

The Catholic Charities of the Diocese of Arlington, Inc.

Financial Statements

**As of June 30, 2021 and 2020
and Report Thereon**



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The Catholic Charities of the Diocese of Arlington, Inc.

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As of June 30, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Catholic Charities of the Diocese of Arlington, Inc.
Arlington, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of The Catholic Charities of the Diocese of Arlington, Inc., a nonprofit corporation (Catholic Charities), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Catholic Charities of the Diocese of Arlington, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information – Schedule of Expenditures of Federal Awards

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2021, on our consideration of The Catholic Charities of the Diocese of Arlington, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of The Catholic Charities of the Diocese of Arlington, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Catholic Charities of the Diocese of Arlington, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Arlington, Virginia
December 14, 2021

The Catholic Charities of the Diocese of Arlington, Inc.
Statements of Financial Position
As of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 18,639,385	\$ 15,258,529
Accounts receivable, less allowance for doubtful accounts of \$4,699, and \$21,057, respectively	719,145	656,983
Investments	20,880,045	16,079,448
Fixed assets, less accumulated depreciation of \$1,586,211 and \$1,473,741, respectively	775,259	770,493
Other assets	127,643	114,767
Total assets	<u>\$ 41,141,477</u>	<u>\$ 32,880,220</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 172,004	\$ 214,135
Accrued expenses		
Pension	645,253	1,330,383
Payroll	644,170	617,492
Other	148,198	137,385
Other liabilities		
Annuity	94,158	100,042
Promissory note payable - SBA PPP	-	907,800
Total liabilities	<u>1,703,783</u>	<u>3,307,237</u>
Net assets		
Without donor restrictions		
Operating	12,891,918	8,086,087
Plant	775,259	770,493
Total without donor restrictions	<u>13,667,177</u>	<u>8,856,580</u>
With donor restrictions		
Total net assets	<u>25,770,517</u>	<u>20,716,403</u>
Total net assets	<u>39,437,694</u>	<u>29,572,983</u>
Total liabilities and net assets	<u>\$ 41,141,477</u>	<u>\$ 32,880,220</u>

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

The Catholic Charities of the Diocese of Arlington, Inc.
Statement of Activities
For the year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating revenues and support			
Fundraising	\$ 1,660,810	\$ -	\$ 1,660,810
The Chancery	2,587,632	-	2,587,632
Third Party Giving/CFC	185,964	3,984	189,948
Program services	721,414	-	721,414
Government grants and contracts	4,564,392	100,615	4,665,007
Contributions	9,106,850	1,044,337	10,151,187
Interest income	964,996	246,627	1,211,623
Miscellaneous income	215,030	54	215,084
Net assets released from restriction	996,801	(996,801)	-
Total operating revenues and support	<u>21,003,889</u>	<u>398,816</u>	<u>21,402,705</u>
Operating expenses			
Program services			
Adoption & Children Services	380,957	-	380,957
Counseling & Health	2,948,515	-	2,948,515
Food & Emergency Assistance	6,234,126	-	6,234,126
Hogar Immigrant Services	1,704,332	-	1,704,332
Migration and Refugee Services	3,057,034	-	3,057,034
Parish & Community Engagement	347,958	-	347,958
Senior Services	450,338	-	450,338
Transformational Housing	1,166,563	-	1,166,563
Supporting services			
Management and general	1,413,045	-	1,413,045
Fundraising	679,914	-	679,914
Total operating expenses	<u>18,382,782</u>	<u>-</u>	<u>18,382,782</u>
Change in net assets from operations	<u>2,621,107</u>	<u>398,816</u>	<u>3,019,923</u>
Other changes in net assets			
Minimum pension liability	687,144	-	687,144
Leadership Initiative	-	145,367	145,367
Investment gains	598,662	4,509,931	5,108,593
Extinguishment of Debt - SBA PPP	897,800	-	897,800
Change in value of Annuity Payable	5,884	-	5,884
Total change in net assets	<u>4,810,597</u>	<u>5,054,114</u>	<u>9,864,711</u>
Net assets, beginning of year	<u>8,856,580</u>	<u>20,716,403</u>	<u>29,572,983</u>
Net assets, end of year	<u>\$ 13,667,177</u>	<u>\$ 25,770,517</u>	<u>\$ 39,437,694</u>

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

The Catholic Charities of the Diocese of Arlington, Inc.
Statement of Activities
For the year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating revenues and support			
Fundraising	\$ 1,677,904	\$ -	\$ 1,677,904
The Chancery	2,454,041	-	2,454,041
Third Party Giving/CFC	204,450	-	204,450
Program services	749,029	-	749,029
Government grants and contracts	3,223,678	-	3,223,678
Contributions	6,510,585	862,314	7,372,899
Interest income	160,737	355,045	515,782
Miscellaneous income	141,158	-	141,158
Net assets released from restriction	1,053,692	(1,053,692)	-
Total operating revenues and support	<u>16,175,274</u>	<u>163,667</u>	<u>16,338,941</u>
Operating expenses			
Program services			
Adoption & Children Services	645,750	-	645,750
Counseling & Health	2,320,935	-	2,320,935
Food & Emergency Assistance	3,798,791	-	3,798,791
Hogar Immigrant Services	1,661,758	-	1,661,758
Migration and Refugee Services	2,891,897	-	2,891,897
Parish & Community Engagement	398,260	-	398,260
Senior Services	286,234	-	286,234
Transformational Housing	1,150,224	-	1,150,224
Supporting services			
Management and general	1,538,490	-	1,538,490
Fundraising	873,108	-	873,108
Total operating expenses	<u>15,565,447</u>	<u>-</u>	<u>15,565,447</u>
Change in net assets from operations	<u>609,827</u>	<u>163,667</u>	<u>773,494</u>
Other changes in net assets			
Minimum pension liability	(16,466)	-	(16,466)
Leadership Initiative	-	204,172	204,172
Investment gains	560,225	77,306	637,531
Change in value of Annuity Payable	16,910	-	16,910
Total change in net assets	<u>1,170,496</u>	<u>445,145</u>	<u>1,615,641</u>
Net assets, beginning of year	<u>7,686,084</u>	<u>20,271,258</u>	<u>27,957,342</u>
Net assets, end of year	<u>\$ 8,856,580</u>	<u>\$ 20,716,403</u>	<u>\$ 29,572,983</u>

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

The Catholic Charities of the Diocese of Arlington, Inc.
Statements of Cash Flows
For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 9,864,711	\$ 1,615,641
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation of furniture and equipment	158,148	160,222
Unrealized gains on investments	(3,522,808)	(105,935)
Realized gains on investments	(1,568,265)	(531,370)
Forgiveness of SBA PPP Loan	(907,800)	-
Change in value of annuity	(5,884)	(16,910)
(Increase) in accounts receivable, net	(62,162)	(169,171)
(Increase) in other assets	(12,876)	(5,167)
Increase/(decrease) in accounts payable	(42,130)	76,289
Increase/(decrease) in accrued expenses	(647,639)	224,212
Contributions restricted for long-term investment	(1,353)	(4,945)
Net cash and cash equivalents provided by operating activities	<u>3,251,942</u>	<u>1,242,866</u>
Cash flows from investing activities		
Net proceeds of investments	244,795	122,861
Purchase of fixed assets	(117,236)	-
Proceeds on sale of fixed assets	-	24,993
Net cash and cash equivalents provided by investing activities	<u>127,559</u>	<u>147,854</u>
Cash flows from financing activities		
Proceeds from contributions restricted for investment in endowment	1,353	4,945
Proceeds from SBA PPP Loan	-	907,800
Net cash and cash equivalents provided by financing activities	<u>1,353</u>	<u>912,745</u>
Net increase in cash and cash equivalents	3,380,854	2,303,465
Cash and cash equivalents, at beginning of year	<u>15,258,529</u>	<u>12,955,064</u>
Cash and cash equivalents, at end of year	<u>\$ 18,639,383</u>	<u>\$ 15,258,529</u>

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

The Catholic Charities of the Diocese of Arlington, Inc.
Statement of Functional Expenses
For the year ended June 30, 2021

	Program Services									Supporting Services			Total 2021
	Adoption & Children Services	Counseling & Health	Food & Emergency Assistance	Hogar Immigrant Services	Migrant & Refugee Services	Parish & Community Engagement	Senior Services	Transformational Housing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Expenses													
Compensation	\$ 298,588	\$ 1,252,808	\$ 1,043,500	\$ 1,317,966	\$ 2,056,101	\$ 123,314	\$ 205,895	\$ 841,545	\$ 7,139,717	\$ 1,064,594	\$ 313,712	\$ 1,378,306	\$ 8,518,023
Direct Financial Assistance Inkind	1,505	953,473	2,731,225	31,926	38,899	15,737	13,302	5,687	3,791,754	37,174	18,108	55,282	3,847,036
Direct Financial Assistance Cash	1,784	3,249	1,752,623	610	593,696	128,124	170,497	27,278	2,677,861	-	-	-	2,677,861
Occupancy	27,446	392,513	320,115	199,190	179,937	48,502	40,291	137,747	1,345,741	57,082	16,635	73,717	1,419,458
Professional fees	18,307	141,936	90,099	19,276	67,952	21,673	4,144	12,978	376,365	157,993	150,087	308,080	684,445
Supplies	2,195	86,911	183,284	12,905	24,217	606	3,039	19,707	332,864	10,025	225	10,250	343,114
Printing & publications	564	1,428	3,663	7,892	1,674	709	-	1,128	17,058	3,522	68,669	72,191	89,249
Travel	5,114	4,913	42,041	1,137	23,581	1,364	-	1,928	80,078	12,001	1,481	13,482	93,560
Telephone	4,937	25,288	9,128	13,284	20,910	-	3,844	4,821	82,212	1,125	-	1,125	83,337
Postage & handling	471	210	661	7,039	1,004	31	242	143	9,801	13,066	21,738	34,804	44,605
Rental & maintenance	5,003	18,408	9,239	12,916	11,020	349	3,201	5,539	65,675	992	-	992	66,667
Conferences, conventions	288	2,567	189	4,462	449	525	1,228	1,643	11,351	12,998	5	13,003	24,354
Depreciation	-	12,015	20,509	4,818	18,633	-	2,543	88,369	146,887	-	11,261	11,261	158,148
Miscellaneous	14,755	52,796	27,850	70,911	18,961	7,024	2,112	18,050	212,459	42,473	77,993	120,466	332,925
Total expenses	<u>\$ 380,957</u>	<u>\$ 2,948,515</u>	<u>\$ 6,234,126</u>	<u>\$ 1,704,332</u>	<u>\$ 3,057,034</u>	<u>\$ 347,958</u>	<u>\$ 450,338</u>	<u>\$ 1,166,563</u>	<u>\$ 16,289,823</u>	<u>\$ 1,413,045</u>	<u>\$ 679,914</u>	<u>\$ 2,092,959</u>	<u>\$ 18,382,782</u>

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

The Catholic Charities of the Diocese of Arlington, Inc.
Statement of Functional Expenses
For the year ended June 30, 2020

	Program Services								Supporting Services			Total 2020	
	Adoption & Children Services	Counseling & Health	Food & Emergency Assistance	Hogar Immigrant Services	Migrant & Refugee Services	Parish & Community Engagement	Senior Services	Transformational Housing	Total Program Services	Management and General	Fundraising		Total Supporting Services
Expenses													
Compensation	\$ 549,253	\$ 1,332,039	\$ 961,741	\$ 1,237,333	\$ 1,513,801	\$ 155,048	\$ 211,212	\$ 835,200	\$ 6,795,627	\$ 1,196,198	\$ 330,920	\$ 1,527,118	\$ 8,322,745
Direct Financial Assistance	8,744	575,207	2,348,176	42,482	1,024,037	155,219	10,409	43,715	4,207,989	3,000	13,900	16,900	4,224,889
Occupancy	38,629	181,382	280,907	194,110	151,417	46,302	42,976	117,284	1,053,007	73,459	14,082	87,542	1,140,549
Professional fees	8,676	85,169	36,517	15,031	32,478	21,716	4,360	13,150	217,097	156,833	151,978	308,812	525,909
Supplies	2,253	56,311	37,570	19,236	20,254	2,709	4,643	23,001	165,977	13,420	199,353	212,774	378,751
Printing & publications	3,264	1,927	18,337	56,114	8,621	2,609	91	1,205	92,168	7,912	85,887	93,799	185,967
Travel	11,997	5,860	48,538	9,388	36,135	2,662	655	2,775	118,010	17,764	2,554	20,318	138,328
Telephone	6,975	17,826	9,264	10,050	14,169	270	2,160	2,997	63,711	3,234	-	3,234	66,945
Postage & handling	772	526	198	7,972	1,635	77	220	66	11,466	9,694	23,769	33,464	44,930
Rental & maintenance	2,054	12,869	8,386	13,998	10,048	1,139	3,201	5,036	56,731	3,638	-	3,638	60,369
Conferences, conventions	2,004	4,266	624	9,351	12,657	1,041	820	1,251	32,014	15,035	130	15,165	47,179
Depreciation	-	3,900	30,631	4,301	18,679	-	3,606	87,844	148,961	-	11,261	11,261	160,222
Miscellaneous	11,129	43,653	17,902	42,392	47,966	9,468	1,881	16,700	191,091	38,303	39,274	77,574	268,665
Total expenses	\$ 645,750	\$ 2,320,935	\$ 3,798,791	\$ 1,661,758	\$ 2,891,897	\$ 398,260	\$ 286,234	\$ 1,150,224	\$ 13,153,849	\$ 1,538,490	\$ 873,108	\$ 2,411,598	\$ 15,565,447

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

The Catholic Charities of the Diocese of Arlington, Inc.

Notes to the Financial Statements

For the years ended June 30, 2021 and 2020

1. Nature of operations

The Catholic Charities of the Diocese of Arlington, Inc. (Catholic Charities) was incorporated in 1977 under the provisions of Chapter 2 of the Code of the Commonwealth of Virginia. The Bishop of Arlington (the Ordinary) is the sole member of the corporation which has a Board of Directors (Board) with an authorized membership of up to 21 persons. Formerly, under Catholic Charities of Northern Virginia, which had roots in the community since 1947, the Catholic Charities was created to improve the scope and impact of services to 21 counties and seven independent cities in Northern Virginia.

Catholic Charities was organized to conduct, coordinate, develop and promulgate programs and activities concerned with the personal, economic and social welfare needs of families, children and individuals in the Catholic Diocese of Arlington, Virginia (Diocese). Catholic Charities, while separate and apart from the Central Administrative Office of the Catholic Diocese of Arlington (the Chancery), conducts programs in cooperation with, and parallel to, certain Diocesan programs.

Catholic Charities serves the poor, disenfranchised, disadvantaged, and vulnerable through programs operating at more than fifteen sites. Work is performed by a staff of about 150 employees and more than 3,000 volunteers.

2. Basis of presentation and summary of significant accounting policies

Basis of accounting and presentation

The financial statements of Catholic Charities are prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles in the United States of America.

Adoption of accounting standards

Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13 *Fair Value Measurement* (Topic 280): *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removes and modifies disclosure requirements retrospectively for nonpublic entities. The financial statements reflect the application of the ASU using a retrospective approach each period presented.

Cash and cash equivalents

Non-operating cash/funds are invested in the Diocesan Investment and Loan (DIAL) fund. The DIAL fund represents a cooperative savings and loan program established for the mutual benefit of the Diocese's members, including Catholic Charities. Total cash deposited in the DIAL fund was \$17,822,547 and \$14,613,115 at June 30, 2021 and 2020, respectively, with interest income earned at 2.75%. Amounts on deposit in DIAL may be withdrawn on demand.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Catholic Charities 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 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 receivable. Accounts receivable are not collateralized.

The Catholic Charities of the Diocese of Arlington, Inc.

Notes to the Financial Statements

For the years ended June 30, 2021 and 2020

2. Basis of presentation and summary of significant accounting policies (continued)

Investments

Realized and unrealized gains and losses from securities in a master pooled investment account, managed by the Diocese, are allocated monthly to the individual pool participants based on the relationship of the market value of each pool participant to the total market value of the master pooled investment account, as adjusted for additions to or deductions from those accounts.

Fixed assets

Fixed assets, consisting of office furnishings and equipment, leasehold improvements, capital leases and automobiles, and are capitalized at cost when purchased or at fair value at date of gift, when donated. Gains and losses on dispositions of fixed assets are recognized in operations in the year of disposition.

Depreciation of fixed assets is provided using the straight-line method over estimated useful lives of 3 to 20 years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining term of the lease. It is the general policy of Catholic Charities to capitalize all expenditures for property and equipment more than \$5,000.

Income taxes

Catholic Charities is exempt from federal and state income tax under provisions of Section 501(c)(3) of the Internal Revenue Code and related provisions of the Commonwealth of Virginia. Catholic Charities is not subject to the filing requirements of the Form 990. Catholic Charities is subject to tax to the extent it has taxable unrelated business income. Catholic Charities has no unrelated business income and accordingly, no provision for income taxes is provided in the accompanying financial statements. Catholic Charities 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.

Revenue recognition

Revenue is recognized as the performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Catholic Charities. Revenue for performance obligations satisfied over time is recognized based on the service period of the contract. Catholic Charities measures the performance obligation from these particular services from the beginning of the performance period to the completion of services provided. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Catholic Charities does not believe they are required to provide additional goods or services to the client.

Catholic Charities has performance obligations that are satisfied at a point in time as well as over a time period. Counseling, Adoption, and Legal Service Fee performance obligations are on an hourly basis and are satisfied on the day of the services performed. Remedial and English Education performance obligations are satisfied over the period that the education service is provided. All other program fees are recognized as revenue as the services are being performed and the performance obligations are satisfied. If Legal, Education or Counseling Services collect fees before the service is provided at fiscal year end, they are recorded as deferred revenue and reported under Liabilities in the statements of financial position.

The Catholic Charities of the Diocese of Arlington, Inc.

Notes to the Financial Statements

For the years ended June 30, 2021 and 2020

2. Basis of presentation and summary of significant accounting policies (continued)

Revenue recognition (continued)

A portion of Catholic Charities revenue is derived from cost-reimbursable contracts and grants. Amounts received are recognized as earned and are reported as revenue when the Catholic Charities has incurred expenditures in compliance with specific contract or grant provisions. If amounts are received but not yet earned, they are recorded as deferred revenue and reported under Liabilities in the statements of financial position.

Catholic Charities has several awarded cost-reimbursable contracts and grants that extend beyond the agency's fiscal year end. As of June 30, 2021, Catholic Charities has approximately \$1.6 million in available funds under current cost-reimbursable contracts and grants for which qualifying expenditures have not yet been incurred or billed. These funds are a combination of federal, state and local sources with various contract terms and conditions. The revenues will be earned and recognized in the future fiscal year once qualifying expenditures are incurred.

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed goods

Catholic Charities is the recipient of many non-cash contributions, which are then given to needy individuals and families throughout the Northern Virginia area. For financial statement purposes, Catholic Charities has elected to record donated goods and services as contribution revenue. Program expenses are recorded when an in-kind donation is made at the fair value of the goods and services at the date of the gift. For the years ended June 30, 2021 and 2020, amounts of \$4,132,892 and \$2,715,984, respectively, were recorded as both contribution revenue and program expense in the accompanying statements of activities. Catholic Charities records the fair market value of donated rental space; these values can also be used as support for our Federal grants. In addition, Catholic Charities records the value of donated food, using the Feeding America standard rate of \$1.74 and \$1.62 per pound of food donated based on their 2020 and 2019 annual report, respectively. In-kind contributions also include vehicle donations, volunteer time, gift cards, mattresses, and donated furniture or supplies. Donor receipts are provided for all accepted non-cash donations in compliance with Internal Revenue Code guidelines.

Functional expenses

Expenses have been allocated to the functional programs and supporting services. Identified costs are charged based on actual costs incurred. Indirect costs are allocated based on the ratio of time and effort in direct support of the programs and supporting services, including expenses such as compensation, professional fees, and occupancy.

Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Catholic Charities of the Diocese of Arlington, Inc.

Notes to the Financial Statements

For the years ended June 30, 2021 and 2020

2. Basis of presentation and summary of significant accounting policies (continued)

Concentration of credit risk

Financial instruments which potentially subject Catholic Charities to a concentration of credit risk consist primarily of its cash and cash equivalents and accounts receivable. Cash and cash equivalents include demand deposits maintained at various financial institutions in the United States. 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 \$609,376 and \$312,754 as of June 30, 2021 and June 30, 2020, respectively. Catholic Charities has not experienced losses on these funds. Most of the accounts receivable are due from individuals who are clients of Catholic Charities and government agencies. The amount due from two government agencies comprised 65% and 62% of the total accounts receivable at June 30, 2021 and 2020, respectively. Catholic Charities has not experienced significant losses related to the accounts receivable.

Classification of net assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction – Net assets without donor restrictions include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by Board designation. These net assets of Catholic Charities consisted only of undesignated net assets, which are funds currently available to support the Catholic Charities daily operations.

Nets Assets With Donor Restriction – Net assets with donor restrictions are those net assets where the donor has restricted use of the funds for a specific purpose or by time. These funds may be either restricted by the donor in perpetuity or released for future use by meeting the restriction imposed by the donor.

Subsequent events

In preparing these financial statements, Catholic Charities has evaluated events and transactions for potential recognition or disclosure through REPORT DATE, the date the financial statements were available to be issued.

Fair value measurements

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

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

2. Basis of presentation and summary of significant accounting policies (continued)

Fair value measurements (continued)

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). Catholic Charities 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.

3. Accounts receivable

Accounts receivable are as follows as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Migration and refugee grants	\$ 467,558	\$ 405,026
Program services	77,235	94,181
Virginia literacy grant	58,067	34,625
Melwood	48,199	5,678
City of Alexandria	22,098	27,384
Virginia Association of Free Clinic	50,187	66,196
VLTH Fund	-	25,000
New American Campaign grant	-	4,500
Accounts receivable other	500	15,450
Total accounts receivable	<u>723,844</u>	<u>678,040</u>
Less: Allowance for doubtful accounts	<u>(4,699)</u>	<u>(21,057)</u>
Total accounts receivable, net	<u>\$ 719,145</u>	<u>\$ 656,983</u>

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

4. Investments

Investments are stated at fair value.

Short-term investments include money market funds held under a trust agreement with a bank.

Longer term deposits are invested in a master investment pool account administered by the Diocese. Pool participants share in allocated investment income and losses.

The master investment pool account includes a diverse portfolio comprised of cash, cash equivalents, fixed instruments, and equities.

In accordance with ASC 820, Catholic Charities has organized its financial instruments based on the priority of the inputs to the valuation technique into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1), observable market-based inputs or unobservable inputs that are corroborated by market data (Level 2), and the lowest priority to unobservable inputs (Level 3). Financial Assets that are carried at fair value are categorized based on the inputs to the valuation techniques as follows as of June 30, 2021 and 2020:

<u>Financial Asset Category</u>	2021			
	Level 1	Level 2	At NAV	Total
Short-Term Investments	\$ 1,033,443	\$ -	\$ -	\$ 1,033,443
Limited Partnerships	-	-	1,623,483	1,623,483
Fixed Instruments	-	3,785,407	-	3,785,407
Equities, including publicly traded REITs	14,437,712	-	-	14,437,712
Total	<u>\$ 15,471,155</u>	<u>\$ 3,785,407</u>	<u>\$ 1,623,483</u>	<u>\$ 20,880,045</u>
	2020			
	Level 1	Level 2	At NAV	Total
Short-Term Investments	\$ 905,158	\$ -	\$ -	\$ 905,158
Limited Partnerships	-	-	1,037,168	1,037,168
Fixed Instruments	-	3,598,009	-	3,598,009
Equities, including publicly traded REITs	10,539,113	-	-	10,539,113
Total	<u>\$ 11,444,271</u>	<u>\$ 3,598,009</u>	<u>\$ 1,037,168</u>	<u>\$ 16,079,448</u>

The Catholic Charities of the Diocese of Arlington, Inc.

Notes to the Financial Statements

For the years ended June 30, 2021 and 2020

4. Investments (continued)

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

Short-term investments - These include money market mutual funds, investing primarily in cash, U.S. Treasury obligations, or short-term, high quality fixed income securities. These are considered cash and cash equivalents and are valued at their cash value.

Fixed instruments – These include holdings in three diversified bond funds, two fixed bond funds and one high yield bond fund. The bond funds invest primarily in U.S. Government, agency, corporate and mortgage-backed securities. The fair value of the bond fund investments is estimated using the net asset value per share of investments provided by the fund manager and 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.

Alternative investments – These include private equity investments held within the master investment pool. The fair value measurements and changes in fair value represent the allocated amounts of total investments and activity held within the pool. Investments in this category include portfolio of funds focusing on venture capital and buyout strategies and investments in real assets leased to the U.S. Government. These investments are classified within Level 3 as the value of these interests is primarily based on the net asset value reported by external fund managers. In this case, the underlying investments of the investment fund are accounted for at fair value as described in the investment fund's financial statements, all of which are subject to a third party annual audit. The Catholic Charities rights of transfer or redemption are restricted, subject to terms of the agreements. It is anticipated that these investments will be redeemed over the life of the fund, all greater than one year. Catholic Charities has no responsibility for any unfunded commitments associated with the alternative investments managed by the CDA in the master investment pool.

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

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

5. Fixed assets

Fixed assets consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Office furnishings and equipment	\$ 448,518	\$ 408,235
Computer hardware	116,083	116,083
Computer software	66,358	66,358
Automobiles	404,925	362,647
Leasehold improvements	1,258,875	1,210,562
Capital leases	66,711	66,711
Holding Account	-	13,638
Total fixed assets	<u>2,361,470</u>	<u>2,244,234</u>
Less: accumulated depreciation	<u>(1,586,211)</u>	<u>(1,473,741)</u>
Total fixed assets, net	<u>\$ 775,259</u>	<u>\$ 770,493</u>

The Holding Account contained \$0 and \$13,638 representing funds spent on assets that have not been placed in service as of June 30, 2020 and 2021, respectively.

Depreciation expense was \$158,150 and \$160,222 for the years ended June 30, 2021 and 2020, respectively. Of the total fixed assets listed above, \$723,041 and \$657,080 were fully depreciated at June 30, 2021 and 2020, respectively.

6. Promissory note payable – SBA PPP

On April 18, 2020, the Company received loan proceeds in the amount of \$907,800 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The original loan terms specified repayment over a 24-month period after a seven-month deferral from the date of loan funding. The loans and accrued interest are forgivable so long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels during the covered period. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period.

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

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

6. Promissory note payable – SBA PPP (continued)

Catholic Charities followed ASC 470, Debt, to account for the initial receipts related to the PPP Loan. On February 4, 2021, the SBA processed the Organization’s PPP Loan forgiveness application and notified the bank that the PPP Loan qualified for full forgiveness. Therefore, Catholic Charities was legally released from the debt and the loan forgiveness has been recorded as a gain on extinguishment of debt, which is included in revenue for the year ended June 30, 2021.

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

7. Pension

Through December 31, 2004, Catholic Charities had a noncontributory defined benefit pension plan. The plan provides benefits calculated at 1.25% of the final average salary multiplied by the employees' credited service, plus 0.65% of any excess of the final average salary over the Social Security average yearly wage multiplied times credited service. Final average salary is the average of the highest three consecutive years' salary during the last ten calendar years of service. Pension expense is determined using the projected unit credit cost method. The plan was valued as of January 1, 2005. Due to the plan freeze, there were no salary projections after December 31, 2004.

The primary objective in the investment policy for the pension plan is to achieve long-term growth of capital and to increase purchasing power relative to inflation. The total return objective is to exceed the rate of inflation by 5% per annum. To accomplish these objectives, 60% of the assets should be invested in common stock and 40% should be invested in fixed income securities. Equity exposure may range from approximately 50% up to 70% of account assets.

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.2% assumption for both the years ended June 30, 2021 and 2020.

The plan assets consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Equity securities	60.0%	62.5%
Debt securities	38.0%	37.5%
Other	2.0%	0.0%
	<u>100.0%</u>	<u>100.0%</u>

Plan assets can be further broken down into the following subclasses: money market funds, taxable bonds, individual U.S. equities, U.S. equities mutual funds, mid cap growth funds, mid cap core funds, small cap core funds, and international equities mutual funds.

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

7. Pension (continued)

The net periodic pension cost for the years ended June 30, 2021 and 2020 includes the following components:

	<u>2021</u>	<u>2020</u>
Service cost	\$ 20,000	\$ 20,000
Interest cost	121,031	147,382
Expected return on plan assets	(188,231)	(184,812)
Amortization of loss	<u>200,036</u>	<u>135,078</u>
Net periodic pension cost	<u>\$ 152,836</u>	<u>\$ 117,648</u>

The following table sets forth the Plan's funded status as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 4,356,486	\$ 4,157,254
Service cost	20,000	20,000
Interest cost	121,031	147,382
Benefits and expenses paid	(273,064)	(264,307)
Actuarial loss	<u>72,437</u>	<u>296,157</u>
Projected benefit obligation	4,296,890	4,356,486
Change in plan assets		
Fair value of plan assets at beginning of year	3,043,993	2,861,227
Return on plan assets (less expenses)	725,612	135,073
Employer contributions	175,000	312,000
Benefits and expenses paid	<u>(273,064)</u>	<u>(264,307)</u>
Fair value of plan assets at end of year	<u>3,671,541</u>	<u>3,043,993</u>
Accrued pension cost at end of year	<u>\$ 625,349</u>	<u>\$ 1,312,493</u>

Catholic Charities recognized a change in its minimum liability of -\$664,980 and \$210,818 as of June 30, 2021 and 2020, respectively. The minimum pension liability represents the accumulated benefit obligation more/less than the fair value of the plan's assets. The accumulated benefit obligation was \$4,296,890 and \$4,356,486 as of June 30, 2021 and 2020, respectively.

Assumptions used to determine the year-end benefit obligation are as follows:

	<u>2021</u>	<u>2020</u>
Discount rate	2.80%	2.90%
Salary scale increases	N/A	N/A
Expected long-term rate of return on assets	6.20%	6.50%

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

7. Pension (continued)

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

	<u>Fair Value</u>	<u>Quote Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Short-term investments	\$ 11,547	\$ 11,547	\$ -	\$ -
Fixed Income	375,944	375,944		
Equities	864,649	864,649	-	-
Mutual Funds	2,419,401	2,419,401	-	-
Total	<u>\$ 3,671,541</u>	<u>\$ 3,671,541</u>	<u>\$ -</u>	<u>\$ -</u>

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

	<u>Fair Value</u>	<u>Quote Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Short-term investments	\$ 64,138	\$ 64,138	\$ -	\$ -
Equities	702,818	702,818	-	-
Mutual Funds	2,277,037	2,277,037	-	-
Total	<u>\$ 3,043,993</u>	<u>\$ 3,043,993</u>	<u>\$ -</u>	<u>\$ -</u>

Contributions to be made to the defined benefit plan in 2021 are expected to be \$175,000.

Estimated future benefit payments over the next ten years are as follows:

2022	\$ 375,913
2023	370,615
2024	364,618
2025	362,091
2026	359,027
2027 through 2031	1,252,585

Effective January 1, 2005, all employees are covered under a defined contribution plan. The contribution amount is calculated at an annual rate of 4% of eligible employees' annual salary. Contributions were made monthly. A liability of \$19,904 and \$17,890 was recognized as of June 30, 2021 and 2020, respectively.

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

8. Annuity

In 2000, Catholic Charities was named as the beneficiary of an annuity trust. Catholic Charities does not expect to collect any contribution, based on Internal Revenue Service actuarial tables using discount rates which represent the risk-free rate in existence at the date of the gift. As of June 30, 2021, the liability to the annuitant was greater than the investment value of the trust resulting in a liability position of \$94,158 and \$100,042 for the years ended June 30, 2021 and 2020, respectively. The gain/(loss) resulting from the change in actuarial assumptions is recorded as an income/(expense) in the accompanying statements of activities and was \$5,884 and \$16,910 for the years ended June 30, 2021 and 2020, respectively.

9. Commitments

Catholic Charities leases office and program service facilities under leases that expire in the year 2023. In addition to lease payments, the leases generally require Catholic Charities to pay taxes, insurance and utilities. Total rent expense amounted to \$851,939 and \$811,520 for the years ended June 30, 2021 and 2020, respectively.

Future minimum lease payments for facilities and equipment as of June 30, 2021 are as follows:

2022	\$ 817,444
2023	658,941
2024	471,694
2025	461,867
Thereafter	863,637
Total future minimum lease payments	<u><u>\$ 3,273,583</u></u>

10. Related party transactions

Catholic Charities receives funds from the Diocese each year, which consists of an annual Christmas donation and an operating contribution. These payments totaled \$2,510,855 and \$2,319,196 in the years ended June 30, 2021 and 2020, respectively.

Catholic Charities is the recipient of \$295,513 and \$204,172 in gifts and interest from the Leadership Gift Initiative for fiscal years 2021 and 2020, respectively. Of these amounts, \$125,000 and \$143,400 for fiscal years 2021 and 2020, respectively were permanently restricted for endowment. All remaining amounts were for program needs.

Catholic Charities reimburses the Diocese for costs administered by the Diocese but are in whole Catholic Charities expenses. Reimbursements to the Diocese totaled \$1,790,675 and \$1,338,392 through June 30, 2021 and 2020, for Personnel & Benefits, Rent, Technology, Accounting, and Communications support. The amount owed to the Chancery for these expenses was \$20,343 and \$131,369 as of June 30, 2021 and 2020, respectively.

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

10. Related party transactions (continued)

Catholic Charities subleases office space from the Chancery, which leases office space from 200 North Glebe Road, Inc. Rent expense for this office space was \$171,572 and \$190,407 for the years ended June 30, 2021 and 2020, respectively.

Catholic Charities occasionally advertises in the Arlington Catholic Herald. Total advertising expense paid to the Arlington Catholic Herald was \$20,133 and \$25,360 for the years ended June 30, 2021 and 2020, respectively.

Catholic Charities has investments maintained in a master pooled investment account managed by the Diocese. The amount Catholic Charities has invested in the master pooled investment account as of June 30, 2021 and 2020 is \$20,880,045 and \$16,079,448, respectively. Realized and unrealized gains and losses from securities in the master pooled investment account, managed by the Diocese, are allocated monthly to the individual pool participants based on the relationship of the market value of each pool participant to the total market value of the master pooled investment account, as adjusted for additions to or deductions from those accounts.

11. Net assets with donor restrictions

Net Assets with Donor Restriction by purpose restriction and endowment fund as of June 30 were as follows:

	<u>2021</u>	<u>2020</u>
Adoption & Children Services	\$ 36,199	\$ 30,166
Counseling & Health	638,815	459,784
Food & Emergency Assistance	437,795	192,602
Hogar Immigrant Services	407,940	60,369
Migration and Refugee Services	42,601	19,461
Senior Services	2,326	2,326
Transformational Housing	3,372,956	3,737,528
Other	143,692	327,924
Endowment - Subject to Board Appropriation	11,398,573	6,722,976
Endowment - Held Perpetually	9,289,620	9,163,267
Total	<u>\$ 25,770,517</u>	<u>\$ 20,716,403</u>

See note 12 for detail of Endowment Fund.

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

12. Endowments

Net assets associated with endowment funds, including funds designated by the Diocesan Bishop to function as endowment funds, are classified and reported based on the existence of donor-imposed restrictions.

Endowments are for the following purposes at June 30:

	<u>2021</u>	<u>2020</u>
Client Services	\$ 339,900	\$ 338,547
General Operations	<u>8,949,720</u>	<u>8,824,720</u>
Original Endowment Corpus	9,289,620	9,163,267
Endowment Earnings Subject to		
Board Appropriation	<u>11,398,573</u>	<u>6,722,975</u>
Total	<u>\$ 20,688,193</u>	<u>\$ 15,886,242</u>

Interpretation of relevant law

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) has been interpreted as requiring the preservation of fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Because of this interpretation, Catholic Charities classifies as donor-restricted net assets (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in donor-restricted net assets held in perpetuity is expended according to the specific purposes set forth by the donors. In accordance with UPMIFA, Catholic Charities considers the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the funds
2. The purposes of Catholic Charities 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 Catholic Charities
7. The investment policies of Catholic Charities

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 Catholic Charities to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2021 and 2020.

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
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12. Endowments (continued)

Investment return objectives, risk parameters and strategies

Catholic Charities 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 that 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. Therefore, Catholic Charities expects its endowment assets, over time, to produce an average rate of return of between 9% and 10% annually. Actual returns in any given year may vary from this amount. 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

Distributions from three funds are made in accordance with the donors'-imposed stipulations that require a certain percentage of earnings to be retained to increase the value of the corpus and the remainder to be used for specific purposes. Where there is not a donor stipulated spending policy Catholic Charities 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. In establishing this policy, Catholic Charities considered the long-term expected return on its investment assets. Catholic Charities expects the current spending policy to allow its endowment funds to grow at a nominal average rate of between 3% and 4% annually. This is consistent with Catholic Charities objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment returns.

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Subject to Board Appropriation	Endowment Given in Perpetuity	
Donor-restricted endowment funds	\$ -	\$ 11,398,573	\$ 9,290,939	\$ 20,689,512
Endowment major gifts receivable	-	-	(1,319)	(1,319)
Board-designated endowment funds	-	-	-	-
Total funds	\$ -	\$ 11,398,573	\$ 9,289,620	\$ 20,688,193

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Notes to the Financial Statements
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12. Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Subject to Board Appropriation	Endowment Given in Perpetuity	
Donor-restricted endowment funds	\$ -	\$ 6,722,976	\$ 9,164,585	\$ 15,887,561
Endowment major gifts receivable	-	-	(1,319)	(1,319)
Board-designated endowment funds	-	-	-	-
Total funds	\$ -	\$ 6,722,976	\$ 9,163,266	\$ 15,886,242

Donor-restricted endowment

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Subject to Board Appropriation	Endowment Given in Perpetuity	
Endowment net assets, beginning of year	\$ -	\$ 6,722,976	\$ 9,164,585	\$ 15,887,561
Contributions	-	-	125,000	125,000
Investment Income (Loss)	-	5,274,597	1,354	5,275,951
Amounts satisfying purpose restriction	-	(599,000)	-	(599,000)
Endowment net assets, end of year	\$ -	\$ 11,398,573	\$ 9,290,939	\$ 20,689,512

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

	Without Donor Restrictions	With Donor Restrictions		Total
		Subject to Board Appropriation	Endowment Given in Perpetuity	
Endowment net assets, beginning of year	\$ -	\$ 6,401,919	\$ 9,016,240	\$ 15,418,159
Contributions	-	-	146,400	146,400
Investment Income (Loss)	-	881,057	1,945	883,002
Amounts satisfying purpose restriction	-	(560,000)	-	(560,000)
Endowment net assets, end of year	\$ -	\$ 6,722,976	\$ 9,164,585	\$ 15,887,561

The Catholic Charities of the Diocese of Arlington, Inc.
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For the years ended June 30, 2021 and 2020

13. Liquidity

Catholic Charities is substantially supported by Contributions, Diocesan Support, Government Grants, Program Fees and Investment Income for its ongoing annual operations. Financial assets that are not available to fund current operations include contributions with donor restrictions and investments that are illiquid or have scheduled redemptions exceeding one year. Contributions restricted by the donor for specific purposes or time periods cannot be utilized until the restriction is met. Time-restricted assets unavailable for current operations include donor contributions to the corpus of endowments, which are considered restricted in perpetuity (see Note 12 regarding endowments).

Financial assets available to fund general expenditures within one year were as follows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Cash & cash equivalents	\$ 18,639,385	\$ 15,258,529
Investments	20,880,045	16,079,448
Accounts receivable, net	719,145	656,983
Total financial assets	<u>40,238,575</u>	<u>31,994,960</u>
Less those unavailable for general expenditure within one year, due to:		
Restricted by donor with purpose restrictions	(2,323,541)	(2,071,377)
Subject to spending policy appropriation	(11,398,573)	(6,722,976)
Quasi-endowment fund	(2,758,783)	(2,758,783)
Restricted by donor in perpetuity	<u>(9,289,620)</u>	<u>(9,163,267)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 14,468,058</u>	<u>\$ 11,278,557</u>

The Catholic Charities of the Diocese of Arlington, Inc.
Notes to the Financial Statements
For the years ended June 30, 2021 and 2020

14. Service Fee Revenue

Service fees of the Catholic Charities consisted of the following for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Program Service Fees		
Point in Time:		
Counseling	\$ 285,722	\$ 334,588
Pregnancy and Adoption	254,242	182,954
Legal Services	114,810	109,754
Total Point in Time	<u>654,774</u>	<u>627,296</u>
Over Time:		
Remedial and English Education	50,805	120,858
Other Fees	15,835	875
Total Program Service Fees	<u>\$ 721,414</u>	<u>\$ 749,029</u>

Receivables related to the above program service fees were \$77,235, \$94,181, and \$56,708 for the years ended June 30, 2021, 2020, and 2019, respectively.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
The Catholic Charities of the Diocese of Arlington, Inc.
Arlington, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Catholic Charities of the Diocese of Arlington, Inc., which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Catholic Charities of the Diocese of Arlington, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Catholic Charities of the Diocese of Arlington, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Catholic Charities of the Diocese of Arlington, Inc.'s internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Arlington, Virginia
December 14, 2021



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
The Catholic Charities of the Diocese of Arlington, Inc.
Arlington, Virginia

Report on Compliance for Each Major Federal Program

We have audited The Catholic Charities of the Diocese of Arlington, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Catholic Charities of the Diocese of Arlington, Inc.'s major federal programs for the year ended June 30, 2021. The Catholic Charities of the Diocese of Arlington, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Catholic Charities of the Diocese of Arlington, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Catholic Charities of the Diocese of Arlington, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of The Catholic Charities of the Diocese of Arlington, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, The Catholic Charities of the Diocese of Arlington, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of The Catholic Charities of the Diocese of Arlington, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Catholic Charities of the Diocese of Arlington, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Catholic Charities of the Diocese of Arlington, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



CliftonLarsonAllen LLP

Arlington, Virginia
December 14, 2021

The Catholic Charities of the Diocese of Arlington, Inc.
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Department of State				
US conference of Catholic Bishops				
Reception and Placement	19.510	N/A	N/A	\$ 692,545
Reception and Placement - COVID Relief	19.510	N/A	N/A	28,700
Total Department of State				721,245
Department of Education				
Integrated English Literacy and Civics Education	84.002a	N/A	N/A	173,098
Department of Health & Human Services				
US Conference of Catholic Bishops				
Refugee and Entrant Assistance - Voluntary Agency	93.567	N/A	N/A	342,054
Family Reunification Program	93.598	N/A	N/A	237,412
Refugee and Entrant Assistance - Discretionary Grants	93.576	N/A	N/A	13,286
				592,752
Vera Institute of Justice				
Unaccompanied Alien Children Program	93.676	N/A	N/A	5,803
Commonwealth of Virginia				
Refugee and Entrant Assistance - State Administered	93.566	N/A	N/A	997,050
Refugee and Entrant Assistance - State Administered COVID Relief	93.566	N/A	N/A	70,014
Student Achievement Program	93.576	N/A	N/A	110,693
Preventative Health Project	93.576	N/A	N/A	112,051
Service to Older Refugees	93.576	N/A	N/A	72,640
Mentoring Youth in Virginia Program	93.576	N/A	N/A	130,869
				1,493,317
Total Department of Health and Human Services				2,091,872
Department of Agriculture				
Emergency Food Assistance	10.569	N/A	N/A	369,333
Department of Treasury				
City of Alexandria Coronavirus Relief Fund	21.019	N/A	N/A	185,820
Prince William County Coronavirus Relief Fund	21.019	N/A	N/A	9,777
Loudoun County Coronavirus Relief Fund	21.019	N/A	N/A	533,247
Town of Leesburg Coronavirus Relief Fund	21.019	N/A	N/A	100,000
Town of Round Hill Coronavirus Relief Fund	21.019	N/A	N/A	13,531
Town of Lovettsville Coronavirus Relief Fund	21.019	N/A	N/A	2,607
Town of Hamilton Coronavirus Relief Fund	21.019	N/A	N/A	5,000
City of Manassas Coronavirus Relief Fund	21.019	N/A	N/A	250,000
Virginia Association of Free & Charitable Clinics Coronavirus Relief Fund	21.019	N/A	N/A	20,932
Total Department of Treasury				1,120,914
Total				\$ 4,476,462

**The Catholic Charities of the Diocese of Arlington, Inc.
Schedule of Expenditures of Federal Awards (continued)
For the year ended June 30, 2021**

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Catholic Charities of the Diocese of Arlington under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of The Catholic Charities of the Diocese of Arlington, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Catholic Charities of the Diocese of Arlington.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards with the exception of Assistance Listing 21.019, which follows criteria determined by the Department of Treasury for allowability of costs.. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Catholic Charities of the Diocese of Arlington has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**The Catholic Charities of the Diocese of Arlington, Inc.
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2021**

Financial Statements

Type of Auditors' Report Issued: Unmodified

Internal Control over Financial Reporting:

- Material Weakness(es) Identified Yes X No
- Significant Deficiency(ies) Identified
 not Considered to be Material Weakness(es) Yes X None Reported
- Noncompliance Material to Financial
 Statements Noted Yes X No

Federal Awards

Internal Control over Major Programs:

- Material Weakness(es) Identified Yes X No
- Significant Deficiency(ies) Identified
 Not Considered to be Material Weakness(es) Yes X None Reported

Type of Auditors' Report Issued on Compliance for
 the Major Programs: Unmodified

Any audit findings disclosed that are
 required to be reported in accordance
 with 2 CFR 200.516(a)? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.556	Refugee and Entrant Assistance - State Administered
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish
 between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

**The Catholic Charities of the Diocese of Arlington, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2021**

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

Section IV – Prior Year Major Federal Program Findings

There were no findings in the prior year that were required to be reported.

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