

**THE CONVENTION OF THE PROTESTANT
EPISCOPAL CHURCH IN THE DIOCESE
OF TENNESSEE**

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

And Report of Independent Auditor

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE**
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Report of Independent Auditor

To the Bishop and Council
The Convention of the Protestant Episcopal Church in the Diocese of Tennessee
Nashville, Tennessee

Opinion

We have audited the accompanying financial statements of The Convention of the Protestant Episcopal Church in the Diocese of Tennessee (a nonprofit organization) (the “Diocese”), which comprise the statements of financial position as of December 31, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Convention of the Protestant Episcopal Church in the Diocese of Tennessee as of December 31, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Diocese 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 the Diocese’s ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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 generally accepted auditing standards, we:

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

Cherry Bekant LLP

Nashville, Tennessee
August 31, 2022

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 584,683	\$ 506,206
Accounts receivable	27,963	5,549
Prepaid expenses	19,841	3,656
Investments	13,458,765	11,935,335
Notes receivable, net	103,265	85,170
Beneficial interest in trust	8,906	20,487
Property and equipment, net	1,612,989	1,636,134
Total Assets	\$ 15,816,412	\$ 14,192,537
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 28,023	\$ 25,815
Accrued expenses	14,315	16,624
Total Liabilities	42,338	42,439
Net Assets:		
Without Donor Restrictions:		
Designated:		
Dandridge Trust	3,192,807	2,748,972
Endowment and similar funds	1,560,403	1,239,278
Mid-Cumberland Mountain Ministries	442,016	404,153
Total Designated	5,195,226	4,392,403
Undesignated	3,470,243	3,270,244
Total Without Donor Restrictions	8,665,469	7,662,647
With Donor Restrictions:		
Endowment and similar funds	7,091,372	6,481,039
Subject to purpose restrictions	17,233	6,412
Total With Donor Restrictions	7,108,605	6,487,451
Total Net Assets	15,774,074	14,150,098
Total Liabilities and Net Assets	\$ 15,816,412	\$ 14,192,537

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

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Contributions	\$ 1,723,790	\$ 43,790	\$ 1,767,580
Investment income	89,858	107,338	197,196
Grant revenue	40,000	-	40,000
Other income	49,663	-	49,663
Interest income	1,141	-	1,141
Net unrealized and realized gain on investments	793,616	712,118	1,505,734
Net assets released from restrictions	242,092	(242,092)	-
Total Revenue and Support	<u>2,940,160</u>	<u>621,154</u>	<u>3,561,314</u>
Expenses:			
Program services	1,602,024	-	1,602,024
General and administrative services	335,314	-	335,314
Total Expenses	<u>1,937,338</u>	<u>-</u>	<u>1,937,338</u>
Change in net assets	1,002,822	621,154	1,623,976
Net assets, beginning of year	<u>7,662,647</u>	<u>6,487,451</u>	<u>14,150,098</u>
Net assets, end of year	<u>\$ 8,665,469</u>	<u>\$ 7,108,605</u>	<u>\$ 15,774,074</u>

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

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Contributions	\$ 1,636,751	\$ 34,949	\$ 1,671,700
Investment income	67,842	68,158	136,000
Grant revenue	158,100	-	158,100
Other income	71,500	-	71,500
Interest income	1,262	-	1,262
Net unrealized and realized gain on investments	518,649	544,121	1,062,770
Net assets released from restrictions	283,330	(283,330)	-
Total Revenue and Support	<u>2,737,434</u>	<u>363,898</u>	<u>3,101,332</u>
Expenses:			
Program services	1,735,051	-	1,735,051
General and administrative services	312,247	-	312,247
Total Expenses	<u>2,047,298</u>	<u>-</u>	<u>2,047,298</u>
Change in net assets	690,136	363,898	1,054,034
Net assets, beginning of year	<u>6,972,511</u>	<u>6,123,553</u>	<u>13,096,064</u>
Net assets, end of year	<u>\$ 7,662,647</u>	<u>\$ 6,487,451</u>	<u>\$ 14,150,098</u>

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

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2021

	Program Services	General and Administrative	Total
Compensation and benefits	\$ 664,877	\$ 223,246	\$ 888,123
Outreach - payments to National Church and Diocesan affiliates	382,896	-	382,896
Missions Council - support to Diocesan churches	184,228	-	184,228
Educational Council - support payments for education	94,750	-	94,750
Administration - support/grants	87,706	-	87,706
Administration - repairs and maintenance	46,481	15,493	61,974
Administration - professional fees	-	42,394	42,394
Depreciation	31,469	10,489	41,958
Ministry/Service Council - support payments	33,732	-	33,732
Administration - miscellaneous	-	24,726	24,726
Administration - insurance	23,069	-	23,069
Church government - convention expenses	19,134	-	19,134
Administration - utilities	12,608	4,203	16,811
Administration - dues and subscriptions	6,060	6,585	12,645
Administration - travel, meals, and entertainment	6,873	704	7,577
Administration - supplies	-	5,306	5,306
Administration - telephone	2,018	1,516	3,534
Special programs	2,993	152	3,145
Administration - communications	2,047	-	2,047
Administration - training	1,083	500	1,583
	<u>\$ 1,602,024</u>	<u>\$ 335,314</u>	<u>\$ 1,937,338</u>

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

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2020

	Program Services	General and Administrative	Total
Compensation and benefits	\$ 655,430	\$ 212,326	\$ 867,756
Outreach - payments to National Church and Diocesan affiliates	393,678	-	393,678
Missions Council - support to Diocesan churches	215,187	-	215,187
Administration - support/grants	143,271	-	143,271
Educational Council - support payments for education	99,050	-	99,050
Administration - repairs and maintenance	44,995	14,998	59,993
Ministry/Service Council - support payments	58,491	-	58,491
Depreciation	40,213	13,405	53,618
Administration - professional fees	-	41,696	41,696
Church government - convention expenses	35,074	-	35,074
Administration - insurance	20,898	-	20,898
Administration - utilities	12,507	4,169	16,676
Administration - miscellaneous	-	13,083	13,083
Administration - dues and subscriptions	6,254	6,525	12,779
Administration - supplies	-	5,067	5,067
Administration - travel, meals, and entertainment	2,985	144	3,129
Special programs	2,696	294	2,990
Administration - telephone	2,091	540	2,631
Administration - communications	1,185	-	1,185
Administration - training	1,046	-	1,046
	<u>\$ 1,735,051</u>	<u>\$ 312,247</u>	<u>\$ 2,047,298</u>

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

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 1,623,976	\$ 1,054,034
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	41,958	53,618
Provision for bad debts	(35,864)	(52,394)
Change in value of charitable lead trust	-	-
Net unrealized and realized gain on investments	(1,505,734)	(1,062,770)
Changes in operating assets and liabilities:		
Accounts receivable	(22,414)	(1,882)
Prepaid expenses	(16,185)	2,835
Accounts payable	2,208	3,827
Accrued expenses	(2,309)	2,758
Net cash flows from operating activities	<u>85,636</u>	<u>26</u>
Cash flows from investing activities:		
Principal payments received on notes receivable	17,769	18,769
Purchases of investments	(457,405)	(334,979)
Proceeds from sale of investments	439,709	459,165
Purchases of property and equipment	(18,813)	(4,918)
Proceeds from gifts restricted for permanent endowment	11,581	11,881
Net cash flows from investing activities	<u>(7,159)</u>	<u>149,918</u>
Change in cash and cash equivalents	78,477	149,944
Cash and cash equivalents, beginning of year	506,206	356,262
Cash and cash equivalents, end of year	<u>\$ 584,683</u>	<u>\$ 506,206</u>

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

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2021 AND 2020

Note 1—Nature of organization and summary of significant accounting policies

Basis of Accounting – The financial statements of The Convention of the Protestant Episcopal Church in the Diocese of Tennessee (the “Diocese”) have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Basis of Presentation – The financial statement presentation of the Diocese follows the recommendations of accounting and financial reporting standards prescribed for not-for-profit organizations. Accordingly, net assets of the Diocese and changes therein are classified and reported as follows:

Net Assets 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 and Council.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions may be fulfilled by actions of the Diocese or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Generally, the donors of assets to be maintained in perpetuity permit the Diocese to use all or part of the income earned on related investments for general or specific purposes.

The Diocese is comprised of 44 parishes and missions in the Middle Tennessee area. The Bishop and Council of the Diocese have fiduciary responsibility for the Diocese. Those responsibilities include oversight of the regular operating activities in the operating budget and for the Dandridge Trust and Mid-Cumberland Mountain Ministries (“MCMM”). The Dandridge Trust, a grant making body of the Diocese, gives grants for outreach projects primarily inside of the Diocese. MCMM provides zero to low percent interest-bearing housing loans and rehabilitation loans to qualifying participants in the Grundy County area. The accounts of the Dandridge Trust and MCMM are included in the accompanying financial statements.

When deemed appropriate, parishes and missions may deposit funds into the Episcopal Endowment Corporation, a common trust fund held at a financial institution. The common trust funds owned by the Diocese are included in these financial statements. Other funds owned at the congregational level are not a part of these financial statements.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Diocese considers its cash and cash equivalents to include cash in checking and savings accounts, certificates of deposit, and money market accounts which are readily available for current operations. Cash and cash equivalents during the year may exceed Federal Deposit Insurance Corporation (“FDIC”) limits. Excess uninsured balances of the Diocese at December 31, 2021 and 2020 were approximately \$336,000 and \$189,000, respectively.

Notes Receivable – Notes receivable are stated at unpaid principal balance, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple interest method on principal amounts outstanding. The accrual of interest on loans is discontinued at the time a loan becomes delinquent. Notes are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. There are no significant past due notes receivable at December 31, 2021 and 2020. Past due status is based on contractual terms. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if management believes that collection of principal or interest is doubtful.

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2021 AND 2020

Note 1—Nature of organization and summary of significant accounting policies (continued)

The Diocese maintains an allowance for uncollectible notes receivable carried at an amount which bad debts are reasonably expected not to exceed. The allowance for uncollectible notes receivable is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the notes receivable in light of historical experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Notes receivable are charged off against the allowance for uncollectible notes receivable when management of the Diocese determines collection efforts will not be successful. Bad debt expense was not significant in 2021 and 2020.

Investments – The Diocese carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair value in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the statements of activities.

Property and Equipment – Property and equipment is recorded at cost or, if donated, at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, donations of property and equipment are recorded as unrestricted support. Depreciation is computed using the straight-line method over the life of the asset, which ranges from 3 to 40 years.

Land, buildings, and equipment of the Diocese parish and mission churches are reported on each congregation's financial statements as they maintain the beneficial use of the property and are not included in the accompanying financial statements. In accordance with the Canons of the Diocese, the title to all properties are held in trust of the Diocese and would revert to the Diocese in the event a congregation ceases operations or ceases operating in accordance with the Charter, Constitution, or Canons of the Diocese, and the Episcopal Church.

Endowment – The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. U.S. GAAP provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies, and additional disclosures not previously required.

The endowment includes both donor-restricted funds and funds designated by the Bishop and Council to function as endowments. The net assets associated with endowment funds including funds designated by the Bishop and Council to function as endowments, are classified and reported based on existence or absence of donor-imposed restrictions.

The Diocese has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. To achieve its long-term rate of return objectives, the Diocese 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). The Diocese expects its endowment funds over time to provide an average rate of return of approximately 4% to 5% annually.

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2021 AND 2020

Note 1—Nature of organization and summary of significant accounting policies (continued)

The Diocese's endowment spending policy uses a percentage of a three-year moving average of the endowment fund's market value which is distributed to the appropriate funds. These distributions consist of interest, dividends, and if necessary, a portion of accumulated investment gains.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions.

Contributions – Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), 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.

Beneficial Interest in Trust – The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidelines require that the beneficial interest in trust be recorded as an asset at the estimated net present value. A donor established and funded a charitable lead trust under which an annual 3% distribution is to be made to the Diocese over the trust's term of 10 years. The assets in the trust are assumed to earn a rate of 3% over the life of the trust and the annual payments are discounted at a rate of approximately 2%.

Donated Services – No amounts have been reflected in the financial statements with respect to donated services as no objective basis is available to place a value on such services; however, volunteers have donated their time to help in the administration of the Diocese's office.

Use of Estimates – The preparation of financial statements in conformity with U.S. 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. Estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Income Taxes – The Diocese is generally exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income tax was paid or recorded in the financial statements for the years ended December 31, 2021 and 2020.

Functional Expenses – The cost of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While most costs have been directly assigned to a functional category, certain salaries and wages have been allocated to program and management and general based on time and effort estimates made by management. Given that contributions are primarily received through regular tithing activities of member parishes and mission churches, no costs are deemed to be fundraising in nature.

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2021 AND 2020

Note 1—Nature of organization and summary of significant accounting policies (continued)

Program and Supporting Services – The following program and supporting services are included in the accompanying financial statements:

Program Services – Includes activities carried out to fulfill the Diocese’s mission.

Supporting Services – Administrative expenses related to the overall direction of the Diocese. These expenses are not identifiable with a particular program or event but are indispensable to the conduct of those activities and are essential to the Diocese.

Note 2—Liquidity and availability

The following table represents the Diocese’s financial assets as of December 31, 2021 and 2020, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year or because the Bishop and Council has set aside the funds for a specific purpose. These designations could be drawn upon if governance approves that action. The Diocese considers general expenditures to be all expenditures related to its ongoing activities of achieving its mission. The table below represents financial assets available for general expenditures within one year at December 31:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 584,683	\$ 506,206
Accounts receivable	27,963	5,549
Investments	13,458,765	11,935,335
Beneficial interest in trust	8,906	20,487
Total financial assets	<u>14,080,317</u>	<u>12,467,577</u>
Less amounts not available to be used for general expenditures within one year:		
Designated	5,195,226	4,392,403
Purpose restrictions including earnings on endowments	5,180,683	4,559,529
Amounts held in perpetuity	<u>1,927,922</u>	<u>1,927,922</u>
Financial assets not available to be used within one year	<u>12,303,831</u>	<u>10,879,854</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,776,486</u>	<u>\$ 1,587,723</u>

The Diocese has certain assets limited to use for donor-restricted purposes, as well as other designated assets that are designated for future capital expenditure and programs. These assets limited to use, are not available for general expenditure within the next year. However, the designated amounts could be made available, if necessary.

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2021 AND 2020

Note 3—Fair value measurements

The Diocese uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurement* topic of FASB ASC, the fair value of a financial instrument is 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. In accordance with this guidance, the Diocese groups its financial assets and liabilities generally measured at fair value in a three level valuation hierarchy for disclosure of fair value measurements defined in Level 1 – inputs for quoted market prices for identical assets or liabilities in active markets; Level 2 – inputs include quoted market prices for similar assets and liabilities in active markets and inputs that are observable either directly or indirectly; and Level 3 – inputs that are unobservable and significant to the fair value measurements.

Fair value of assets and liabilities measured on a recurring basis at December 31, 2021 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Episcopal Endowment Corporation	\$ 12,016,191	\$ -	\$ 12,016,191	\$ -
Mutual funds	1,417,641	1,417,641	-	-
Money market funds	24,933	24,933	-	-
Total investments	13,458,765	1,442,574	12,016,191	-
Beneficial interest in trust	8,906	-	-	8,906
Total assets, at fair value	<u>\$ 13,467,671</u>	<u>\$ 1,442,574</u>	<u>\$ 12,016,191</u>	<u>\$ 8,906</u>

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS**

DECEMBER 31, 2021 AND 2020

Note 3—Fair value measurements (continued)

Fair value of assets and liabilities measured on a recurring basis at December 31, 2020 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Episcopal Endowment Corporation	\$ 10,787,957	\$ -	\$ 10,787,957	\$ -
Mutual funds	1,121,839	1,121,839	-	-
Money market funds	25,539	25,539	-	-
Total investments	11,935,335	1,147,378	10,787,957	-
Beneficial interest in trust	20,487	-	-	20,487
Total assets, at fair value	<u>\$ 11,955,822</u>	<u>\$ 1,147,378</u>	<u>\$ 10,787,957</u>	<u>\$ 20,487</u>

The summary of changes in the fair value of the Level 3 assets is as follows for the year ended December 31:

	2021	2020
Balance, beginning of year	\$ 20,487	\$ 32,368
Distribution	(11,581)	(11,881)
Balance, end of year	<u>\$ 8,906</u>	<u>\$ 20,487</u>

The majority of the Diocese's investments are held by Episcopal Endowment Corporation Common Trust Fund (the "Fund"). The Fund was established in 1933 to receive and manage funds from the Diocese and related parishes, missions, and other authorized entities. The Fund primarily invests in mutual funds and common stocks. The Diocese's investment in the Fund is valued at fair value based upon the quoted market values of the underlying securities held by the Fund. The Diocese has classified its investment in the Fund as Level 2 at December 31, 2021 and 2020.

The Diocese investments in mutual funds are valued based upon quoted market prices and are considered Level 1 investments at December 31, 2021 and 2020.

The beneficial interest in trust is valued using information obtained from third party sources, including investment statements and other information from a detailed listing of holdings from the trust. The valuation is typically performed annually, based on the present value of the estimated future distributions the Diocese expects to receive over the term of the trust. The beneficial interest in trust is considered a Level 3 investment at December 31, 2021 and 2020.

**THE CONVENTION OF THE PROTESTANT EPISCOPAL CHURCH
IN THE DIOCESE OF TENNESSEE**
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Note 4—Investment income and realized and unrealized gains

Investment income in the statements of activities for 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Investment income:		
Endowment investments	\$ 129,572	\$ 80,770
Other investments	67,624	55,230
Realized and unrealized gains:		
Endowment investments	852,178	644,998
Other investments	653,556	417,772
	<u>\$ 1,702,930</u>	<u>\$ 1,198,770</u>
Without donor restrictions	\$ 883,474	\$ 586,491
With donor restrictions	819,456	612,279
	<u>\$ 1,702,930</u>	<u>\$ 1,198,770</u>

Note 5—Notes receivable

Notes receivable bear interest from 0 – 2% and mature through 2031. Notes receivable consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
MCOMM Residential Real Estate	\$ 102,129	\$ 117,348
Other	1,136	2,936
	103,265	120,284
Less allowance for uncollectible notes receivable	-	(35,114)
	<u>\$ 103,265</u>	<u>\$ 85,170</u>

Note 6—Property and equipment

Property and equipment consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 766,102	\$ 766,102
Buildings	1,024,799	1,024,799
Office furniture and equipment	345,233	345,317
Website	16,500	-
Less accumulated depreciation	(539,645)	(500,084)
	<u>\$ 1,612,989</u>	<u>\$ 1,636,134</u>

For the years ended December 31, 2021 and 2020, the Diocese had depreciation expense of \$41,958 and \$53,618, respectively.

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Note 7—Grant revenue

During fiscal 2020, the Diocese received a Paycheck Protection Program loan ("PPP") in the amount of \$158,100. The PPP loan was granted by the Small Business Administration ("SBA") under the Coronavirus Aid Relief, and Economic Security Act ("CARES Act"). PPP loans are considered conditional contributions under ASC 958-605, *Not-for Profit Entities – Revenue Recognition*. The loan must be repaid if the Diocese does not overcome certain barriers within the CARES Act. The barriers under the program include the requirement to maintain employee headcount, spend up to 60% of the loan proceeds on certain payroll and employee benefits, and restricts other loan proceeds to be used for other qualifying expenses such as mortgage interest, rent, and utilities. The Diocese applied for forgiveness with the SBA during 2020, and the SBA has forgiven the PPP loan in full. As a result, the Diocese recognized \$158,100 of grant revenue on the 2020 statement of activities.

Note 8—Endowment and similar net assets

Endowment and similar net assets composition by type of fund were as follows at December 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 7,091,372	\$ 7,091,372
Board-designated endowment funds	1,560,403	-	1,560,403
Total assets at fair value	<u>\$ 1,560,403</u>	<u>\$ 7,091,372</u>	<u>\$ 8,651,775</u>

Endowment and similar net assets composition by type of fund were as follows at December 31, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 6,481,039	\$ 6,481,039
Board-designated endowment funds	1,239,278	-	1,239,278
Total assets at fair value	<u>\$ 1,239,278</u>	<u>\$ 6,481,039</u>	<u>\$ 7,720,317</u>

Changes in endowment and similar net assets for the year ended December 31, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment and similar net assets at January 1, 2021	<u>\$ 1,239,278</u>	<u>\$ 6,481,039</u>	<u>\$ 7,720,317</u>
Investment income, net	22,234	107,338	129,572
Net realized and unrealized gains	140,060	712,118	852,178
Total endowment return	<u>162,294</u>	<u>819,456</u>	<u>981,750</u>
Gifts to endowment	199,458	-	199,458
Endowment spending for operations	<u>(40,627)</u>	<u>(209,123)</u>	<u>(249,750)</u>
Endowment and similar net assets at December 31, 2021	<u>\$ 1,560,403</u>	<u>\$ 7,091,372</u>	<u>\$ 8,651,775</u>

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Note 8—Endowment and similar net assets (continued)

Changes in endowment and similar net assets for the year ended December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment and similar net assets at January 1, 2020	\$ 1,100,862	\$ 6,106,642	\$ 7,207,504
Investment income, net	12,613	68,157	80,770
Net realized and unrealized gains	100,878	544,120	644,998
Total endowment return	113,491	612,277	725,768
Gifts to endowment	73,052	10,982	84,034
Endowment spending for operations	(48,127)	(248,862)	(296,989)
Endowment and similar net assets at December 31, 2020	<u>\$ 1,239,278</u>	<u>\$ 6,481,039</u>	<u>\$ 7,720,317</u>

Endowment and similar net assets classified as net assets without donor restrictions include unrestricted gifts from donors and other funds designated by the Diocese as quasi-endowment for the long-term support of the Diocese, including any accumulated income and appreciation thereon. Endowment net assets with donor restrictions include accumulated income and appreciation on donor-contributed endowment funds. Endowment funds and similar net assets with donor restrictions consist of those funds designated by donors to be invested in perpetuity to provide a permanent source of income. Endowment and similar net assets are primarily used to fund missions, support for clergy, and other programs within the Diocese. At both December 31, 2021 and 2020, the Diocese's endowment amounts to be held in perpetuity totaled \$1,927,922.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Diocese to retain as a fund of perpetual duration.

Note 9—Commitments

Guaranty

The Diocese is a guarantor on mortgage notes payable to financial institutions for the construction and renovation of two parish's buildings. The Parishes are responsible for the monthly mortgage payments and the Diocese serves as a guarantor should the parishes default. The Diocese evaluates the financial position of the parishes on an annual basis and has determined that it is remote that any debt assistance will be needed in the future and therefore has not accrued or recorded any liability. The mortgage notes payable call for monthly principal and interest payments of \$15,452 and \$4,260 and mature in December 2027 and May 2023. The notes bear interest at 3.69% and 5.09% and are secured by real property whose fair value is in excess of the principal amounts. Should the parishes default and the Diocese be required to make payments, the Diocese could seek recourse through reversion of the property to the Diocese.

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Note 9—Commitments (continued)

Total outstanding balances as of December 31 were as follows:

	<u>2021</u>	<u>2020</u>
Church of the Good Shepherd	\$ 2,329,353	\$ 2,411,232
Church of the Holy Spirit	457,271	484,043
	<u>\$ 2,786,624</u>	<u>\$ 2,895,275</u>

The Diocese has not provided any debt assistance in 2021 or 2020 and does not anticipate providing assistance on these notes in the future. Therefore, no accrual for debt assistance is included in the 2021 or 2020 financial statements.

Retirement Plans

The Diocese makes contributions to the Church Pension Fund of the Episcopal Church for clergy members serving on the Diocesan staff. The Church Pension Fund provides a pension at retirement, disability retirement benefits, and lump-sum death payments. The Episcopal Canons require every church unit engaging clergy services to pay an assessment based on compensation. This applies to full-time, part-time, supply, or interim work performed by clergy that continues for at least three months and where the clergy is paid more than \$200 during a three-month consecutive period. The Fund's trustees have set the assessment rate at 18% of annual compensation plus certain benefits. The expenses related to this plan were \$80,686 and \$81,538 in 2021 and 2020, respectively.

The Diocese also participates in the Episcopal Church Lay Employees' Retirement Plan, which is available to lay employees who have completed one year of service and have attained the age of 25. The Diocese contributes a percentage of the employee's earnings, and employees become fully vested after five years of service. The expenses related to this plan were \$13,711 and \$12,069 in 2021 and 2020, respectively.

At March 31, 2021, (the most recent available plan information), the Church Pension Fund net assets available for pension benefits after amount designated for assessment deficiency for the clergy plan was approximately \$13.9 billion, and the actuarial present value of accumulated plan benefit obligations was approximately \$6.6 billion. At March 31, 2021, net assets available for pension benefits after amount designated for assessment deficiency for the lay employees was approximately \$236 million, and the actuarial present value of accumulated plan benefit obligations was approximately \$232 million. The Church Pension Fund was in excess of 47% funded at March 31, 2021. The Episcopal Church Lay Employees' Retirement Plan was over 98% funded at March 31, 2021. The Diocese contributions to respective retirement plans was less than 5% of total plan contributions for the most recently reported plan year.

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Note 10—Concentrations

The Diocese receives a substantial amount of its contributions from two parishes. The contributions from these two parishes comprised approximately 41% and 43% of total contributions during 2021 and 2020, respectively. A significant reduction in the level of this support, if this were to occur, could have an adverse impact on the Diocese's programs and services.

At December 31, 2021 and 2020, investments totaled \$13,458,765 and \$11,935,335, respectively. Investments are primarily invested in mutual funds and common stocks. Investments are not insured by FDIC or any other government agency and are subject to investment risk, including loss of principal. Investments are insured by the Securities and Investor Protection Corporation, which covers investor losses up to \$500,000, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms.

Note 11—Subsequent events

The Diocese evaluated subsequent events through August 31, 2022, when these financial statements were available to be issued.