254,083
Investments in real estate	8,024,142	8,524,142
Allocated interest in master investment pool	146,915,579	-
Investments held in master investment pool, including assets held on behalf of other entities	-	255,524,652
Total	$194,860,647	$296,302,877

Endowment funds and long-term investments of the Chancery and certain affiliates are held in a master investment pool in which participants share in allocated investment income and loss (Note 1). Prior to June 2021, the Chancery held and managed these investments. On June 1, 2021 the participating affiliates authorized the contribution to the Catholic Investment Trust of Arlington, its allocated funds to hold and manage. Included in the pooled assets is $ 101,615 and $78,748 as of June 30, 2021 and 2020, respectively, which makes up an endowment that is held through an affiliate, The Foundation for the Catholic Diocese of Arlington.

The master investment pool accounts include a diverse portfolio comprised of cash, cash equivalents, fixed instruments, equities and alternative investments.

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

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	$ 15,955,809	$ 15,835,678	$ 22,388,005	$ 22,388,005
U.S. Government and sponsored enterprises securities	3,330,844	3,391,167	6,257,298	6,343,168
Corporate, municipal and foreign bonds and other fixed instruments	30,458,821	33,253,101	55,435,193	61,183,255
Equities, including publicly traded REITs	81,689,056	122,800,202	147,399,852	181,222,227
Real property held for investment	8,024,142	8,024,142	8,524,142	8,524,142
Alternative investments	8,341,201	11,556,357	13,693,302	16,642,080
	$ 147,799,873	$ 194,860,647	$ 253,697,792	$ 296,302,877

Included in investments at June 30, 2021 and 2020 is $846,171 and $715,417, respectively, representing the fair market value of assets held under split interest agreements for which the Chancery is the trustee. Monthly, quarterly or semiannual distributions are made to the donors. The ultimate beneficiaries are the Chancery, Catholic Charities and parishes. The proceeds are expected to be received in five to fourteen years, based on published actuarial tables, and are calculated using discount rates which represent the risk-free rates in existence at the date of the gifts. Amounts due to annuitants and related parties are disclosed as annuity payment liability in the accompanying statements of financial position. A portion of the amounts held in trust are recorded as deposits held in custody for others in the accompanying statement until which time the beneficial interests become irrevocable.

Investments are held for the following purposes:

	2021	2020
Current operations and programs	$ 68,493,309	$ 55,228,287
Long-term purposes, including endowments	119,316,095	93,659,421
Assets held on behalf of others, including DIAL Corp	1,673,924	142,822,565
Arlington Diocese Educational Fund (ADEF)	5,377,319	4,592,604
Total	$194,860,647	$296,302,877

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

	2021	2020
For Operations	$ 3,380,000	$ 3,253,350
In Other changes in net assets	38,843,192	3,975,022
Net investment gains - Chancery	$ 42,223,192	$ 7,228,372

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, 2021 and 2020, respectively, consists of the following:

	2021	2020
Chancery		
Interest, dividends and other investment income	$ 2,483,226	$ 3,020,613
Realized gains, net	12,858,544	3,534,466
Unrealized gains, net	27,701,686	1,442,848
Less - investment management expenses	(820,264)	(769,555)
Net investment gains - Chancery	$ 42,223,192	$ 7,228,372
Funds held for diocesan entities		
Investment income allocated to diocesan entities	$ 43,078,830	$ 8,090,702
Total net investment gains - Chancery and funds held for diocesan entities	$ 85,302,022	$ 15,319,074

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 2021 and 2020.

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

	Level 1	Level 2	Total
Assets			
Investments			
Short-term investments	$ 15,835,678	$ -	$ 15,835,678
U.S. Government and sponsored enterprises securities	1,440,603	1,950,564	3,391,167
Corporate,municipal and foreign bonds and other fixed instruments	-	33,253,101	33,253,101
Equities, including publicly traded REITs	122,800,202	-	122,800,202
Real property held for investment	-	8,024,142	8,024,142
	$ 140,076,483	$ 43,227,807	183,304,290
Alternative investments measured at net asset value			11,556,357
Total investments			$ 194,860,647

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

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. The fair value measurements and changes in fair value include the allocated amounts of total investments and activity held within the master investment pool. The private investment partnership permits redemption of up to 50% of capital each rolling 3-

month period with 95 days' notice. The Chancery's unitized amounts of capital in this partnership were $4,627,156 and $3,402,870 as of June 30, 2021 and 2020, respectively. Other alternative investments cannot be sold or redeemed, except with the consent of the general partner. For these investments, periodic distributions are received through liquidation of the underlying assets of the funds. The Chancery has no responsibility for any unfunded commitments associated with the alternative investments managed by the CITA in the master investment pool.

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:

	2021		2020	
	Notional Amount	Fair Value (Liability)	Notional Amount	Fair Value (Liability)
Interest rate swap agreement	$ 10,506,246	$ (336,655)	$ 11,976,748	$ (611,229)

The Chancery has entered into an interest rate swap agreement in association with a financing arrangement of bonds payable (Note 11). The fair value of the interest rate swap agreement is determined by comparing the difference between the present value of the fixed monthly payments and the estimated present value of the floating monthly payments based on estimated forward rates derived from yield curves. The Chancery has recognized in the statement of activities an increase in fair value of the interest rate swap agreement of $274,574 for the year ended June 30, 2021 and a decrease of $519,643 for the year ended June 30, 2020. 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:

	2021	2020
Assets:		
Accounts receivable, parishes, schools and other related entities, net	$ 1,448,076	$ 1,700,308
Parishes, major gift pledges receivable, net	-	16,250
Due from Catholic Charities, split interest annuity	94,158	100,042
Property and advances provided for development and sale	12,305,850	3,068,295
Saint Paul VI Catholic High School loan receivable, proceeds used for renovations and additions	-	2,265,981
Saint John Paul the Great Catholic High School loan receivable, interest waived for 2021 and 2020, no fixed repayment, repayments accepted as cash is available, net of allowance	-	-
	$ 13,848,084	$ 7,150,876

	2021	2020
Liabilities:		
Accounts payable, parishes, schools, other related entities	$ 12,770	$ 94,196
Due to parishes, split interest annuities	13,274	10,141
Amounts held on behalf of other diocesan entities:		
DIAL Corp, funds held in investment pool	-	115,390,252
Catholic Charities, endowment funds held in investment pool	-	16,079,448
The Foundation, endowment funds held in investment pool	-	10,024,976
Parishes, capital campaign and major gift pledges	3,000	3,000
ADEF funds held for schools	2,948,443	2,558,767
	$ 2,977,487	$ 144,160,780

	2021	2020
Revenues and Support:		
Operational assessment, parishes	$ 7,428,288	$ 6,563,368
Contributions, diocesan tuition assistance program	2,321,340	2,457,583
Contributions, restricted from Saint Paul VI Catholic High School	2,981,739	-
Program fees	1,203,893	2,247,504
Information technology, accounting and administrative support	663,856	573,788
Rental income, Catholic Charities	171,572	171,027
Rental income, Arlington Catholic Herald	131,930	131,526
Rental income, Saint John Paul the Great Catholc High School	1,434,456	1,434,456
Rental income, Saint Paul VI Catholc High School	1,264,700	-
Insurance and risk management premiums billed	22,952,108	21,501,450
	$ 40,553,882	$ 35,080,702

	2021	2020
Expenses:		
Rent paid to 200 N. Glebe Road, Inc.	$ 2,195,146	$ 2,132,201
Contributions, tuition assistance program	2,328,975	2,466,656
Contributions, tuition assistance endowment grants	1,350,000	1,287,500
Contributions, student financial aid	495,250	499,000
Contributions, elementary student financial aid	245,000	-
Contribution, subsidy to Catholic Charities	2,510,855	2,374,196
Contribution, Catholic Charities endowment fund	125,000	143,400
Contribution, other program service subsidies	264,140	191,496
Contributions made to Lay Retirement Plan	1,308,440	1,244,549
Contributions made to Priest Retirement Plan	366,000	402,000
Advertising expense to Arlington Catholic Herald	137,731	142,978
	$ 11,326,537	$ 10,883,976

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.

Endowment funds and long-term investments of the Chancery and certain affiliates are held in a master investment pool in which participants share in allocated investment income and loss. Prior to June 2021, the Chancery held and managed these investments. On June 1, 2021 the participating affiliates authorized the contribution to the Catholic Investment Trust of Arlington, a separate reporting entity, its allocated funds to hold and manage (Note 1). Since that date only amounts attributable to the Chancery are reported in the financial statements.

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

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

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

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

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

	2021	2020
Balance, beginning of year	$ 3,575,000	$ 3,575,000
Loan forgiveness	-	-
Balance, end of year	$ 3,575,000	$ 3,575,000

Property and advances provided for development and sale

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

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

10. Property, equipment and land, net

Property, equipment and land

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

	2021	2020
Operating properties-buildings	$ 156,164,051	$ 87,119,003
Operating properties-land and land development	41,841,646	24,330,639
Operating properties-improvements	11,366,247	10,687,788
Operating properties-furniture and equipment	11,705,089	4,225,084
Land held for future projects and parishes	10,692,789	12,897,782
Office furniture and equipment	1,050,193	1,050,193
Computer hardware	864,996	858,211
Computer software	1,159,494	1,671,385
Vehicles	882,549	882,549
Leasehold improvements	4,329,522	4,329,522
Total property, equipment and land	240,056,576	148,052,156
Less: accumulated depreciation	(48,292,844)	(43,682,856)
Property, equipment and land, net	$ 191,763,732	$ 104,369,300

Depreciation expense was $5,171,420 and $3,283,001 during the years ended June 30, 2021 and 2020, respectively. Of the total assets listed above, $16,669,411 and $15,391,747 were fully depreciated at June 30, 2021 and 2020, 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 Saint 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 and Saint Paul VI High School were funded, in part, from tax-exempt bonds (Note 11). Interest costs, net of interest earned from the temporary investment of the bonds were capitalized. Upon completion of the high schools, 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:

	2021	2020
Net amount capitalized, beginning of year	$ 748,482	$ 768,114
Add: capitalized interest, high school placed in service	4,651,467	-
Less: amortization expense	101,033	19,632
Net amount capitalized, end of year	$ 5,298,916	$ 748,482

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 used in construction of a new facility for Saint Paul VI Catholic High School (Note 11) was reclassified from construction in progress to operating properties when placed in service in August 2020.

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 2021	2021	2020
Prince William County, Educational Facilities Revenue Refunding Bond, Series 2016	12/1/2027	2.86%	$ 10,486,452	$ 11,510,556
Loudoun County, Educational Facilities Revenue Bond, Series 2016	2/1/2041	1.01%	67,200,000	70,000,000
			77,686,452	81,510,556
Less unamortized bond issuance costs			163,931	175,978
			$ 77,522,521	$ 81,334,578

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, 2021 and 2020 is $10,506,246 and $11,976,748, respectively.

In February 2016, the Chancery secured bank qualified tax-exempt financing, Loudoun County, Education Facilities Revenue Bond, Series 2016 in the amount of $70,000,000 to be used in construction of a new facility for Saint Paul VI Catholic High School. The Loudoun County, Series 2016 bonds payable bear interest at a floating rate, 84% of the 1-month LIBOR plus .92%. As of June 30, 2021, $70,000,000 in proceeds have been advanced on the loan, $104,474 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, $503,584 and $503,294 as of June 30, 2021 and 2020, respectively. Following a five year interest only period, the Chancery will be required to make minimum principal reductions through 2025 totaling $48,437,116. 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 $931,134 and $290,992, reflective of the swap agreement, for the years ended June 30, 2021 and 2020, 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 2026 and thereafter are as follows:

2022	12,239,315
2023	16,066,729
2024	6,094,461
2025	11,741,873
2026	8,390,437
Thereafter	22,989,706
	$ 77,522,521

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

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

13. Pension expense

Pension plan - employees

The Diocese has a noncontributory defined benefit pension plan which covers substantially all lay employees 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 $1,308,440 and $1,244,549 for the years ended June 30, 2021 and 2020, 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:

	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 36,304,944	$ 29,644,809
Service cost	1,245,157	1,038,472
Interest cost	1,035,874	1,076,226
Actuarial loss	410,613	5,535,756
Benefits paid	(1,296,013)	(990,319)
Benefit obligation at end of year	37,700,575	36,304,944
Change in plan assets:		
Fair value of plan assets at beginning of year	26,384,220	24,560,117
Return on plan assets	7,489,011	797,372
Employer contributions	1,938,000	2,017,050
Benefits paid	(1,296,013)	(990,319)
Fair value of plan assets at end of year	34,515,218	26,384,220
Accrued pension liability, priests	$ 3,185,357	$ 9,920,724

Additional employer contributions of $0 in 2021 and $37,050 in 2020 were made available through restricted contributions.

The accumulated benefit obligation at June 30, 2021 and 2020 was $34,717,040 and $33,423,509, respectively. The net periodic pension cost for the years ended June 30, 2021 and 2020 were $1,204,822 and $788,936, respectively. Amounts previously recognized in net assets without donor restriction and not yet recognized as periodic pension cost at June 30:

	2021	2020
Net (loss)	$ (11,800,399)	$ (17,785,711)
Net prior service cost	(200,555)	(217,432)
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic benefit cost	$ (12,000,954)	$ (18,003,143)

The estimated net loss that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost in 2022 is $437,094.

Assumptions used to determine the year-end benefit obligation:

	2021	2020
Discount rate on the benefit obligation	2.80%	2.90%
Rate of expected return on plan assets	6.90%	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, 2021 are as follows:

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

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

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 $1,932,000 to the plan in 2022. Projected benefit payments to be made from the plan for the next ten years are as follows:

2022	$	1,280,827
2023		1,277,469
2024		1,229,543
2025		1,213,493
2026		1,217,271
2027-2031		6,911,494

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:

	2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 22,783,861	$ 17,390,911
Service cost	776,991	569,194
Interest cost	655,369	637,624
Employee contributions	118,344	123,819
Actuarial (gain) loss	(150,148)	4,309,525
Benefits paid	(629,698)	(247,212)
Benefit obligation at end of year	23,554,719	22,783,861
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	511,354	123,393
Employee contributions	118,344	123,819
Benefits paid	(629,698)	(247,212)
Fair value of plan assets at end of year	-	-
Post retirement health benefit obligation	$ 23,554,719	$ 22,783,861

The net periodic benefit cost for the years ended June 30, 2021 and 2020 were $1,751,644 and $1,333,681, respectively. Amounts previously recognized in net assets without donor restrictions and not yet recognized as periodic benefit cost at June 30:

	2021	2020
Net (loss)	$ (7,828,804)	$ (8,298,236)
Net prior service credit	-	-
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic benefit cost	$ (7,828,804)	$ (8,298,236)

The estimated net loss that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost in 2022 is $282,289.

Assumptions used to determine the year-end benefit obligation:

	2021	2020
Discount rate on the benefit obligation	2.80%	2.90%

For measurement purposes, a 5.89% increase in the cost of health care benefits was assumed for 2021. This rate was assumed to decrease over an 17 year period to an ultimate rate of 4.5% by 2038. For 2020, a 6.14% increase in the cost of health care benefits was assumed. This rate was assumed to decrease over an 18 year period to an ultimate rate of 4.5% by 2038.

The Diocese expects to contribute approximately $409,000 to the plan in 2022. Projected benefit payments to be made from the plan for the next ten years are as follows:

2022	$	409,000
2023		437,000
2024		450,000
2025		479,000
2026		512,000
2027-2031		3,210,000

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:

	2021	2020
Invested in property and equipment, net of related debt	$ 111,830,198	$ 110,861,559
Designated for:		
Functioning as endowment	21,891,804	16,457,693
Self insurance, property and general liability	3,036,972	3,275,724
Self-insurance, employee benefits	15,423,912	13,751,780
Priests' mutual aid fund	557,817	471,531
Named benefactor funds & other designated	4,770,362	3,211,319
Scholarship funds	94,800	78,523
Property purchase reserves	3,034,013	2,977,699
	$ 48,809,680	$ 40,224,269

16. Net assets with donor restrictions

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

	2021	2020
Subject to expenditure for specific purpose:		
Pastoral Activities:		
Marriage, Family and Respect Life	$ 1,640,990	$ 1,518,847
Youth, Young Adult and Campus Ministry	1,201,271	1,179,362
Permanent Diaconate	146,091	121,278
Evangelization	1,302,212	1,278,042
Multicultural and Dominican Republic Mission	10,272	26,697
Spirituality Center	292,642	287,220
Retired Priest Needs, retirement home	5,538,424	5,795,093
Bishop's targeted initiatives	2,081,014	2,043,252
Vocations, Seminarians and Religious Personnel Development	1,494,441	1,370,249
Catholic Education and Tuition Assistance	864,978	1,706,746
Social Service Activities:		
Catholic Charities	211,453	346,855
Other Charitable Works	595,034	493,456
Communications	47,301	21,768
Subject to spending policy and appropriation:		
Investment in perpetuity, income, which once appropriated, is expendable to support:		
Catholic Education - original donor-restricted gifts	24,072,804	24,047,804
Catholic Education - accumulated endowment earnings	31,091,030	18,797,732
Catechetics - original donor-restricted gifts	2,045,652	2,045,652
Catechetics - accumulated endowment earnings	5,474,743	3,689,447
Youth Ministry - original donor-restricted gifts	510,988	510,988
Youth Ministry - accumulated endowment earnings	928,340	599,698
For General Diocesan Operations - original donor-restricted gifts	14,326,896	14,326,896
For General Diocesan Operations - accumulated endowment earnings	8,250,696	3,200,278
Endowment Pledges Receivable	-	25,000
Not Subject to appropriation or expenditure:		
Donated Land restricted for high school	14,500,000	14,500,000
Total	$ 116,627,272	$ 97,932,360

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

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

	2021	2020
Purpose restrictions accomplished:		
Pastoral activities	$ 1,617,661	$ 1,318,866
Vocations, Seminarians and Religious Personnel Development	384,108	256,593
Catholic Education and Tuition Assistance	6,219,399	2,990,036
Social Service Activities	921,905	1,037,796
Communications	43,318	89,444
Release of appropriated endowment amounts without purpose restrictions	603,000	496,350
Release of appropriated endowment amounts with purpose restriction	1,683,474	1,628,689
Total net assets released from restrictions	$ 11,472,865	$ 7,817,774

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). In June 2021, $2,800,000 was contributed and used for the purpose of debt reduction related to the new facility for Saint Paul VI High School.

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, 2021 and 2020.

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, 2021 is as follows:

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

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

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

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

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

18. Functional Classification of Expenses

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

	Program Activities						Diocesan Admin and Parochial support	Bishop's Lenten Appeal	Total expenses
	Pastoral	Religious Personnel Development	Education	Social Services	Diocesan Bishop and Comm.	Programs total			
Salaries, honoraria, taxes and benefits	$ 4,497,042	1,424,745	1,977,723	710,325	1,175,714	9,785,549	9,117,873	222,622	19,126,044
Professional services and other	1,243,335	155,685	879,165	146,534	170,906	2,595,625	1,892,757	20,272	4,508,654
Materials and supplies	427,300	132,664	165,208	3,596	110,568	839,336	166,377	466,846	1,472,559
Office and occupancy	789,006	152,892	553,114	63,891	187,979	1,746,882	1,066,778	101,773	2,915,433
Education, conferences and development	85,770	1,809,285	243,004	3,336	16,401	2,157,796	240,834	399	2,399,029
Contributions and direct assistance	1,098,975	190,699	4,499,578	2,984,964	176,948	8,951,164	-	-	8,951,164
Property, equipment and depreciation	1,202,599	32,069	340,585	156,935	94,090	1,826,278	920,904	-	2,747,182
Total Expenses	$ 9,344,027	3,898,039	8,658,377	4,069,581	1,932,606	27,902,630	13,405,523	811,912	42,120,065

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

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 2021 and 2020, as well as an aggregate loss limit of up to 125% of expected claims, or about $23,000,000 in plan year March 2021-February 2022. 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 $1,957,000 and $1,764,000 at June 30, 2021 and 2020, 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 $1,956,000 and $1,033,000 at June 30, 2021 and 2020, 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:

	2021	2020
Incurred but not reported estimated health claims	$ 1,957,000	$ 1,764,000
Estimated property and general liability claims	$ 1,956,000	$ 1,033,000

20. Commitments and contingencies

Leases

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

	2021	2020
Office space	$ 2,195,146	$ 2,132,201
Office equipment	98,577	109,961
Sublease office rental (related entities)	(303,502)	(302,553)
Net expense	$ 1,990,221	$ 1,939,609

At June 30, 2021, future minimum lease payments are as follows:

	Total Lease	Sublease	Net Lease
2022	$ 2,546,830	$ 311,672	$ 2,235,158
2023	2,582,136	321,058	2,261,078
2024	21,064	-	21,064
2025	8,295	-	8,295
2026	2,600	-	2,600
Total future minimum lease payments	$ 5,160,925	$ 632,730	$ 4,528,195

Lines of credit and letters of credit
The Chancery has obtained lines of credit as follows:

	June 30, 2021		June 30, 2020	
	Total Available	Outstanding	Total Available	Outstanding
Operating needs	$ 7,000,000	$ -	$ 15,000,000	$ -
Standby letters of credit for various construction projects	$ 18,000,000	$ 15,572,682	$ 10,000,000	$ 8,509,647

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, 2021 and 2020. 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, 2021 and 2020. These facilities are subject to annual renewals by our financial institutions. 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 2021 and 2020.

Construction and development agreements
In connection with the construction of the PVI Catholic High School Loudoun County campus and other construction projects, the Chancery is committed under contracts with remaining amounts of $280,560.

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