



Diocesan Administrative Operations of
the Roman Catholic Diocese of
Springfield, Massachusetts
Financial Statements
Years Ended June 30, 2021 and 2020



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Independent Auditor's Report

To Most Reverend William D. Byrne, Bishop of Springfield:

Opinion

We have audited the financial statements of the Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts ("DAO") which comprise the statements of financial position as of June 30, 2021 and 2020, 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 accompanying financial statements present fairly, in all material respects, the financial position of DAO as of June 30, 2021 and 2020, and the results of its operations 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the DAO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's 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 auditor's 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 DAO'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 DAO'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.

Wolf & Company, P.C.

Springfield, Massachusetts

October 31, 2022

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Statements of Financial Position

June 30, 2021 and 2020

	2021	2020
Assets:		
Cash and cash equivalents	\$ 20,879,371	\$ 32,338,917
Accounts and contributions receivable, net	3,520,678	1,235,042
Investment interest and dividends receivable	80,475	71,908
Loans receivable, net	2,445,153	2,677,380
Insurance claims receivable	255,642	400,000
Due from affiliates	1,377,552	232,136
Investments, at fair value	179,526,648	130,513,313
Other securities, at cost	242,071	242,071
Beneficial interest in trust	6,907,889	5,323,547
Property and equipment, net	16,192,288	17,027,758
Prepaid expenses	-	22,047
Total assets	\$ 231,427,767	\$ 190,084,119
Liabilities:		
Accounts payable	493,403	498,814
Claims settlement and other accrued liabilities	4,530,995	4,370,200
Paycheck Protection Program loan payable	678,100	678,100
Custodial funds	115,462,697	90,430,703
Total liabilities	121,165,195	95,977,817
Net assets:		
Without Donor Restrictions:		
Undesignated	15,321,490	13,194,280
Internally designated funds - cemetery perpetual care	15,728,694	15,620,568
Internally designated funds - functioning as endowment	40,996,813	31,866,493
Total without donor restrictions	72,046,997	60,681,341
With Donor Restrictions	38,215,575	33,424,961
Total net assets	110,262,572	94,106,302
Total liabilities and net assets	\$ 231,427,767	\$ 190,084,119

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

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Statement of Activities

Year Ended June 30, 2021
(With Comparative Totals for June 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
<u>Operating</u>				
Revenues and other support:				
Annual Catholic Appeal	\$ -	\$ 2,778,676	\$ 2,778,676	\$ 2,497,983
Cathedraticum assessment	1,241,403	-	1,241,403	1,306,439
Catholic school support program	1,206,469	-	1,206,469	1,196,566
Donations and bequests	300,688	32,607	333,295	414,368
Change in value of beneficial interest in trusts	-	1,787,460	1,787,460	94,831
Other revenue	1,635,557	10,148	1,645,705	2,062,021
Investment return designated for current operations	2,113,902	513,385	2,627,287	2,621,386
Net assets released from restriction	3,192,568	(3,192,568)	-	-
Total revenue and support	9,690,587	1,929,708	11,620,295	10,193,594
Expenses:				
Program services:				
Canonical affairs	604,331	-	604,331	682,924
Catholic Communications grants	266,528	-	266,528	238,799
Support of Diocesan managed cemeteries	1,024,640	-	1,024,640	1,019,000
Pastoral ministry	386,673	-	386,673	569,174
Catholic education	1,709,358	-	1,709,358	2,763,295
Health and human services	1,663,350	-	1,663,350	1,548,179
Clergy and religious needs	1,368,057	-	1,368,057	1,681,392
University apostolate	942	-	942	21,170
Allowance (credit) for uncollectible accounts	(19,487)	-	(19,487)	499,453
Support services:				
Chancery operations	1,228,058	-	1,228,058	1,255,205
Support services	2,591,793	-	2,591,793	2,715,212
Institutional advancement	632,691	-	632,691	458,033
Child protection	500,349	-	500,349	532,208
Total operating expenses	11,957,284	-	11,957,284	13,984,044
Increase (decrease) in net assets from operations	(2,266,696)	1,929,708	(336,988)	(3,790,450)
Non-operating income (expense):				
Realized and unrealized gain (loss), net	14,931,279	3,603,227	18,534,506	(57,103)
Investment income, net	398,582	66,055	464,637	279,347
Investment return designated for current operations	(2,113,902)	(513,385)	(2,627,287)	(2,621,386)
FEMA and self insurance programs, net	442,159	-	442,159	(757,506)
Transfer of insurance proceeds to Our Lady of Guadalupe	-	-	-	(5,199,557)
Loss on sale of properties	(5,201)	-	(5,201)	28,133
Transfer of funds to Foundation	-	(294,991)	(294,991)	-
Other parish related	(20,564)	-	(20,564)	(273,625)
Total non-operating	13,632,353	2,860,906	16,493,259	(8,601,697)
Change in net assets	11,365,656	4,790,614	16,156,270	(12,392,147)
Net assets at beginning of year	60,681,341	33,424,961	94,106,302	106,498,449
Net assets at end of year	\$ 72,046,997	\$ 38,215,575	\$ 110,262,572	\$ 94,106,302

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

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Statement of Activities

Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	2020 Total
<u>Operating</u>			
Revenues and other support:			
Annual Catholic Appeal	\$ -	\$ 2,497,983	\$ 2,497,983
Cathedraticum assessment	1,306,439	-	1,306,439
Catholic school support program	1,196,566	-	1,196,566
Donations and bequests	337,290	77,078	414,368
Change in value of beneficial interest in trusts	-	94,831	94,831
Other revenue	2,032,280	29,741	2,062,021
Investment return designated for current operations	2,125,465	495,921	2,621,386
Net assets released from restriction	3,269,588	(3,269,588)	-
Total revenue and support	10,267,628	(74,034)	10,193,594
Expenses:			
Program services:			
Canonical affairs	682,924	-	682,924
Catholic Communications grants	238,799	-	238,799
Support of Diocesan managed cemeteries	1,019,000	-	1,019,000
Pastoral ministry	569,174	-	569,174
Catholic education	2,763,295	-	2,763,295
Health and human services	1,548,179	-	1,548,179
Clergy and religious needs	1,681,392	-	1,681,392
University apostolate	21,170	-	21,170
Allowance for uncollectible accounts	499,453	-	499,453
Support services:			
Chancery operations	1,255,205	-	1,255,205
Support services	2,715,212	-	4,770,728
Institutional advancement	458,033	-	458,033
Child protection	532,208	-	532,208
Total operating expenses	13,984,044	-	16,039,560
Decrease in net assets from operations	(3,716,416)	(74,034)	(5,845,966)
Non-operating income (expense):			
Realized and unrealized gain (loss), net	(119,426)	62,323	(57,103)
Investment income, net	237,293	42,054	279,347
Investment return designated for current operations	(2,125,465)	(495,921)	(2,621,386)
FEMA and self insurance programs, net	(757,506)	-	1,243,179
Transfer of insurance proceeds to Our Lady of Guadalupe	(5,199,557)	-	(5,199,557)
Sale of properties	28,133	-	28,133
Other parish related	(273,625)	-	(273,625)
Total non-operating	(8,210,153)	(391,544)	(6,601,012)
Change in net assets	(11,926,569)	(465,578)	(12,446,978)
Net assets at beginning of year	72,607,910	33,890,539	148,732,637
Net assets at end of year	\$ 60,681,341	\$ 33,424,961	\$ 136,285,659

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

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 16,156,270	\$ (12,392,147)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	885,601	2,721,171
Net realized and unrealized gain on investments	(25,291,052)	(22,646)
Loss (gain) on disposal of property and equipment	5,201	(28,133)
Bad debt expense (credit), insurance programs billing	(166,625)	119,078
Bad debt expense (credit), program services	(1,165,967)	499,453
Change in beneficial interest in trust	(1,584,342)	198,517
Change in operating assets	(1,735,847)	(412,182)
Change in operating liabilities	25,187,378	10,028,420
Net cash provided by operating activities	12,290,617	711,531
Cash flows from investing activities:		
Loans to Diocesan entities and seminarians	(598,746)	(1,553,990)
Repayments received from Diocesan entities and seminarians	626,198	415,145
Purchases of property and equipment	(55,332)	(96,821)
Proceeds from sale of property and equipment	-	167,619
Proceeds from sales of investments	39,968,094	54,845,947
Purchases of investments	(63,690,377)	(51,077,709)
Net cash (used in)/provided by investing activities	(23,750,163)	2,700,191
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loan payable	-	678,100
Net cash provided by financing activities	-	678,100
Net change in cash and cash equivalents	(11,459,546)	4,089,822
Cash and cash equivalents at beginning of year	32,338,917	25,841,709
Cash and cash equivalents at end of year	\$ 20,879,371	\$ 29,931,531

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

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

Years Ended June 30, 2021 and 2020

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Roman Catholic Bishop of Springfield, a corporation sole (“RCB”), is a legal entity created under Massachusetts civil law in 1898 to provide the Roman Catholic Bishop of Springfield (the “Bishop”) with a means to operate within, and be governed by, the public statutes of the Commonwealth of Massachusetts. The RCB legal entity is distinguishable from the Bishop, whose powers and responsibilities are established by Canon Law.

The accompanying financial statements of the Diocesan Administrative Operations (“DAO”) include all administrative and program offices which are under direct control of RCB’s Chancery Office and certain custodial funds held specifically for parishes, schools and cemeteries in the form of savings, investments and perpetual care funds. These financial statements do not contain all the operating activities, assets, or liabilities of RCB. Operating activities, assets, and liabilities related to parishes, schools, cemeteries, and other entities are not contained in these statements.

This summary of significant accounting policies of DAO is presented to assist in understanding the financial statements. The financial statements and notes are representations of DAO’s management, which is responsible for their integrity and objectivity, and are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Basis of Presentation

The accompanying financial statements, which are presented on the accrual basis of accounting, have been prepared to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Net assets and changes therein are classified as follows:

Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Bishop. The change in net assets without donor restrictions is primarily impacted by the results of operations, unrestricted giving, and by the amount of net assets with donor restrictions that have been released from restrictions.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

With Donor Restrictions - Net assets whose use by DAO is subject to donor-imposed stipulations that can be fulfilled by actions of DAO pursuant to those stipulations or that expire by the passage of time. These also include net assets subject to donor-imposed stipulations that they be maintained in perpetuity by DAO, with investment return available for designated purposes. The change in net assets with donor restrictions is impacted primarily by gifts with time and donor constraints, and the amounts of net assets that have been released from restrictions. Net assets with donor restrictions also include funds not yet appropriated for spending, generally representing cumulative investment earnings and appreciation on endowment funds restricted in perpetuity.

Liquidity

DAO manages its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Cash in excess of daily requirements is invested in short-term investments and money market funds.

DAO holds internally designated funds functioning as endowment investments (excluding cemetery perpetual care) totaling \$40,996,813 at June 30, 2021. Although DAO does not intend to spend from these funds other than amounts appropriated for general expenditures as part of its annual budget approval process, amounts are available for expenditure, if necessary.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets and liabilities and the 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. DAO's significant estimates are the valuation of its investments and self insurance claims settlement liability. Actual results could differ from this estimate.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Reciprocal exchange transactions are within the scope of Accounting Standards Update (ASU) No. 2014-09, *Revenues from Contracts with Customers (Topic 606)*. To determine revenue recognition for such transactions, DAO performs the following 5 steps: 1) identify the contract with the other party; 2) identify the performance obligation(s) in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligation(s) in the contract; and 5) recognize revenue when DAO satisfies the performance obligation. Performance obligations are determined based on the nature of the services provided by DAO. Revenue that consists of performance obligations satisfied at a point in time is generally recognized when criteria for the contract have been achieved or when specific events have occurred and when there are no additional services related to that obligation.

Parish assessments, including Cathedraticum assessments and Catholic school program support, are billed and recognized as revenue during each fiscal year. Assessments and special parish billings are involuntary payments collected from parishes based on a percentage of parish ordinary income, and as such, are not subject to Topic 606 as they do not represent exchange transactions.

Other revenue consists of administration fees and advertising. These fees are subject to Topic 606, as they represent exchange transactions, however, there was no change in timing or amount of recognition of such revenue as all revenues are recognized at a point in time when the related programs take place. Amounts received prior to the programs taking place are recorded as deferred revenue. As of June 30, 2021 and 2020, there are no contract assets or liabilities associated with program fees.

Contributions (including the Annual Catholic Appeal) are not subject to Topic 606 and are recorded when the unconditional promise to give is made.

Insurance Program premiums are recognized as revenue, net of any associated expenses or discounts, in the period in which the coverage is provided.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give are reported at fair value when the conditions are met. Indications of intentions to give are not reported until the gift is received.

Contributions are reported as increases in net assets without donor restrictions unless they are received with donor stipulations that limit the use of the donated assets in which case they are reported as with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified to without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Donor restricted income that is both received and expended during the same year is recorded in the activities of net assets without donor restrictions.

Annual Catholic Appeal

The Annual Catholic Appeal provides support for a number of programs and agencies. All support is considered available without donor restrictions unless specifically restricted by the donor. Appeal pledges are recorded as revenue when the pledge is made, and allowances are provided for amounts estimated to be uncollectible. Revenue from the appeal is reported as with donor restrictions as it is subject to a time restriction; amounts are available for expenditure in the following fiscal year after the campaign has been completed.

Perpetual Care Funds

Diocesan managed cemeteries are exempt from Massachusetts General Law, C114 S19, as they consist of church cemeteries. However, DAO has mandated that a portion of each sale of a cemetery plot or tomb be set aside to provide for the perpetual care of the cemeteries. DAO sets aside 15% of proceeds from mausolea crypt sales and 35% of proceeds from plot sales from Diocesan managed cemeteries which are included in net assets-internally designated for cemetery perpetual care.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Insurance Programs

DAO operates casualty and liability self-insurance programs covering risks related to property, general liability, and automobiles. Workers' compensation is purchased on a first dollar coverage basis. All parishes, schools, cemeteries, and other diocesan organizations which elect to participate in the program are assessed an annual premium to cover the cost of insurance (see Note 9). DAO recognizes revenue from these assessments over the period of insurance coverage.

Effective, July 1, 2021, RCB formed a captive insurance company, RCB Springfield Mass Incorporated Cell ("Cell"), to insure and/or reinsure the risks of RCB and its affiliated entities. Cell is sponsored by Fides Insurance Group, Inc., a sponsored captive insurance company organized under the laws of the State of Vermont.

Cash and Cash Equivalents

DAO considers investments with maturities of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents held in investment accounts are considered part of the investment portfolio and are excluded from cash for the purposes of the statements of financial position and cash flows.

Concentration of Credit Risk

DAO maintains its cash and cash equivalents in several financial institutions in accounts which at times may exceed federally insured limits. DAO has not experienced any losses in such accounts and does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Receivables

DAO provides for losses on accounts and loans receivable based on prior bad debt experience and the age of the accounts or loans.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Other securities, for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers or appraisers. Management believes that these values are a reasonable estimate of fair value as of the measurement date. However, the values are subject to uncertainty and, therefore, may differ from the values that would have been used had a ready market for the investments existed.

Certain other non-marketable equity investments are carried at cost. These investments are reviewed for impairment at least annually or sooner if events or changes occur which indicate that the carrying value may not be recoverable.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Investment income and gains (losses) from net assets without donor restrictions are reported as unrestricted revenue. Investment income and gains (losses) on investments of net assets with donor restrictions are reported as increases (decreases) in donor restricted net assets.

Investment transactions are recognized on the trade date (the date the order to buy or sell is executed). Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation or depreciation in the fair values of investments includes both realized and unrealized gains and losses. Gains and losses on the sale of investments are calculated using the average cost method. Investment return designated for current operations is based on DAO's spending policy.

Fair Value

Accounting principles generally accepted in the United States of America define fair value as 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, and establish a fair value hierarchy which gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value

Level 1 Investment fair values designated as Level 1 are valued based upon unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 investments include listed equities.

Level 2 Investment fair values designated as Level 2 are valued based upon quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are less active, and inputs other than quoted prices that are observable for the asset or liability, either directly or by correlation or other means. Investments which are generally included in this category include corporate bonds and preferred stock.

Level 3 Inputs for Level 3 investment fair values are unobservable for the asset or liability and include investments where there is little, if any, market activity for the asset or liability. Such inputs are based upon the best information available under the circumstances and require significant management judgment or estimation. Investments which are generally included in this category include alternative strategy investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. DAO's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the investment.

DAO's interests in alternative strategy funds are generally reported at the net asset value ("NAV") reported by each of the investment managers. DAO uses NAV as a practical expedient for determining the fair value of these investments. These investments are redeemable either at NAV under the original terms of the subscription agreements and operations of the underlying funds, or at the discretion of the investment manager when the underlying investments are sold. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by these funds, changes in market conditions and the economic environment may significantly impact the value of the funds and, consequently, the fair value of DAO's interests in the funds. Furthermore, changes to the liquidity provisions of the funds may significantly impact the fair value of DAO's interest in the funds. Additionally, although certain investments may be sold in a secondary market transaction, subject to meeting certain requirements of the governing documents of the funds, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if DAO were to sell a

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value

fund in the secondary market, the sale could occur at an amount different than the reported value, and the difference could be material. As of June 30, 2021, DAO had no specific plans or intentions to sell investments at amounts different from NAV.

Property and Equipment

Assets having a cost of \$2,500 or more and a useful life of more than one year are capitalized at cost and expensed over their estimated useful lives. Items under \$2,500 are expensed as purchased. Depreciation is calculated based on the straight-line method over the estimated useful lives of the assets as follows:

	<u>Estimated Useful Life</u>
Land improvements	15 years
Buildings and improvements	40 years
Furniture and equipment	5 years
Motor vehicles	5 years

Maintenance and repairs are expensed as incurred, while improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts, and any gains or losses are included in the statements of activities.

Custodial Funds

DAO provides cash and securities safekeeping services to parishes, schools and cemeteries. Custodial funds are recorded as a liability on the statements of financial position.

Endowment Funds

Accounting Policy

Although not required to do so, DAO utilizes the guidance of the Massachusetts Uniform Prudent Management of Institutional Funds Act (Mass UPMIFA). Mass UPMIFA allows, subject to the intent of a donor as expressed in the gift instrument, an institution to appropriate for expenditure or accumulate so much of an endowment fund as

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Endowment Funds

Accounting Policy

the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. DAO's policy is to preserve the original gift of a donor restricted endowment fund absent explicit donor stipulations to the contrary. Accordingly, DAO classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations that are made to the endowment in accordance with the applicable donor gift instrument. Investment losses may cause the fair value of a donor restricted endowment to fall below its original value. There were no such funds at June 30, 2021 or 2020.

Return Objectives and Risk Parameters

DAO has adopted investment and spending policies for its endowment assets, which include its designated cemetery perpetual care funds, that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those net assets with donor restrictions that DAO holds in perpetuity and appreciation on funds. Under these policies, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

DAO has adopted the Socially Responsible Investment Policies promulgated by the United States Conference of Catholic Bishops to exercise faithful, competent and socially responsible stewardship in how financial resources are managed. DAO's investment policies focus on protecting human life, promoting human dignity, reducing arms production, pursuing economic justice, protecting the environment, and encouraging corporate responsibility.

Strategies Employed for Achieving Objectives

DAO's investments are included in a long-term investment pool which is a structure of diversified multi-asset, multi-manager investments for DAO and its affiliated organizations. Pool participants are allocated shares according to their initial investment and changes resulting from additions and withdrawals. Earnings are allocated on a quarterly basis to each participant based upon their respective unit shares.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Endowment Funds

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, DAO relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). For the long-term investment pool, DAO targets a diversified asset allocation of approximately 32% domestic equity, 20% international equity, 15% alternative strategies, 30.5% fixed income and 2.5% real assets to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Not all endowment funds are subject to DAO's spending policy. For those that are, DAO appropriates for distribution a percentage amount of its endowment funds' average fair value over the prior 12 quarters (through the calendar year-end preceding the fiscal year in which the distribution is appropriated) that it considers prudent. In establishing this policy, DAO considers the long-term expected return on its endowment. Over the long term, DAO expects the current spending policy to allow its endowment to grow at an average of 3% annually, net of distributions. This is consistent with DAO's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Actual spending of endowment funds subject to the spending policy may include the current year appropriation and unspent appropriations from prior years.

Income Taxes

RCB is a 501(c)(3) organization under the Internal Revenue Code. It is generally exempt from federal income tax under a group exemption granted to the Roman Catholic Church and its related organizations. It is also exempt from Massachusetts income taxes under Chapter 180 of the Massachusetts General Laws.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

Tax positions taken or expected to be taken in the course of preparing the RCB's tax returns, including the position that the RCB qualifies as a tax exempt organization, are required to be evaluated to determine whether the tax positions are "more-likely-than-not" to be upheld under regulatory review. RCB has determined that there are no uncertain tax positions at June 30, 2021 and 2020. DAO would record any interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended June 30, 2021 and 2020.

RCB is currently open to audit by Federal and state authorities for the years ended June 30, 2019 to the present.

Functional Allocation of Expenses

The costs of providing DAO's programs and other activities have been summarized on a functional basis in the statements of activities. These costs include direct and indirect costs that have been allocated among the program and supporting services.

Non-operating Income and Expense

DAO's ordinary and recurring activities to further its ministries are classified as operating activities. Non-operating activities are distinct from DAO's ordinary activities in that they are infrequent in occurrence or unusual in nature including the sale of property or the construction of assets. Although ordinary and recurring, the DAO considers the insurance program as a non-operating item of income or expense.

Investment earnings on DAO's long-term investments and all realized and unrealized gains and losses are classified as non-operating, net of the amount appropriated for operations.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

2. RECEIVABLES

Accounts and Contributions Receivable

DAO bills the individual parishes for various operating expenses, including participation in the Diocesan insurance programs, school assessments, pension, and other essential programs. At June 30, 2021 and 2020, accounts and contributions receivable are as follows:

	2021	2020
Accounts receivable from parishes and cemeteries	\$ 9,953,586	\$ 10,379,758
Less: allowance for doubtful accounts	(6,668,723)	(9,343,453)
Net operating receivables	3,284,864	1,036,305
 Annual Catholic Appeal, net of allowance of \$7,260 and \$6,146, respectively	 235,815	 198,737
Accounts and contributions receivable, net	\$ 3,520,678	\$ 1,235,042

Loans Receivable

DAO periodically lends to parishes and other Diocesan entities on a limited basis for capital improvements or operating purposes at interest rates indexed to interest rates paid on Chancery Savings deposits. Loans receivable are generally uncollateralized, although the RCB holds legal title to all property. Loans receivable are as follows:

	2021	2020
Loans and interest receivable	\$ 4,642,113	\$ 4,669,565
Less: allowance for doubtful accounts	(2,196,960)	(1,992,185)
Loans receivable, net	\$ 2,445,153	\$ 2,677,380

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

3. INVESTMENTS

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

	2021	2020
Cash and cash equivalents	\$ 6,619,535	\$ 10,680,011
Domestic equities	70,275,126	47,617,536
International equities	32,121,619	25,048,362
Alternative strategies	20,334,653	18,343,708
Fixed income	50,175,715	28,823,696
	179,526,648	130,513,313
Nonmarketable equity investments, at cost	205,071	205,071
Fixed income, at cost	37,000	37,000
	242,071	242,071
	\$ 179,768,719	\$ 130,755,384

The following tables present the fair value hierarchy for DAO's investments measured at fair value on a recurring basis at June 30, 2021 and 2020:

Description	June 30, 2021			
	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 6,619,535	\$ 5,560,535	\$ 1,059,000	\$ -
Domestic equities	70,275,126	70,266,362	8,764	-
International equities	20,115,943	20,115,943	-	-
Alternative strategies	5,999,342	-	-	5,999,342
Fixed income	33,792,065	33,776,403	15,662	-
Total at fair value	\$ 136,802,011	\$ 129,719,243	\$ 1,083,426	\$ 5,999,342
Investments measured at net asset value	42,724,637			
Total	\$ 179,526,648			

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

INVESTMENTS

Description	June 30, 2020			
	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 10,680,011	\$ 7,494,158	\$ 3,185,853	\$ -
Domestic equities	47,617,536	46,506,664	1,110,872	-
International equities	14,848,955	14,848,955	-	-
Alternative strategies	5,306,785	-	-	5,306,785
Fixed income	8,600,194	8,581,032	19,162	-
Total at fair value	\$ 87,053,481	\$ 77,430,809	\$ 4,315,887	\$ 5,306,785
Investments measured at net asset value	43,459,832			
Total	\$ 130,513,313			

The fair value of level 3 investments increased \$692,557 in 2021 as a result of net appreciation, including interest and dividends. The fair value of level 3 investments increased \$9,413 in 2020 as a result of net appreciation, including interest and dividends.

Investments Measured Using the Net Asset Value per Share Practical Expedient

The following table summarizes investments for which fair value is measured using the NAV per share practical expedient as of June 30, 2021 and 2020:

June 30, 2021	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
International equities	\$ 12,005,676	None	Daily	Daily
Alternative strategies	14,335,311	None	Quarterly	45 to 65 days
Fixed income	16,383,650	None	Daily to Semi-Monthly	5 to 30 days
	\$ 42,724,637			
June 30, 2020				
International equities	\$ 10,199,407	None	Daily	Daily
Alternative strategies	13,036,923	None	Quarterly	45 to 65 days
Fixed income	20,223,502	None	Daily to Semi-Monthly	5 to 30 days
	\$ 43,459,832			

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

INVESTMENTS

DAO's total return on its invested assets includes the following components:

	Allocated to DAO Funds	Allocated to Custodial Funds	Total
<u>Year Ended June 30, 2021</u>			
Net realized gains	\$ 4,857,522	\$ 1,808,480	\$ 6,666,002
Net unrealized gains	13,676,984	4,948,066	\$ 18,625,050
Net realized and unrealized gains on investments	18,534,506	6,756,546	25,291,052
Interest and dividends, net of fees	464,637	125,001	589,638
	\$ 18,999,143	\$ 6,881,547	\$ 25,880,690
<u>Year Ended June 30, 2020</u>			
Net realized gains	\$ 1,479,853	\$ 473,042	\$ 1,952,895
Net unrealized losses	(1,536,956)	(393,293)	\$ (1,930,249)
Net realized and unrealized gains (losses) on investments	(57,103)	79,749	22,646
Interest and dividends, net of fees	279,347	108,149	387,496
	\$ 222,244	\$ 187,898	\$ 410,142

4. PROPERTY AND EQUIPMENT

The cost of property and equipment, less accumulated depreciation, is as follows:

	2021	2020
Land and improvements	\$ 3,495,502	\$ 3,492,527
Buildings and improvements	30,161,215	30,199,939
Furniture and equipment	1,862,613	1,888,024
Motor vehicles	59,607	74,220
Total property and equipment - cost	35,578,937	35,654,710
Less: accumulated depreciation	(19,386,649)	(18,626,952)
Total property and equipment, net	\$ 16,192,288	\$ 17,027,758

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

PROPERTY AND EQUIPMENT

Depreciation expense for the years ended June 30, 2021 and 2020 was \$885,601 and \$1,020,620, respectively.

5. BENEFICIAL INTEREST IN TRUST

DAO is a partial beneficiary under an irrevocable trust administered by a bank. The portion of the assets of the trust that benefits DAO is included in the statements of financial position. The change in value and expendable amounts are included as net assets with donor restrictions in the statements of activities. Trust income distributed is for the benefit of Catholic charitable organizations.

Assets within the trust consist of marketable securities. However, DAO does not have the ability to redeem its interest in the trust in the near term. Accordingly, DAO's beneficial interest in the trust is measured at fair value on a recurring basis using level 3 inputs.

The table below presents the activity in beneficial interest in trust:

	Beneficial Interest in Trust
Balance as of June 30, 2019	\$ 5,522,064
Net realized and unrealized gains	94,831
Income distributions	(293,348)
Balance as of June 30, 2020	<u>5,323,547</u>
Net realized and unrealized gains	1,787,460
Income distributions	(203,118)
Balance as of June 30, 2021	<u><u>\$ 6,907,889</u></u>

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

6. CUSTODIAL FUNDS

Custodial funds represent funds held and managed by DAO on behalf of various parishes, schools and non-Diocesan managed cemeteries. The funds are not assets of DAO and cannot be used to meet Diocesan obligations.

The funds consist of the following at June 30:

	2021	2020
Cemetery funds	\$ 36,059,094	\$ 29,064,650
Parish and school accounts	78,983,648	60,835,211
Other funds held	419,955	530,842
	\$ 115,462,697	\$ 90,430,703

7. LOAN PAYABLE

In April 2020, DAO applied for and received a \$678,100 loan from the Paycheck Protection Program (the “PPP”) under the federal CARES Act. In accordance with the provisions of the PPP, the loan accrues interest at a rate of 1%. All or a portion of the loan may be forgiven if it is used to pay qualifying costs such as payroll, rent and utilities within a twenty-four week period subsequent to the receipt of the loan proceeds. Amounts not forgiven will be repaid two years from the date of the loan. In July 2021, DAO was notified that this loan, including interest, was forgiven in full.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

8. ENDOWMENT, ANNUAL CATHOLIC APPEAL AND PERPETUAL CARE FUNDS

DAO's endowment and perpetual care funds as of June 30 consist of internally designated funds without donor restrictions (excluding education initiatives) and funds with donor restrictions as follows:

	2021		2020	
	Without Donor Restrictions Internally Designated	With Donor Restrictions	Without Donor Restrictions Internally Designated	With Donor Restrictions
<i>Designated for support of Diocesan activities:</i>				
Legacy of Love Endowment Fund	\$ 7,729,269	\$ 9,531,738	\$ 4,727,628	\$ 9,531,738
Diocesan managed cemeteries	15,728,694	-	15,620,568	-
Other internally designated funds functioning as endowment	33,266,804	-	27,138,125	-
<i>Designated for scholarships:</i>				
Buttaci Trust (Josephine)	-	44,834	-	35,475
O'Brien Scholarship Fund	-	34,450	-	27,258
Fr. Edmund Walsh Scholarship Fund	-	-	-	255,717
School Endowment Fund	-	65,685	-	53,898
Diocesan Schools In Service Day	-	811	-	811
Subtotal - designated for scholarships	-	145,780	-	373,159
<i>Designated for Seminarian Aid:</i>				
Anonymous Seminarian Fund	-	33,651	-	26,626
Joyce Family Seminarian Fund	-	164,715	-	130,329
Alice White Seminarian Fund	-	85,062	-	67,304
Patrick McCormick Seminarian Fund	-	99,200	-	78,491
Vocations	-	101,569	-	93,267
Seminarian Education Fund	-	265,633	-	241,328
Seminarian College Fundraiser	-	176	-	176
Subtotal - designated for seminarian aid	-	750,006	-	637,521
<i>Designated for Parish Assistance:</i>				
James W. Casey Fund	-	12,615,872	-	10,222,981
John & Mary Corcoran Fund	-	130,899	-	103,567
Rose Doonan Fund	-	480,955	-	390,227
Msgr. Lekarczyk Fund	-	26,387	-	20,878
George Chanda Fund	-	249,059	-	197,065
Grace C. Rohan Organ Fund	-	99,179	-	79,125
Subtotal - Designated for parish assistance	-	13,602,351	-	11,013,843
St. Michael's Residence Fund		2,395,657		1,983,728
<i>Other donor designated funds</i>				
Albert V. and Lena Stowe Reopell Charitable Fund	-	6,961,780	-	5,377,439
Brochu Fund	-	525,024	-	415,418
Margaret Kilker Burial Fund	-	66,079	-	52,284
Disaster Relief	-	2,055	-	2,055
Western Mass Tornado Relief	-	2,450	-	2,450
Religious Education Year of Faith Programs	-	1,407	-	1,407
Catholic Boy Scout Troops	-	5,895	-	5,697
Youth Leadership Training	-	122	-	122
Catholic School Advancement	-	258	-	257
Subtotal - other donor designated funds	-	7,565,070	-	5,857,129
Total endowment funds	56,724,767	33,990,602	47,486,321	29,397,118
Annual Catholic Appeal Fund	740	4,224,973	740	4,027,843
Total	\$ 56,725,507	\$ 38,215,575	\$ 47,487,061	\$ 33,424,961

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

ENDOWMENT, ANNUAL CATHOLIC APPEAL AND PERPETUAL CARE FUNDS

Net assets released from restrictions for the years ended June 30, 2021 and 2020 of \$3,192,568 and \$3,269,588, respectively, were for the support of various charities and Catholic organizations.

Donor restricted funds are restricted as to purpose except for the Annual Catholic Appeal which is subject to a time restriction and is not an endowment fund.

Changes in endowment funds for the years ended June 30, 2021 and 2020 are as follows:

	Without Donor Restrictions (Internally Designated)	With Donor Restrictions	Total
<u>June 30, 2021</u>			
Endowment net assets, beginning of year	\$ 47,486,321	\$ 29,397,118	\$ 76,883,439
Investment return, net	9,732,813	5,455,638	15,188,451
Contributions and other revenue	697,611	32,813	730,424
Distributions	(1,191,978)	(894,967)	(2,086,945)
Endowment net assets, end of year	\$ 56,724,767	\$ 33,990,602	\$ 90,715,369
<u>June 30, 2020</u>			
Endowment net assets, beginning of year	\$ 57,255,641	\$ 29,978,943	\$ 87,234,584
Investment return, net	(63,404)	199,208	135,804
Contributions and other revenue	889,951	106,819	996,770
Distributions	(10,595,867)	(887,852)	(11,483,719)
Endowment net assets, end of year	\$ 47,486,321	\$ 29,397,118	\$ 76,883,439

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

9. FEMA AND SELF INSURANCE PROGRAMS

DAO manages an insurance program for property, general liability and workers' compensation claims active from years 1983, 1994 and 1998. Since July 1, 2005, worker compensation insurance coverage has been through the Massachusetts Catholic Self Insurance Group of which DAO is a member. Prior to fiscal year 2019, DAO also managed a self-insurance program for priest and lay employee's health insurance coverages, which parishes and other Diocesan related entities participated.

Effective July 1, 2018, DAO discontinued self-insurance for health insurance coverage for all lay employees, active and retired priests and other related entities. On that date, DAO joined RETA Trust, a Catholic Healthcare Organization for first dollar health insurance coverage for active priests and lay employee participants. In addition, effective July 1, 2018, retired priests' primary health insurance coverage is through Medicare.

Insurance claims receivable at June 30, 2021 and 2020 result from worker compensation claims.

The activity in FEMA and self insurance programs which are included in the statements of activities for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Revenue:		
Premiums billed to participants	\$ 2,409,810	\$ 2,585,831
Insurance recoveries	339,056	919,390
Total revenue	2,748,866	3,505,221
Expenses:		
Health	48,059	74,416
Property and general liability	2,815,903	2,227,398
Workers Compensation	248,715	125,934
Legal and other related expenses	87,193	195,829
Settlement expense	15,000	120,000
Allowance for uncollectable insurance premiums	(1,313,169)	131,641
Adjustment to liability reserves	405,007	1,387,509
Total expense	2,306,707	4,262,727
Total, net	\$ 442,159	\$ (757,506)

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

FEMA AND SELF INSURANCE PROGRAMS

Education Initiatives

The activity for internally designated funds-education initiatives for the year ended June 30, 2020, and cumulatively is as follows:

	2020	Cumulative 2011-2020
Beginning balance - designated for education initiatives	\$ (10,113,528)	\$ -
Net insurance proceeds (including interest)	-	52,200,817
FEMA Reimbursement	2,027,339	25,255,121
Investment earnings	-	1,439,836
Reimbursement of non-education expenditures	-	713,838
Diocesan funding of CHS 2013-17 additional deficit	-	(1,217,598)
Expenditures for Pope Francis High School formation	(2,156)	(1,467,974)
SMA's portion of tornado insurance proceeds	-	(5,400,000)
Repayment of schools loans receivable to Parish Savings Programs	-	(9,360,754)
Education initiative expense before other funding	(26,568)	(13,181,275)
Expenditures for Pope Francis High School	-	(57,096,924)
	(8,114,913)	(8,114,913)
Ending balance - designated for education initiatives before closeout	(8,114,913)	(8,114,913)
Charge against undesignated net assets	8,114,913	8,114,913
Ending balance	\$ -	\$ -

On June 1, 2011, several properties of RCB were directly in the path of the tornado that wreaked havoc in a wide swath of Western Massachusetts. St. Joseph Parish's Rectory, Our Lady of Mount Carmel Parish's Church and School, St. Michael's Priest Retirement Residence, St. Michael's Academy Pre-K and Middle School, Cathedral High School, and Gate of Heaven Cemetery all in Springfield and St. Patrick's Parish, Monson were damaged by the tornado. RCB property losses were established at \$98.5 million. Aggregate insurance proceeds related to these events were \$60,320,000.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

FEMA AND SELF INSURANCE PROGRAMS

RCB applied to federal and state emergency management agencies for financial assistance as a result of losses incurred in the 2011 tornado. Assistance was limited to qualifying losses. As of June 30, 2020, DAO received and expended \$25.3 million in Federal Emergency Management Agency (FEMA) grants. No further federal or state grants are expected. Expenditures of these grants are subject to audit by the grantor generally up to seven years from the receipt of final payment (2027).

10. OTHER REVENUE

Other revenue for the years ended June 30, 2021 and 2020 consists of the following:

	2021	2020
Fees	\$ 39,835	\$ 29,380
Cemetery easements	108,126	29,232
Rental income	411,344	447,263
Investment administration fee	836,147	772,192
Other income	61,364	379,161
Interest income	188,888	404,793
	\$ 1,645,705	\$ 2,062,021

11. PENSION PLANS

DAO participates in a multi-employer noncontributory retirement plan for the priests of the Diocese of Springfield for which parishes are assessed, and also a multi-employer noncontributory retirement plan for lay employees.

Expense charged to operations for the Priests' Retirement Plan was \$63,687 in 2021 and \$69,000 in 2020. Membership in the Priests' Retirement Plan does not give a member any right or claim to a retirement benefit, except to the extent that such right is specifically fixed under the terms of the plan, and that retirement funds are sufficient.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

PENSION PLANS

Accumulated plan benefits information for the Priests' Retirement Plan, as provided by consulting actuaries, has not been distinguished amongst the organizations participating in the pension plan and, accordingly, such information is not presented herein. At January 1, 2021 (the most recent available), the unaudited actuarial valuation report for the pension plan reflected approximately \$21.9 million in net assets available for benefits and \$21.5 million in accumulated plan benefits. At January 1, 2020, the unaudited actuarial valuation report for the pension plan reflected approximately \$20.4 million in net assets available for benefits and \$18.8 million in accumulated plan benefits.

There were no required contributions in 2020 and 2021. Accumulated plan benefits information for the Lay Employees Plan, as provided by consulting actuaries, has not been distinguished amongst the organizations participating in the pension plan and, accordingly, such information is not presented herein. At January 1, 2021 (the most recent available), the unaudited actuarial valuation report for the Lay Pension Plan reflected approximately \$37.4 million in net assets available for benefits and \$45.7 million in accumulated plan benefits. At January 1, 2020, the unaudited actuarial valuation report for the Lay Pension Plan reflected approximately \$35.6 million in net assets available for benefits and \$43.2 million in accumulated plan benefits.

Effective December 31, 2010, the Lay Employee Pension Plan was frozen. When a plan is frozen, employee earnings and service are not considered subsequent to that date, meaning employee pension benefits will no longer continue to accumulate. This action did not take away or reduce the benefits an employee had already earned.

The DAO sponsors a defined contribution plan administered for all eligible staff. Eligibility for the plan begins following one month of employment for individuals who are age 21 or older. The Plan provides for discretionary employer contributions of up to 2% of employee compensation. For the years ended June 30, 2021 and 2020, DAO contributed \$25,230 and \$23,917, respectively, as matching contributions. Matching contributions have a one-year cliff vesting period.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

12. FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function of DAO. These expenses require allocation on a reasonable basis which is consistently applied and includes considerations such as square footage used by each function and estimates of time and effort.

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements (Continued)

FUNCTIONAL EXPENSES

The following table provides expenses by nature and function for the years ended June 30, 2021 and June 30, 2020:

	June 30, 2021													
	Program Services								Support Services					
	Canonical Affairs	Catholic Communications Grants	Support of Diocesan Managed Cemeteries	Pastoral Ministry	Catholic Education	Health and Human Services	Clergy and Religious Needs	University Apostolate	Allowance for Uncollectible Accounts	Chancery Operations	Support Services	Institutional Advancement	Child Protection	Total
Expenses:														
Salaries and wages	\$ 256,057	\$ 47,599	\$ -	\$ 48,989	\$ 299,006	\$ 345,111	\$ 474,647	\$ -	\$ -	\$ 214,378	\$ 1,003,661	\$ -	\$ 144,943	\$ 2,834,391
Employee benefits	138,001	-	-	18,780	440,252	45,318	343,471	-	-	28,310	175,679	-	337	1,190,148
Payroll taxes and other related costs	16,719	3,713	-	2,160	20,400	17,213	16,247	-	-	12,817	70,877	-	11,088	171,234
Total salaries and related expense	410,777	51,312	-	69,929	759,658	407,642	834,365	-	-	255,505	1,250,217	-	156,368	4,195,773
Advertising	-	19,081	-	-	2,117	-	990	-	-	-	4,787	61,600	120	88,695
Audit and legal	-	-	-	-	10,429	7,576	-	-	331,472	11,702	5,062	211,775	-	578,016
Bad debts (credits)	-	-	-	-	-	-	-	(19,487)	-	-	-	-	-	(19,487)
Bank charges	-	-	-	-	-	-	-	-	99	15,295	14,226	-	-	29,620
Depreciation	-	-	201,000	-	-	-	-	-	-	684,601	-	-	-	885,601
Dues and subscriptions	2,585	796	-	350	1,802	(322)	3,666	214	3,363	4,480	-	6,936	-	23,870
Grant expense	-	-	-	295,111	641,817	1,167,527	-	-	-	-	-	-	-	2,104,455
Insurance	-	-	-	-	-	8,544	-	-	100,404	-	-	-	-	108,948
Interest expense	-	-	-	-	-	-	-	-	-	238,366	-	-	-	238,366
Maintenance and care of grounds	127,693	-	-	-	243	20,987	5,762	-	143,304	126,951	-	-	12	424,952
Meetings and conventions	-	-	-	80	2,651	447	11,998	-	-	6,757	-	529	-	22,462
Miscellaneous	156	-	-	55	23	-	115	-	122	25,058	-	-	-	25,529
Office expenses	1,383	-	-	126	599	246	1,064	-	4,314	18,861	-	2,018	-	28,611
Other program expenses	2,245	-	-	5,595	18,817	2,402	14,646	-	38,758	4,169	-	2,926	-	89,558
Postage	494	11,811	-	165	141	-	8	14	1,976	18,588	54,563	-	-	87,760
Professional fees/services	14,353	40,038	-	536	116,506	-	18,211	-	59,519	117,108	493,599	108,746	-	968,616
Program expenses	-	-	-	-	264	9,495	445,217	-	182,974	19,024	3,041	4,735	-	664,750
Purchase of equipment	2,740	2,749	-	1,055	1,439	30	16,894	-	1,013	30,949	-	263	-	57,132
Rental and utilities	600	1,967	-	5,389	1,927	36,633	1,908	601	86,230	(1,931)	600	3,178	-	137,102
Support of related entities	-	138,774	823,640	-	146,914	-	-	-	-	-	-	-	-	1,109,328
Travel expenses	41,305	-	-	8,282	4,011	2,143	13,213	113	19,005	16,811	-	2,743	-	107,626
Total expense	<u>\$ 604,331</u>	<u>\$ 266,528</u>	<u>\$ 1,024,640</u>	<u>\$ 386,673</u>	<u>\$ 1,709,358</u>	<u>\$ 1,663,350</u>	<u>\$ 1,368,057</u>	<u>\$ 942</u>	<u>\$ (19,487)</u>	<u>\$ 1,228,058</u>	<u>\$ 2,591,793</u>	<u>\$ 632,691</u>	<u>\$ 500,349</u>	<u>\$ 11,957,284</u>

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

FUNCTIONAL EXPENSES

	June 30, 2020													
	Program Services								Support Services					Total
	Caronical Affairs	Catholic Communications Grants	Support of Diocesan Managed Cemeteries	Pastoral Ministry	Catholic Education	Health and Human Services	Clergy and Religious Needs	University Apostolate	Allowance for Uncollectible Accounts	Chancery Operations	Support Services	Institutional Advancement	Child Protection	
Expenses:														
Salaries and wages	\$ 392,067	\$ 48,539	\$ -	\$ 65,159	\$ 307,822	\$ 315,587	\$ 435,926	\$ 6,090	\$ -	\$ 246,919	\$ 907,823	\$ -	\$ 33,735	\$ 2,759,667
Employee benefits	114,417	-	-	25,203	778,022	49,827	582,541	7,681	-	40,124	170,705	-	468	1,768,988
Payroll taxes and other related costs	26,482	3,713	-	3,090	20,599	14,211	17,163	-	-	12,361	62,655	-	2,581	162,855
Total salaries and related expense	<u>532,966</u>	<u>52,252</u>	<u>-</u>	<u>93,452</u>	<u>1,106,443</u>	<u>379,625</u>	<u>1,035,630</u>	<u>13,771</u>	<u>-</u>	<u>299,404</u>	<u>1,141,183</u>	<u>-</u>	<u>36,784</u>	<u>4,691,510</u>
Advertising	-	15,757	-	-	9,174	-	-	-	-	-	2,124	9,837	3,543	40,435
Audit and legal	-	-	-	-	2,233	814	-	-	-	256,136	9,685	3,828	109,307	382,003
Bad debts	-	-	-	-	-	-	-	-	499,453	-	-	-	-	499,453
Bank charges	-	-	-	-	-	11,495	103	126	-	5,721	5,642	-	-	23,087
Commission	-	-	-	-	-	-	-	-	-	50,000	-	-	-	50,000
Depreciation	-	-	229,540	-	-	-	-	-	-	-	791,080	-	-	1,020,620
Dues and subscriptions	1,254	902	-	150	1,855	451	3,272	143	-	1,693	3,504	-	1,754	14,978
Grant expense	-	-	-	417,845	410,050	1,059,907	-	-	-	-	-	-	-	1,887,802
Insurance	-	-	-	-	504	9,016	-	-	-	106,028	-	-	-	115,548
Interest expense	-	-	-	-	-	-	-	-	-	-	460,802	-	-	460,802
Maintenance and care of grounds	76,542	-	-	481	-	17,474	-	-	-	165,791	133,670	9	35	394,002
Meetings and conventions	1,005	-	-	12,419	6,838	11,817	25,939	-	-	7,353	3,251	-	2,379	71,001
Miscellaneous	-	-	-	-	786	-	-	-	-	470	24,235	-	-	25,491
Office expenses	2,409	-	-	2,831	1,214	360	452	44	-	10,029	18,774	-	2,313	38,426
Other program expenses	4,085	-	-	3,855	12,011	1,041	89,875	1,174	-	39,358	-	-	609	152,008
Postage	397	-	-	165	-	-	1,170	-	-	772	19,713	40,506	140	62,863
Professional fees/services	24,090	701	-	764	34,752	3,824	21,168	-	-	37,447	71,535	385,744	338,967	918,992
Program expenses	-	-	-	-	16,918	-	479,048	-	-	92,182	2,638	17,338	21,247	629,371
Purchase of equipment	-	442	-	175	127,239	575	-	-	-	2,354	18,370	600	8,915	158,670
Rental and utilities	633	668	-	5,341	1,859	45,947	2,790	634	-	169,796	1,829	171	2,515	232,183
Support of related entities	-	168,015	789,460	-	1,025,000	-	-	-	-	-	-	-	-	1,982,475
Travel expenses	39,543	62	-	31,696	6,419	5,833	21,945	5,278	-	10,671	7,177	-	3,700	132,324
Total expense	<u>\$ 682,924</u>	<u>\$ 238,799</u>	<u>\$ 1,019,000</u>	<u>\$ 569,174</u>	<u>\$ 2,763,295</u>	<u>\$ 1,548,179</u>	<u>\$ 1,681,392</u>	<u>\$ 21,170</u>	<u>\$ 499,453</u>	<u>\$ 1,255,205</u>	<u>\$ 2,715,212</u>	<u>\$ 458,033</u>	<u>\$ 532,208</u>	<u>\$ 13,984,044</u>

Diocesan Administrative Operations of the Roman Catholic Diocese of Springfield, Massachusetts

Notes to Financial Statements

13. COMMITMENTS AND CONTINGENCIES

RCB is subject to lawsuits, claims and legal contingencies from time to time in the normal course of operations, many of which may be covered by insurance in whole or in part. In the opinion of management, such matters as of June 30, 2021 will not have a material effect on the financial statements.

DAO has self-insured the risk of loss for clergy misconduct claims. The ultimate cost to defend or settle these claims is subject to uncertainty and the estimated liability is subject to change as current claims are assessed and potential new claims arise.

At June 30, 2021, DAO's reserve for estimated future payment of claims was \$4.4 million which is included in accrued liabilities in the accompanying statement of financial position.

DAO, from time to time, has paid the financial obligations incurred by parishes and schools for services and programs administered by them, distinct from the Diocesan administrative offices.

14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 31, 2022 which is the date the financial statements were available to be issued. There were no subsequent events that require adjustment or disclosure in the financial statements.