

Central Administrative Office of the Catholic Diocese of Arlington

Financial Statements

as of June 30, 2023 and 2022 and Report Thereon



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Central Administrative Office of the Catholic Diocese of Arlington
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June 30, 2023 and 2022

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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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Central Administrative Office of the Catholic Diocese of Arlington (the Chancery) (a component of the Catholic Diocese of Arlington), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chancery as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change In Accounting Principle

As discussed in Note 2 to the financial statements, in fiscal year 2023, the Chancery adopted new accounting guidance for leases. The guidance requires lessees to recognize right-of-use asset and corresponding liability for all operating and finance lease terms greater than one year. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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Central Administrative Office of the Catholic Diocese of Arlington

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


Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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



CliftonLarsonAllen LLP

Arlington, Virginia
October 26, 2023

Central Administrative Office of the Catholic Diocese of Arlington
Statements of Financial Position
As of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 8,820,801	\$ 8,808,709
Accounts receivable, net	2,003,570	1,775,094
Accrued interest receivable	195,695	109,014
Bishop's Lenten Appeal pledges receivable	3,181,462	3,362,348
Major gifts pledges receivable, net	99,524	7,025
Prepaid expenses and other assets	1,874,003	1,226,029
Investments	190,594,825	173,220,637
Property and advances provided for development and sale	-	15,263,565
Bond reserve and project fund	504,088	503,836
Interest rate swap agreement	331,005	182,853
Right of use assets under operating leases	11,886,485	-
Property, equipment and land, net	184,414,519	189,235,359
Construction in progress and assets not yet placed in service	271,963	38,067
Land restricted for high school	14,500,000	14,500,000
Total assets	<u>\$ 418,677,940</u>	<u>\$ 408,232,536</u>
Liabilities and Net Assets		
Liabilities		
Deposits held in custody for others	\$ 1,449,370	\$ 1,455,747
Accounts payable and accrued expenses	8,025,535	7,206,157
Deferred lease incentives	-	2,174,044
Unearned revenue	666,230	203,643
Notes payable	106,149	-
Amounts held on behalf of other diocesan entities	2,686,751	2,562,829
Annuity payment liability	370,871	410,901
Operating lease liabilities	13,614,605	-
Postretirement health benefit obligation	17,760,303	17,859,188
Bonds payable, net of unamortized bond costs	51,844,986	73,511,715
Total liabilities	<u>96,524,800</u>	<u>105,384,224</u>
Net assets		
Without donor restrictions		
Undesignated for current operations	19,528,777	31,601,208
Invested in property, equipment and land, net of related debt	133,343,690	114,230,346
Designated, other	54,427,922	50,297,799
Total without donor restrictions	<u>207,300,389</u>	<u>196,129,353</u>
With donor restrictions		
Perpetual in nature	74,650,718	68,787,098
Purpose and time restricted	40,202,033	37,931,861
Total with donor restrictions	<u>114,852,751</u>	<u>106,718,959</u>
Total net assets	<u>322,153,140</u>	<u>302,848,312</u>
Total liabilities and net assets	<u>\$ 418,677,940</u>	<u>\$ 408,232,536</u>

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support			
Bishop's Lenten Appeal	\$ 20,926,206	\$ -	\$ 20,926,206
Operational assessment	7,879,751	-	7,879,751
Investment income for operations	3,093,500	756,500	3,850,000
Contributions, bequests and major gifts	2,135,096	11,979,374	14,114,470
Program revenue	5,245,808	-	5,245,808
Net assets released from restrictions	12,750,843	(12,750,843)	-
Total operating revenues and support	<u>52,031,204</u>	<u>(14,969)</u>	<u>52,016,235</u>
Operating expenses			
Program services			
Pastoral	16,292,998	-	16,292,998
Religious personnel development	4,609,600	-	4,609,600
Education	7,991,481	-	7,991,481
Social services	3,919,579	-	3,919,579
Diocesan Bishop and communications	2,490,589	-	2,490,589
Supporting services			
Diocesan administration and parochial support	14,816,043	-	14,816,043
Bishop's Lenten Appeal	959,143	-	959,143
Total operating expenses	<u>51,079,433</u>	<u>-</u>	<u>51,079,433</u>
Change in net assets from operations	<u>951,771</u>	<u>(14,969)</u>	<u>936,802</u>
Other changes in net assets			
Investment income less amount included in operations, net	12,702,047	8,197,189	20,899,236
Bond interest and related expenses	(2,511,058)	-	(2,511,058)
Unrealized gain on swap agreement	148,152	-	148,152
Insurance programs	(313,577)	-	(313,577)
Change in unfunded postretirement health obligation	98,885	-	98,885
Net property gains	20,735	-	20,735
Diocesan rental income	3,210,510	-	3,210,510
Diocesan rental expense	(3,184,857)	-	(3,184,857)
Net assets released from restrictions	48,428	(48,428)	-
Total other changes in net assets	<u>10,219,265</u>	<u>8,148,761</u>	<u>18,368,026</u>
Change in net assets	11,171,036	8,133,792	19,304,828
Net assets, beginning of year	196,129,353	106,718,959	302,848,312
Net assets, end of year	<u>\$ 207,300,389</u>	<u>\$ 114,852,751</u>	<u>\$ 322,153,140</u>

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

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

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

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 19,304,828	\$ (4,683,615)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation of property	5,328,548	5,366,164
(Gain) on sale of assets	(20,735)	(4,275,676)
Bond amortization	12,047	12,047
Contributed real property	-	(2,800,000)
Unrealized and realized (gains) losses on investments, net	(21,581,720)	32,547,721
Unrealized (gain) on interest rate swap	(148,152)	(519,508)
Amortization of right-of-use assets	2,140,562	-
(Decrease) in amounts held on behalf of other diocesan entities	-	(3,000)
(Increase) in accounts receivable	(228,476)	(28,737)
(Increase) in accrued interest receivable	(86,681)	(32,829)
Decrease (increase) in BLA pledges receivable	180,886	(1,147,665)
Decrease (increase) major gift pledges receivable, net	(92,499)	19,225
(Increase) in prepaid expenses and other assets	(647,972)	(236,198)
(Decrease) increase in deposits held in custody for others	(6,377)	(1,353,134)
Increase (decrease) in accounts payable and accrued expenses	530,519	(228,164)
Increase in unearned revenue	462,587	106,295
(Decrease) in accrued pension liability, priests	-	(3,185,357)
(Decrease) in operating lease liabilities	(2,586,486)	-
(Decrease) in postretirement health benefit obligation	(98,885)	(5,695,531)
(Decrease) increase in annuity payment liability	(40,856)	17,736
Net cash provided by operating activities	<u>2,421,138</u>	<u>13,879,774</u>
Cash flows from investing activities		
Purchases of equipment and payments made for construction in progress	(319,642)	(4,258,168)
Proceeds from sale of property	-	5,690,511
Cash advances for property development	(100,192)	(2,957,715)
Distributions received from property development	20,600,000	-
Distributions received from investment trust	4,658,027	4,961,253
Purchases of investments	(64,320,597)	(61,597,862)
Sales of investments and maturities of investments	58,852,142	48,236,341
Net cash provided by (used in) investing activities	<u>19,369,738</u>	<u>(9,925,640)</u>
Cash flows from financing activities		
Repayment of bonds and notes payable	(21,684,997)	(4,022,853)
Cash returned to other diocesan entities from investments	(93,535)	(93,057)
Net cash (used in) financing activities	<u>(21,778,532)</u>	<u>(4,115,910)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	12,344	(161,776)
Cash and cash equivalents and restricted cash, at beginning of year	9,312,545	9,474,321
Cash and cash equivalents and restricted cash, at end of year	<u>\$ 9,324,889</u>	<u>\$ 9,312,545</u>

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Supplemental cash flow information		
Interest paid on debt	\$ 2,499,010	\$ 1,004,227
Supplemental schedule of non-cash investing and financing activities		
Equipment purchases and construction in progress in accounts payable	\$ 332,899	\$ 44,040
Contributed investment, real property	\$ -	\$ 2,800,000
Equipment purchases financed through notes payable	\$ 112,370	\$ -

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 Position:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 8,820,801	\$ 8,808,709
Bond reserve and project fund	504,088	503,836
	<u>\$ 9,324,889</u>	<u>\$ 9,312,545</u>

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

Central Administrative Office of the Catholic Diocese of Arlington
Notes to Financial Statements
For the years ended June 30, 2023 and 2022

1. Nature of operations

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

- Pastoral includes all offices primarily concerned with evangelization and communicating the Faith, such as the Office for Marriage, Family and Respect Life, Office of Youth, Young Adult and Campus Ministry, Tribunal, Spanish Apostolate, Multicultural Ministries, the San Damiano Spiritual Life Center, and the St. Rose of Lima Priests' Retirement Villa. Pastoral expenses also include grants made to parishes and other affiliates for capital needs and program activities.
- Religious Personnel Development includes offices associated with the formational and educational needs of priests and deacons and related activities, including the Office of Vocations.
- Education includes offices associated with Catholic school administration and oversight of parish-based religious education programs.
- Social Services includes diocesan support of Catholic Charities of the Diocese of Arlington, the Campaign for Human Development, Rice Bowl, Office for Protection of Children and Young People and other charitable contributions.
- Diocesan Bishop and Communications - The Diocesan Bishop is responsible for teaching, governing, and sanctifying the faithful of the diocese. His ministry is provided through personal interactions, by traveling across the diocese for sacramental and pastoral purposes, as well as through digital and media production presence. This ministry may have a connection with other programs but the complete cost remains with this program.
- Diocesan Administration and Parochial Support includes offices concerned with the overall diocesan administration including the Chancery, Planning, Construction and Facilities, Finance and Accounting, Human Resources and Employee Benefits, Development and Information Services. These offices also provide services in support of the parishes and schools of the Diocese.
- Bishop's Lenten Appeal (BLA) includes all expenses associated with the annual fundraising drive.

2. Basis of presentation and summary of significant accounting policies

Basis of presentation and combination

The financial statements include the accounts of the Chancery and centralized administrative and diocesan functions under the control of the Bishop of Arlington (the Diocesan Bishop). They do not

Central Administrative Office of the Catholic Diocese of Arlington
Notes to Financial Statements
For the years ended June 30, 2023 and 2022

include the accounts for the Catholic Charities of the Diocese of Arlington (Catholic Charities), the Arlington Catholic Herald, 200 North Glebe Road, Inc., Arlington Diocesan Investment and Loan Corporation (DIAL Corp), the Catholic Investment Trust of Arlington, The Foundation for the Catholic Diocese of Arlington, Inc. (The Foundation), the Diocese of Arlington Scholarship Foundation, Inc. (Scholarship Foundation) or Boulevard VI Development, LLC (Blvd VI), over which the Diocesan Bishop exercises control, and are reported separately.

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

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

Basis of accounting

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

Classification of net assets

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

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

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

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

Central Administrative Office of the Catholic Diocese of Arlington
Notes to Financial Statements
For the years ended June 30, 2023 and 2022

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 12).

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.

Leases

The Chancery determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) asset and lease liabilities on the statements of financial position.

ROU assets represent the Chancery's right to use an underlying asset for the lease term and lease liabilities represent the Chancery's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As leases do not provide an implicit rate, the Chancery uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. ROU assets also include adjustments related to lease payments made and lease incentives received at or before the commencement date. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Chancery will exercise that option. Operating lease costs are recognized on a straight-line basis over the lease term. The Chancery has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position. Office lease agreements with lease and non-lease components are accounted for separately.

In evaluating contracts to determine if they qualify as a lease, the Chancery considers factors such as if the Chancery has obtained substantially all of the rights to the underlying asset through exclusivity, if the Chancery can direct the use of the asset by making decisions about how and for what purpose

Central Administrative Office of the Catholic Diocese of Arlington
Notes to Financial Statements
For the years ended June 30, 2023 and 2022

the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Investments and investment valuation

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

Investment income and expense

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

Investment pool and beneficial interest in investment trust

Long-term assets and endowments of the Chancery are held in the Catholic Investment Trust of Arlington (CITA). The CITA was established as a nontaxable grantors' trust for the purpose to hold, invest, preserve, reinvest, and manage contributions for participating affiliates (grantors), including the Chancery (Note 7). The Chancery's beneficial interest (investment) in the CITA is stated at fair value, determined by the separate account maintained for the Chancery which is credited for additions and allocated investment gains and charged for withdrawals and allocated investment losses and expenses.

Derivative instruments

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

Revenue recognition

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

Contributions

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

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

Central Administrative Office of the Catholic Diocese of Arlington
Notes to Financial Statements
For the years ended June 30, 2023 and 2022

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 \$5,078,336 and \$4,857,315 as of June 30, 2023 and 2022, respectively. This includes restricted cash of \$504,088 and \$503,836 as of June 30, 2023 and 2022, respectively, that is required to be kept on hand in one financial institution, relating to the Saint Paul IV Catholic High School (PVI) project and reserve funds. The Chancery also invests excess funds in overnight investment agreements which are not federally insured but are collateralized by U.S. treasuries or mortgage-backed securities of U.S. government-sponsored enterprises. Amounts held in overnight investments as of June 30, 2023 and 2022 were \$3,646,077 and \$4,037,436, 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.

Adoption of new accounting standard

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

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The Chancery adopted the requirements of this guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption presented (not the earliest year presented) using a modified retrospective approach. The Chancery has elected to adopt the package of practical expedients available in the year of adoption that permits no reassessment of whether any expired or existing contracts are or contain a lease, the lease classification for any expired or existing leases, and any initial direct costs for any existing leases as of the effective date. Lease disclosures for the year ended June 30, 2022, are made under prior lease guidance in FASB ASC 840.

The Chancery has applied the portfolio approach in identifying its population of leases and in applying its risk-free rate in certain relevant cases.

As a result of the adoption of the new lease accounting guidance, the Chancery recognized on July 1, 2022 an operating lease liability of \$15,342,161, which represents the present value of the remaining operating lease payments and an operating right-of-use asset of \$13,168,117.

The standard had a material impact on the statements of financial position but did not have a material impact on the statements of activities nor a material impact on the statements of cash flows. The most significant impact was the recognition of the ROU assets and lease liabilities.

Subsequent events

In preparing these financial statements, the Chancery has evaluated events and transactions for potential recognition or disclosure through October 26, 2023, 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.

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	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 8,820,801	\$ 8,808,709
Accounts receivable and accrued interest	2,199,265	1,884,108
Pledges and major gifts receivable	3,280,986	3,369,373
Investments (net of assets held on behalf of other entities of \$2,686,751 in 2023 and \$2,562,829 in 2022)	187,908,074	170,657,808
Financial Assets, end of year	<u>202,209,126</u>	<u>184,719,998</u>
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restriction:		
Restricted by donor with purpose restrictions	(25,702,033)	(23,431,861)
Perpetual in nature, net of annual spendable amount	(73,872,218)	(68,030,598)
Deposits held in custody for others, including investments held in annuity trust	(1,820,241)	(1,866,648)
Designated (Note 15), net of annual spendable amount	<u>(53,673,922)</u>	<u>(49,574,799)</u>
Financial assets available within one year to meet cash needs for general expenditures within one year	47,140,712	41,816,092
Other liquidity resources:		
Bank, available line of credit, fiscal year 2023 and 2022	<u>7,000,000</u>	<u>7,000,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 54,140,712</u>	<u>\$ 48,816,092</u>

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

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

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

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

4. Accounts receivable

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

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Accounts receivable are as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Parishes	\$ 1,103,762	\$ 986,398
Schools	505,804	459,237
Other diocesan entities	147,095	40,450
Due from brokers	89,657	44,702
Miscellaneous	<u>252,576</u>	<u>338,253</u>
Total accounts receivable	2,098,894	1,869,040
Less: allowance for doubtful accounts	<u>(95,324)</u>	<u>(93,946)</u>
Total accounts receivable, net	<u>\$ 2,003,570</u>	<u>\$ 1,775,094</u>

5. Bishop's Lenten Appeal pledges receivable

As of June 30, 2023 and 2022, contributors to the Bishop's Lenten Appeal (BLA) have unconditionally promised to give \$3,181,462 and \$3,362,348, respectively. As the Bishop's Lenten Appeal is an annual campaign, the pledges are due within one year.

6. Major gifts pledges receivable

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

	<u>2023</u>	<u>2022</u>
Receivables due in one to five years	\$ 99,524	\$ 44,735
Less: allowance for doubtful accounts	<u>-</u>	<u>(37,710)</u>
Major gifts pledges receivable, net	<u>\$ 99,524</u>	<u>\$ 7,025</u>

7. Investments

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

	<u>2023</u>	<u>2022</u>
Investments held in trust	\$ 56,893,063	\$ 46,573,013
Investments in real estate	8,024,142	10,824,142
Alternative investment	92,151	97,913
Beneficial interest in the Catholic Investment Trust of Arlington	<u>125,585,469</u>	<u>115,725,569</u>
Total	<u>\$190,594,825</u>	<u>\$173,220,637</u>

Endowment funds and long-term investments of the Chancery are invested in the Catholic Investment Trust of Arlington (CITA). CITA was established as a nontaxable grantors' trust for the purpose to hold, invest, preserve, reinvest, and manage contributions of participating affiliates (grantors), including the Chancery. Although assets are pooled for investment purposes, separate accounts are maintained for each grantor, credited for additions and allocated investment gains and charged for

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withdrawals and allocated investment losses and expenses, and current asset valuations attributable to each grantor. The CITA invests in a diverse portfolio comprised of cash, cash equivalents, fixed instruments, equities and alternative investments under the direction of the Trustees with powers granted them under the Master Trust Agreement. Included in the pooled assets is \$87,152 and \$80,353 as of June 30, 2023 and 2022, respectively, which makes up an endowment that is held through an affiliate, The Foundation for the Catholic Diocese of Arlington, where investment earnings are used towards operational expenses of the Chancery.

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

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	\$ 16,415,190	\$ 16,415,190	\$ 13,455,567	\$ 13,455,567
U.S. Government and sponsored enterprises securities	5,877,359	5,706,564	3,874,976	3,762,641
Corporate, municipal and foreign bonds and other fixed instruments	9,393,465	8,790,610	8,445,137	7,775,443
Equities, including publicly traded REITs	20,258,847	25,980,699	21,243,651	21,579,362
Beneficial interest in Catholic Investment Trust of Arlington	111,574,640	125,585,469	114,122,738	115,725,569
Real property held for investment	8,024,142	8,024,142	10,824,142	10,824,142
Alternative investments	-	92,151	-	97,913
	\$ 171,543,643	\$ 190,594,825	\$ 171,966,211	\$ 173,220,637

Included in investments at June 30, 2023 and 2022 is \$743,963 and \$719,045, 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 four to twelve 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.

Investments are held for the following purposes:

	2023	2022
Current operations and programs	\$ 81,699,430	\$ 72,306,183
Long-term purposes, including endowments	103,848,320	96,175,401
Arlington Diocese Educational Fund (ADEF)	5,047,075	4,739,053
Total	\$190,594,825	\$173,220,637

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

	<u>2023</u>	<u>2022</u>
For Operations	\$ 3,850,000	\$ 3,480,000
In Other changes in net assets	<u>20,899,236</u>	<u>(34,109,310)</u>
Net investment gains (losses) - Chancery	<u>\$ 24,749,236</u>	<u>\$ (30,629,310)</u>

Investment income presented 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, 2023 and 2022, respectively, consists of the following:

	<u>2023</u>	<u>2022</u>
Chancery		
Interest, dividends and other investment income	\$ 3,336,495	\$ 2,166,656
Realized (losses) gains, net	3,976,258	12,845,663
Unrealized gains (losses), net	17,605,462	(45,386,451)
Less - investment management expenses	<u>(168,979)</u>	<u>(255,178)</u>
Net investment gains (losses) - Chancery	\$ 24,749,236	\$ (30,629,310)
Funds held for diocesan entities		
Investment income allocated to diocesan entities	<u>\$ 291,447</u>	<u>\$ 209,977</u>
Total net investment gains (losses) - Chancery and funds held for diocesan entities	<u>\$ 25,040,683</u>	<u>\$ (30,419,333)</u>

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.

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The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Chancery may use valuation techniques consistent with the market, income and cost approaches to measure fair value.

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

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities such as stocks and government bonds.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Fair values of assets measured on a recurring basis by level at June 30, 2023 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Short-term investments	\$ 16,415,190	\$ -	\$ -	\$ 16,415,190
U.S. Government and sponsored enterprises securities	5,263,221	443,343	-	5,706,564
Corporate, municipal and foreign bonds and other fixed instruments	-	8,790,610	-	8,790,610
Equities, including publicly traded REITs	25,980,699	-	-	25,980,699
Beneficial interest in the Catholic Investment Trust of Arlington	-	-	125,585,469	125,585,469
Real property held for investment	-	8,024,142	-	8,024,142
	<u>\$ 47,659,110</u>	<u>\$ 17,258,095</u>	<u>\$ 125,585,469</u>	<u>190,502,674</u>
Alternative investments measured at net asset value				92,151
Total investments				<u>\$ 190,594,825</u>

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

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

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

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

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

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

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

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

Beneficial interest in the Catholic Investment Trust of Arlington – The investment in CITA is considered a Level 3 investment as the Chancery holds a beneficial interest in

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the Trust in proportion to its contributions and allocated investment income or loss. Information is available to the Chancery and other grantors regarding the CITA’s investment policy, asset holdings, performance and third-party audit results, subject to the terms and conditions of the Master Trust Agreement. The Chancery shall upon reasonable notice and at its discretion request withdrawals from their allocable interest in the CITA. Distributions from this level three investment for the years ended June 30, 2023 and 2022 were \$4,658,027 and \$4,961,253, respectively.

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

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

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

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

	2023		2022	
	Notional Amount	Fair Value Asset	Notional Amount	Fair Value Asset
Interest rate swap agreement	\$ 7,452,742	\$ 331,005	\$ 8,998,558	\$ 182,853

The Chancery has entered into an interest rate swap agreement in association with a financing arrangement of bonds payable (Note 12). 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 \$148,152 for the year ended June 30, 2023 and an increase of \$519,508 for the year ended June 30, 2022.

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:

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	<u>2023</u>	<u>2022</u>
Assets:		
Accounts receivable, parishes, schools and other related entities, net	\$ 1,756,561	\$ 1,486,030
Due from Catholic Charities, split interest annuity	77,256	89,528
Property and advances provided for development and sale	-	15,263,565
Saint John Paul the Great Catholic High School loan receivable, interest waived for 2023 and 2022, no fixed repayment, repayments accepted as cash is available, net of allowance	-	-
Right of use asset, 200 N. Glebe Road, Inc.	11,886,485	-
	<u>\$ 13,720,302</u>	<u>\$ 16,839,123</u>

	<u>2023</u>	<u>2022</u>
Liabilities:		
Accounts payable, parishes, schools, other related entities	\$ 10,106	\$ 14,168
Due to parishes, split interest annuities	7,441	8,708
ADEF funds held for schools	2,686,751	2,562,829
Operating lease liability, 200 N. Glebe Road, Inc.	13,614,605	-
	<u>\$ 16,318,903</u>	<u>\$ 2,585,705</u>

	<u>2023</u>	<u>2022</u>
Revenues and Support:		
Operational assessment, parishes	\$ 7,879,751	\$ 7,275,065
Contributions, diocesan tuition assistance program	2,462,422	2,273,458
Contributions, restricted from Saint Paul VI Catholic High School	-	775,000
Program fees	2,923,902	2,121,649
Information technology, accounting and administrative support	1,074,586	995,085
Rental income, Catholic Charities	228,726	196,889
Rental income, Arlington Catholic Herald	141,143	140,182
Rental income, Saint John Paul the Great Catholic High School	1,434,456	1,434,456
Rental income, Saint Paul VI Catholic High School	1,517,640	1,517,640
Investment income, Blvd VI redevelopment	5,236,243	-
Insurance and risk management premiums billed	23,922,947	23,552,675
	<u>\$ 46,821,816</u>	<u>\$ 40,282,099</u>

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	<u>2023</u>	<u>2022</u>
Expenses:		
Rent paid to 200 N. Glebe Road, Inc.	\$ 2,605,859	\$ 2,558,128
Contributions, tuition assistance program	2,375,973	2,268,974
Contributions, tuition assistance endowment grants	1,580,000	1,420,000
Contributions, elementary student financial aid and programs	539,400	868,275
Contribution, subsidy to Catholic Charities	2,373,852	2,467,076
Contribution, Catholic Charities endowment fund	-	52,475
Contribution, other program service subsidies	37,043	179,930
Contribution, Cathedral of St. Thomas More renovations	4,524,157	451,175
Contributions made to Lay Retirement Plan	1,411,707	1,244,549
Contributions made to Priest Retirement Plan	396,000	378,000
Advertising expense to Arlington Catholic Herald	157,840	141,462
	<u>\$ 16,001,831</u>	<u>\$ 12,030,044</u>

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

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

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

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

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

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

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

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

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

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 3,575,000	\$ 3,575,000
Loan forgiveness	-	-
Balance, end of year	<u>\$ 3,575,000</u>	<u>\$ 3,575,000</u>

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. As of June 30, 2023, the Chancery has received cash distributions in excess of land contributed and project advances in the amount of \$5,236,243 and therefore has recognized investment gain to the extent of this excess. Due to the uncertainty regarding the eventual timing and proceeds of future project sales, the Chancery will continue to recognize investment gains as additional cash distributions are received.

10. Property, equipment and land, net

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

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	<u>2023</u>	<u>2022</u>
Operating properties-buildings	\$ 156,288,674	\$ 156,288,674
Operating properties-land and land development	43,235,795	43,235,795
Operating properties-improvements	11,758,076	11,682,032
Operating properties-furniture and equipment	11,825,396	11,799,444
Land held for future projects and parishes	11,317,248	11,317,248
Office furniture and equipment	1,281,231	1,218,264
Computer hardware	832,723	930,673
Computer software	1,192,665	1,159,494
Vehicles	922,213	882,549
Leasehold improvements	4,329,522	4,329,522
Total property, equipment and land	<u>242,983,543</u>	<u>242,843,695</u>
Less: accumulated depreciation	<u>(58,569,024)</u>	<u>(53,608,336)</u>
Property, equipment and land, net	<u>\$ 184,414,519</u>	<u>\$ 189,235,359</u>

Depreciation expense was \$5,328,548 and \$5,366,164 during the years ended June 30, 2023 and 2022, respectively. Of the total assets listed above, \$17,510,068 and \$17,398,365 were fully depreciated at June 30, 2023 and 2022, respectively.

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

Construction of Saint John Paul the Great Catholic High School and Saint Paul VI High School were funded, in part, from tax-exempt bonds (Note 12). Interest costs net of interest earned from the temporary investment of the bonds were capitalized. Cumulative investment earnings do not exceed cumulative investment expenses, and therefore the Diocese does not have an arbitrage recapture obligation. Upon completion of the high schools, bond interest cost was charged to expense.

Capitalized interest is included in operating properties-buildings. Amortization of capitalized interest of \$112,662 and \$112,662 for the years ended June 30, 2023 and 2022, respectively, is included in depreciation expense.

11. Leases

Leases – ASC 842

The Chancery leases office space, equipment, and an operating facility under long-term, noncancelable lease agreements. The office space agreement with 200 North Glebe Road, Inc., a related entity, expired 2023 and the option to extend the lease through 2028 was exercised. In addition to lease payments, the office lease generally requires the Chancery to pay any incremental increases in taxes, insurance and utilities. The equipment and operating facility leases expire at various dates through November 2027.

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The following provides quantitative information concerning the Chancery's leases:

	<u>2023</u>
Lease costs:	
Operating lease costs	\$ 2,562,850
Short-term lease costs	216,016
Sublease income (office space)	(369,869)
Total lease costs	<u>\$ 2,408,997</u>
Other information:	
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash outflows from operating leases	\$ 3,008,774
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 14,027,047
Weighted-average remaining lease term -operating leases	5 years
Weighted-average discount rate-operating leases	2.95%

Future minimum operating lease liabilities as of June 30, 2023 are as follows:

2024	\$ 2,807,006
2025	2,876,641
2026	2,944,345
2027	2,991,103
2028	3,018,721
Total lease payments	<u>14,637,816</u>
Less effect of discounting	<u>(1,023,211)</u>
	<u>\$ 13,614,605</u>

Operating Leases – ASC 840

The Chancery elected to apply the provisions of FASB ASC 842 to the beginning of the period of adoption with certain practical expedients available for the year ended June 30, 2023. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

The Chancery leases office space with 200 North Glebe Road, Inc., a related entity. 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. The Chancery also leases office equipment under operating leases expiring through April 2026. Total rent expense, net of sublease rentals for year ended June 30, 2022, is as follows:

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	<u>2022</u>
Office space	\$ 2,558,128
Office equipment	93,324
Sublease office rental (related entities)	<u>(337,071)</u>
Net expense	<u>\$ 2,314,381</u>

12. 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:

	<u>Year of</u> <u>Final Maturity</u>	<u>Current Rate</u> <u>2023</u>	<u>2023</u>	<u>2022</u>
Prince William County, Educational Facilities Revenue Refunding Bond, Series 2016	12/1/2027	2.28%	\$ 8,356,314	\$ 9,435,090
Loudoun County, Educational Facilities Revenue Bond, Series 2016	2/1/2041	4.93%	<u>43,628,509</u>	<u>64,228,509</u>
			51,984,823	73,663,599
			139,837	151,884
Less unamortized bond issuance costs			<u>\$ 51,844,986</u>	<u>\$ 73,511,715</u>

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%. Effective May 1, 2023, the Chancery entered into a consolidated amendment to the bond agreement which replaces the above LIBOR borrowing rate with a Secured Overnight Financing Rate (SOFR) based rate. Interest under the new agreement is at a floating rate of 79% of Term SOFR plus .79%. 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, 2023 and 2022 is \$7,452,472 and \$8,998,558 , 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%. Effective May 1, 2023, the Chancery entered into a consolidated amendment to the bond agreement which replaces the above LIBOR borrowing rate with a Secured Overnight Financing Rate (SOFR) based rate. Interest under the new agreement is at a floating rate of 79% of Term SOFR rate plus .9085%. The Chancery is required to maintain a debt service reserve fund with the bank for a percentage of the outstanding balance on the bond, \$504,088 and \$503,836 as of June 30, 2023 and 2022, respectively. The Chancery will be required to make minimum principal reductions through 2025 totaling \$23,628,509. The remaining balance of \$20,000,000 is to be amortized over 15 years, with a final payment due February 1, 2041.

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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 \$2,499,011 and \$1,004,232, reflective of the swap agreement, for the years ended June 30, 2023 and 2022, 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 2028 and thereafter are as follows:

2024	\$ 2,222,970
2025	12,991,873
2026	12,403,321
2027	2,420,827
2028	4,981,159
Thereafter	<u>16,824,836</u>
	<u>\$ 51,844,986</u>

13. Pension expense

Pension plan – employees

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

The lay employees' plan is administered by the Chancery, but is a multi-employer plan. The plan covers employees from other diocesan organizations, such as parishes and schools, the Arlington Catholic Herald, and diocesan high schools, which, as noted in Note 2, are not combined with the Chancery for financial reporting purposes. Premiums are calculated based on 10% of eligible participant salaries, and are used toward the monthly funding of the plan. The cost of the plan for the Chancery and charged to expense was \$1,411,707 and \$1,328,060 for the years ended June 30, 2023 and 2022, respectively. The plan is not subject to ERISA funding requirements.

Pension plan - priests

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

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

	<u>2023</u>	<u>2022</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 29,308,841	\$ 37,700,575
Service cost	875,024	1,310,271
Interest cost	1,346,411	1,037,685
Plan amendments	560,891	-
Actuarial loss (gain)	541,495	(9,370,211)
Benefits paid	<u>(1,367,852)</u>	<u>(1,369,479)</u>
Benefit obligation at end of year	<u>31,264,810</u>	<u>29,308,841</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	30,706,814	34,515,218
Return on plan assets	4,712,600	(4,361,174)
Employer contributions	1,988,550	1,922,249
Benefits paid	<u>(1,367,852)</u>	<u>(1,369,479)</u>
Fair value of plan assets at end of year	<u>36,040,112</u>	<u>30,706,814</u>
(Over) under funded plan status	<u>\$ (4,775,302)</u>	<u>\$ (1,397,973)</u>

Additional employer contributions of \$2,550 in 2023 and \$26,249 in 2022 were made available through restricted contributions. The plan was amended to include annual cost of living adjustments in both personal benefits and housing allowances which increased the benefit obligation in 2023.

The accumulated benefit obligation at June 30, 2023 and 2022 was \$29,145,749 and \$27,381,299, respectively. The net periodic pension cost for the years ended June 30, 2023 and 2022 were \$381,930 and \$468,136, respectively. Amounts previously recognized in net assets without donor restriction and not yet recognized as periodic pension cost at June 30:

	<u>2023</u>	<u>2022</u>
Net (loss)	\$ (6,373,336)	\$ (8,688,059)
Net prior service cost	<u>(727,692)</u>	<u>(183,678)</u>
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic benefit cost	<u>\$ (7,101,028)</u>	<u>\$ (8,871,737)</u>

The estimated net loss that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost in 2024 is \$196,694.

Assumptions used to determine the year-end benefit obligation:

	<u>2023</u>	<u>2022</u>
Discount rate on the benefit obligation	5.30%	4.70%
Rate of expected return on plan assets	6.95%	6.65%
Rate of priests' compensation increase	2.00%	2.00%

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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, 2023 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Short-term investments	\$ 2,263,836	\$ 2,263,836	\$ -
U.S. Government and sponsored enterprises securities	4,631,566	2,148,312	2,483,254
Corporate, municipal and foreign bonds and other fixed instruments	5,095,399	-	5,095,399
Equities	24,049,311	24,049,311	-
Total	<u>\$ 36,040,112</u>	<u>\$ 28,461,459</u>	<u>\$ 7,578,653</u>

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

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

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 \$1,980,000 to the plan in 2024. Projected benefit payments to be made from the plan for the next ten years are as follows:

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2024	\$ 1,536,939
2025	1,403,859
2026	1,323,902
2027	1,396,348
2028	1,409,866
2029-2033	8,442,594

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:

	<u>2023</u>	<u>2022</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 17,859,188	\$ 23,554,719
Service cost	544,668	799,259
Interest cost	828,711	653,805
Employee contributions	86,736	133,113
Actuarial (gain)	(1,146,920)	(6,767,264)
Benefits paid	<u>(412,080)</u>	<u>(514,444)</u>
Benefit obligation at end of year	17,760,303	17,859,188
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	325,344	381,331
Employee contributions	86,736	133,113
Benefits paid	<u>(412,080)</u>	<u>(514,444)</u>
Fair value of plan assets at end of year	<u>-</u>	<u>-</u>
Post retirement health benefit obligation	<u>\$ 17,760,303</u>	<u>\$ 17,859,188</u>

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The net periodic benefit cost for the years ended June 30, 2023 and 2022 were \$1,312,183 and \$1,735,353, respectively. Amounts previously recognized in net assets without donor restrictions and not yet recognized as periodic benefit cost at June 30:

	<u>2023</u>	<u>2022</u>
Net gain (loss)	\$ 306,473	\$ (779,251)
Net prior service credit	-	-
Amounts previously recognized in net assets without donor restrictions, not yet recognized as periodic benefit cost	<u>\$ 306,473</u>	<u>\$ (779,251)</u>

The estimated net gain that will be amortized from changes in net assets without donor restrictions into net periodic benefit cost in 2024 is \$83,714.

Assumptions used to determine the year-end benefit obligation:

	<u>2023</u>	<u>2022</u>
Discount rate on the benefit obligation	5.30%	4.70%

For measurement purposes, a 5.42% increase in the cost of health care benefits was assumed for 2023. This rate was assumed to decrease over a 23 year period to an ultimate rate of 4% by 2046. For 2022, a 5.55% increase in the cost of health care benefits was assumed. This rate was assumed to decrease over a 24 year period to an ultimate rate of 4% by 2046.

The Diocese expects to contribute approximately \$436,000 to the plan in 2024. Projected benefit payments to be made from the plan for the next ten years are as follows:

2024	\$ 436,000
2025	498,000
2026	555,000
2027	611,000
2028	640,000
2029-2033	4,094,000

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:

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	<u>2023</u>	<u>2022</u>
Invested in property and equipment, net of related debt	\$ 133,343,690	\$ 114,230,346
Designated for:		
Functioning as endowment	18,846,248	17,342,756
Self insurance, property and general liability	2,280,114	2,654,774
Self-insurance, employee benefits	16,773,914	17,155,140
Special project and program initiatives	11,372,026	7,657,048
Priests' mutual aid fund	689,711	630,729
Named benefactor funds & other designated	2,908,766	3,338,096
Scholarship funds	95,163	86,202
Property purchase reserves	1,461,980	1,433,054
	<u>\$ 54,427,922</u>	<u>\$ 50,297,799</u>

16. Net assets with donor restrictions

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

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	<u>2023</u>	<u>2022</u>
Subject to expenditure for specific purpose:		
Pastoral Activities:		
Marriage, Family and Respect Life	\$ 2,289,189	\$ 1,911,701
Youth, Young Adult and Campus Ministry	1,312,426	1,296,340
Permanent Diaconate	130,222	165,354
Evangelization	1,355,312	1,328,497
Multicultural and Dominican Republic Mission	38,295	10,382
Spirituality Center	304,225	299,967
Retired Priest Needs, retirement home	5,471,346	5,496,164
Targeted initiatives and projects	11,217,674	9,554,124
Vocations, Seminarians and Religious Personnel Development	1,499,993	1,451,727
Catholic Education and Tuition Assistance	1,461,786	1,372,212
Social Service Activities:		
Other Charitable Works	576,024	507,558
Communications	45,541	37,835
Subject to spending policy and appropriation:		
Investment in perpetuity, income, which once appropriated, is expendable to support:		
Catholic Education - original donor-restricted gifts	24,072,804	24,072,804
Catholic Education - accumulated endowment earnings	23,342,737	19,669,630
Catechetics - original donor-restricted gifts	2,045,652	2,045,652
Catechetics - accumulated endowment earnings	4,608,762	3,975,844
Youth Ministry - original donor-restricted gifts	510,988	510,988
Youth Ministry - accumulated endowment earnings	760,559	637,809
For General Diocesan Operations - original donor-restricted gifts	14,326,896	14,326,896
For General Diocesan Operations - accumulated endowment earnings	4,982,320	3,547,475
Not Subject to appropriation or expenditure:		
Donated Land restricted for high school	14,500,000	14,500,000
Total	<u>\$ 114,852,751</u>	<u>\$ 106,718,959</u>

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

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

	<u>2023</u>	<u>2022</u>
Purpose restrictions accomplished:		
Pastoral activities	\$ 6,360,090	\$ 4,219,205
Vocations, Seminarians and Religious Personnel Development	360,937	377,109
Catholic Education and Tuition Assistance	2,404,404	3,358,583
Social Service Activities	832,052	1,091,239
Communications	75,119	65,442
Release of appropriated endowment amounts without purpose restrictions	756,500	663,100
Release of appropriated endowment amounts with purpose restriction	2,010,169	1,763,794
Total net assets released from restrictions	<u>\$ 12,799,271</u>	<u>\$ 11,538,472</u>

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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 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 in the amount of \$0 and \$2,867,007 for the years ended June 30, 2023 and 2022, respectively, were used for the purpose of debt reduction related to the new facility for Saint Paul VI High School, thereby releasing these funds from restriction.

17. Endowments

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

Interpretation of relevant law

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

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

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Chancery to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2023 and 2022.

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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, 2023 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Board-designated endowment funds	\$ 18,846,248	\$ -	\$ 18,846,248
Donor-restricted endowment funds:			
Original donor-restricted gifts	-	40,956,340	40,956,340
Accumulated endowment earnings, subject to appropriation under UPMIFA	-	33,694,378	33,694,378
Total funds	<u>\$ 18,846,248</u>	<u>\$ 74,650,718</u>	<u>\$ 93,496,966</u>

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

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

Changes in donor-restricted endowment net assets as of June 30, 2023 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 17,342,755	\$ 68,787,098	\$ 86,129,853
Contributions received in cash	-	-	-
Investment earnings, net	2,226,493	8,630,289	10,856,782
Amounts appropriated for expenditure and satisfying purpose restrictions	(723,000)	(2,766,669)	(3,489,669)
Endowment net assets, end of year	<u>\$ 18,846,248</u>	<u>\$ 74,650,718</u>	<u>\$ 93,496,966</u>

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

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

Central Administrative Office of the Catholic Diocese of Arlington
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For the years ended June 30, 2023 and 2022

18. Functional Classification of Expenses

Expenses by both their nature and function for the year ended June 30, 2023 are as follows:

	Program Activities					Diocesan Admin and Parochial support	Bishop's Lenten Appeal	Total expenses
	Religious Personnel		Education	Social Services	Diocesan Bishop and Comm.			
	Pastoral	Development						
Salaries, honoraria, taxes and benefits	\$ 5,552,235	1,609,891	1,628,550	681,424	1,440,425	9,589,022	207,083	20,708,630
Professional services and other	1,497,077	201,010	709,768	263,517	211,464	2,187,335	111,682	5,181,853
Materials and supplies	1,082,129	176,814	145,909	9,720	122,951	253,719	540,546	2,331,788
Office and occupancy	1,331,768	367,168	288,416	80,835	233,354	1,662,280	97,072	4,060,893
Education, conferences and development	23,962	2,056,001	356,531	18,437	42,977	312,011	2,760	2,812,679
Contributions and direct assistance	5,682,832	172,045	4,549,645	2,707,570	360,331	2,550	-	13,474,973
Property, equipment and depreciation	1,122,995	26,671	312,662	158,076	79,087	809,126	-	2,508,617
Total Expenses	\$ 16,292,998	4,609,600	7,991,481	3,919,579	2,490,589	14,816,043	959,143	51,079,433

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

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

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.

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Notes to Financial Statements
For the years ended June 30, 2023 and 2022

19. Insurance programs

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

Under the medical plan, the self-insured retention layer includes an individual loss limit of \$450,000 in plan years 2023 and 2022, as well as an aggregate loss limit of up to 125% of expected claims, or about \$24,000,000 in plan year March 2023-February 2024. Losses exceeding these amounts are covered by the stop-loss insurance policy with no annual limit on aggregate losses. Incurred but not reported health claims are estimated to be \$2,827,000 and \$2,139,000 at June 30, 2023 and 2022, 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, the Diocese includes 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 \$1,720,000 and \$1,870,000 at June 30, 2023 and 2022, 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:

	<u>2023</u>	<u>2022</u>
Incurred but not reported estimated health claims	\$ 2,827,000	\$ 2,139,000
Estimated property and general liability claims	\$ 1,720,000	\$ 1,870,000

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Notes to Financial Statements
For the years ended June 30, 2023 and 2022

20. Commitments and contingencies

Lines of credit and letters of credit

The Chancery has obtained lines of credit as follows:

	<u>June 30, 2023</u>		<u>June 30, 2022</u>	
	<u>Total</u>	<u>Outstanding</u>	<u>Total</u>	<u>Outstanding</u>
	<u>Available</u>		<u>Available</u>	
Operating needs	\$ 7,000,000	\$ -	\$ 7,000,000	\$ -
Standby letters of credit for various construction projects	\$ 25,000,000	\$ 10,400,363	\$ 25,000,000	\$ 15,182,176

The Chancery has a line of credit and letter of credit facility requiring certain covenants such as operating liquidity, additional indebtedness, and financial reporting. In February 2022, the line of credit for operating needs was renewed with a stated rate of interest based on the Term SOFR rate plus 200 basis points. The revised terms also increased the letter of credit facility to \$25,000,000. The issuance fee for standby letters of credit for various parish and Chancery construction projects was 1.5% per annum with a minimum of \$200 per letter for the years ended June 30, 2023 and 2022.

Litigation

The Diocese is party to various lawsuits that have arisen in the normal course of business. Coverage for each of the lawsuits is provided by either a self-insurance fund or excess insurance coverage. Insurance claims payable have been accrued for those cases where the potential liability is estimable and probable. The Diocese believes that the outcome of these cases will not have a materially adverse effect on the financial position or changes in net assets of the Chancery.

Construction agreements

The Chancery is committed under various construction contracts with remaining amounts of \$577,584.

21. Contributed nonfinancial asset

The Chancery received donated property with an estimated, appraised value of \$4,100,000 during the year-ended June 30, 2022. The gift was received without restriction. The Chancery recognized a contribution of a nonfinancial asset as of June 30, 2022 for the net realizable value of \$2,800,000, adjusted for market conditions, as well as costs necessary for sale. The property was held for sale and shown in Investments on the Statement of Financial Position as of June 30, 2022. The property was sold June 30, 2023, with proceeds being invested.



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