

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Financial Statements
For the Years Ended December 31, 2022 and 2021

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Financial Statements

For the Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Opinion

We have audited the financial statements of The Convention of the Protestant Episcopal Church in the Diocese of Tennessee (the Diocese), which comprise the statement of financial position as of December 31, 2022, the related statements of activities, functional expenses, and cash flows for the year 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 the Diocese as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Diocese and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Diocese, as of and for the year ended December 31, 2021, were audited by other auditors, whose report, dated August 31, 2022, expressed an unmodified opinion on those statements.

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 issued or 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts, and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Nashville, Tennessee
September 15, 2023

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Statements of Financial Position

December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	\$ 582,575	\$ 584,683
Accounts receivable	16,950	27,963
Prepaid expenses	10,947	19,841
Investments	10,762,379	13,458,765
Notes receivable	158,016	103,265
Beneficial interest in trust	-	8,906
Property and equipment, net	<u>1,585,155</u>	<u>1,612,989</u>
Total assets	\$ 13,116,022	\$ 15,816,412
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 21,153	\$ 28,023
Accrued expenses	2,452	8,143
Deferred revenue	<u>68,123</u>	<u>6,172</u>
Total liabilities	91,728	42,338
Net assets		
Without donor restrictions		
Designated		
Dandridge Trust	2,557,206	3,192,807
Endowment	1,201,194	1,560,403
Mid-Cumberland Mountain Ministries	<u>413,167</u>	<u>442,016</u>
Total designated	4,171,567	5,195,226
Undesignated	<u>3,123,208</u>	<u>3,470,243</u>
Total without donor restrictions	7,294,775	8,665,469
With donor restrictions		
Endowment	5,708,872	7,091,372
Subject to purpose restrictions	<u>20,647</u>	<u>17,233</u>
Total with donor restrictions	<u>5,729,519</u>	<u>7,108,605</u>
Total net assets	<u>13,024,294</u>	<u>15,774,074</u>
Total liabilities and net assets	\$ 13,116,022	\$ 15,816,412

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Statement of Activities

For the Year Ended December 31, 2022

	Without donor restrictions	With donor restrictions	Total
Revenue and Support			
Contributions of cash and other financial assets	\$ 1,715,378	\$ 19,428	\$ 1,734,806
Investment income	84,344	84,488	168,832
Other income	26,226	-	26,226
Interest income	959	-	959
Net realized and unrealized gain (loss) on investments	(1,275,490)	(1,176,380)	(2,451,870)
Net assets released from restrictions	306,622	(306,622)	-
Total revenue and support	858,039	(1,379,086)	(521,047)
Expenses			
Program services	1,864,549	-	1,864,549
General and administrative services	364,184	-	364,184
Total expenses	2,228,733	-	2,228,733
Change in net assets	(1,370,694)	(1,379,086)	(2,749,780)
Net assets, beginning of year	8,665,469	7,108,605	15,774,074
Net assets, end of year	\$ 7,294,775	\$ 5,729,519	\$ 13,024,294

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Statement of Activities For the Year Ended December 31, 2021

	Without donor restrictions	With donor restrictions	Total
Revenue and Support			
Contributions of cash and other financial assets	\$ 1,763,790	\$ 43,790	\$ 1,807,580
Investment income	89,858	107,338	197,196
Other income	49,663	-	49,663
Interest income	1,141	-	1,141
Net realized and unrealized gain (loss) on investments	793,616	712,118	1,505,734
Net assets released from restrictions	<u>242,092</u>	<u>(242,092)</u>	<u>-</u>
Total revenue and support	2,940,160	621,154	3,561,314
Expenses			
Program services	1,602,024	-	1,602,024
General and administrative services	<u>335,314</u>	<u>-</u>	<u>335,314</u>
Total expenses	1,937,338	-	1,937,338
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	\$ 8,665,469	\$ 7,108,605	\$ 15,774,074

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Statement of Functional Expenses For the Year Ended December 31, 2022

	Program services	General and administrative	Total
Compensation and benefits	\$ 714,157	\$ 242,297	\$ 956,454
Outreach, payments to National Church and Diocesan affiliates	414,838	-	414,838
Missions council, support to Diocesan churches	192,277	-	192,277
Educational council, support payments for education	125,483	-	125,483
Supports and grants	106,510	-	106,510
Repairs and maintenance	41,755	13,919	55,674
Professional fees	-	43,979	43,979
Depreciation	35,130	11,710	46,840
Ministry service council, support payments	63,499	-	63,499
Miscellaneous	45,205	29,254	74,459
Insurance	22,364	-	22,364
Convention expenses	58,657	-	58,657
Utilities	13,915	4,639	18,554
Dues and subscriptions	7,403	5,597	13,000
Travel, meals, and entertainment	12,986	1,499	14,485
Supplies	-	9,641	9,641
Telephone	2,426	1,349	3,775
Special programs	3,751	-	3,751
Communications	2,693	-	2,693
Training	1,500	300	1,800
	\$ 1,864,549	\$ 364,184	\$ 2,228,733

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Statement of Functional Expenses For the 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
Supports and grants	87,706	-	87,706
Repairs and maintenance	46,481	15,493	61,974
Professional fees	-	42,394	42,394
Depreciation	31,469	10,489	41,958
Ministry service council, support payments	33,732	-	33,732
Miscellaneous	-	24,726	24,726
Insurance	23,069	-	23,069
Convention expenses	19,134	-	19,134
Utilities	12,608	4,203	16,811
Dues and subscriptions	6,060	6,585	12,645
Travel, meals, and entertainment	6,873	704	7,577
Supplies	-	5,306	5,306
Telephone	2,018	1,516	3,534
Special programs	2,993	152	3,145
Communications	2,047	-	2,047
Training	1,083	500	1,583
	\$ 1,602,024	\$ 335,314	\$ 1,937,338

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash and cash equivalents, beginning of year	\$ 584,683	\$ 506,206
Cash flows from operating activities		
Change in net assets	(2,749,780)	1,623,976
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	46,840	41,958
Provision for bad debts	-	(35,864)
Unrealized losses (gains) on investments, net	2,313,016	(1,505,734)
Change in:		
Accounts receivable	11,013	(22,414)
Prepaid expenses	8,894	(16,185)
Accounts payable	(6,870)	2,208
Accrued expenses	(5,691)	(2,309)
Deferred revenue	61,951	-
Net cash provided (used) by operating activities	(320,627)	85,636
Cash flows from investing activities		
Principal payments received on notes receivable	15,353	17,769
Issuance of note receivable	(70,104)	-
Purchase of investments	(101,974)	(457,405)
Proceeds from sale of investments	481,600	439,709
Purchases of property and equipment	(19,006)	(18,813)
Proceeds from gifts restricted for endowment	12,650	11,581
Net cash provided (used) by investing activities	318,519	(7,159)
Net change in cash and cash equivalents	(2,108)	78,477
Cash and cash equivalents, end of year	\$ 582,575	\$ 584,683

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

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 (US 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 45 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.

Use of Estimates

The preparation of financial statements in conformity with US 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.

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, 2022 and 2021 were approximately \$305,000 and \$336,000, respectively.

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 1. Nature of Organization and Summary of Significant Accounting Policies

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.

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.

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, 2022 and 2021. 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 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 2022 and 2021.

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%.

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 1. Nature of Organization and Summary of Significant Accounting Policies

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. US 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 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.

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 1. Nature of Organization and Summary of Significant Accounting Policies

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.

Contributions of Nonfinancial Assets

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.

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, 2022 and 2021.

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.

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.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Leases (New Accounting Standard Adopted in 2022)

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their statements of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Diocese adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition provision, the Diocese has applied Topic 842 to reporting periods beginning on January 1, 2022. Leases are not material to the Diocese's financial statements and, therefore, separate line-item presentation and additional disclosures are not presented.

Note 2. Liquidity and Availability

The following table represents the Diocese's financial assets, reduced by amounts not available for general expenditure within one year:

	2022	2021
Financial assets		
Cash and cash equivalents	\$ 582,575	\$ 584,683
Accounts receivable	16,950	27,963
Investments	10,762,379	13,458,765
Beneficial interest in trust	<u>-</u>	<u>8,906</u>
Total financial assets at year-end	11,361,904	14,080,317
Less amounts not available to be used within one year		
Designated	4,171,567	5,195,226
Purpose restrictions including earnings on endowment	3,797,853	5,180,683
Amounts held in perpetuity	<u>1,931,666</u>	<u>1,927,922</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,460,818	\$ 1,776,486

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 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 Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 3. Fair Value Measurements

Fair value of assets and liabilities measured on a recurring basis at December 31, 2022 are as follows:

	Level 1	Level 2	Level 3	Total
Investments				
Episcopal Endowment Corporation	\$ -	\$ 9,593,479	\$ -	\$ 9,593,479
Mutual funds	1,143,955	-	-	1,143,955
Money market funds	<u>24,945</u>	<u>-</u>	<u>-</u>	<u>24,945</u>
	\$ 1,168,900	\$ 9,593,479	\$ -	\$ 10,762,379

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

	Level 1	Level 2	Level 3	Total
Investments				
Episcopal Endowment Corporation	\$ -	\$ 12,016,191	\$ -	\$ 12,016,191
Mutual funds	1,417,641	-	-	1,417,641
Money market funds	<u>24,933</u>	<u>-</u>	<u>-</u>	<u>24,933</u>
	1,442,574	12,016,191	-	13,458,765
Beneficial interest in trust	<u>-</u>	<u>-</u>	<u>8,906</u>	<u>8,906</u>
	\$ 1,442,574	\$ 12,016,191	\$ 8,906	\$ 13,467,671

The summary of changes in the fair value of the Level 3 assets is as follows:

	2022	2021
Balance, beginning of year	\$ 8,906	\$ 20,487
Distribution	<u>(8,906)</u>	<u>(11,581)</u>
Balance, end of year	\$ -	\$ 8,906

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 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 Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 4. Investment Income and Realized and Unrealized Gains (Losses)

Investment income in the statements of activities is as follows:

	2022	2021
Investment income		
Endowment investments	\$ 102,385	\$ 129,572
Other investments	66,447	67,624
Realized and unrealized gains (losses)		
Endowment investments	(1,460,191)	852,178
Other investments	<u>(991,679)</u>	<u>653,556</u>
	\$ (2,283,038)	\$ 1,702,930
Without donor restrictions	\$ (1,191,146)	\$ 883,474
With donor restrictions	<u>(1,091,892)</u>	<u>819,456</u>
	\$ (2,283,038)	\$ 1,702,930

Note 5. Notes Receivable

Notes receivable bear interest from 0%-2% and mature through 2031. Notes receivable consist of the following:

	2022	2021
MCMR Residential Real Estate	\$ 86,775	\$ 102,129
Other	71,241	1,136
Less: allowance for uncollectible notes receivable	<u>-</u>	<u>-</u>
	\$ 158,016	\$ 103,265

Note 6. Property and Equipment

Property and equipment consist of the following:

	2022	2021
Land	\$ 766,102	\$ 766,102
Buildings	1,024,799	1,024,799
Office furniture and equipment	332,016	345,233
Website	33,000	16,500
Less: accumulated depreciation	<u>(570,762)</u>	<u>(539,645)</u>
Fixed assets, net	\$ 1,585,155	\$ 1,612,989

For 2022 and 2021, the Diocese had depreciation expense of \$46,840 and \$41,958, respectively.

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 7. Endowment

Endowment composition by type of fund were as follows at December 31, 2022:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 5,708,872	\$ 5,708,872
Board-designated endowment funds	<u>1,201,194</u>	<u>-</u>	<u>1,201,194</u>
Total assets at fair value	\$ 1,201,194	\$ 5,708,872	\$ 6,910,066

Endowment composition by type of fund were as follows at December 31, 2021:

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

Changes in endowment for 2022:

	Without donor restrictions	With donor restrictions	Total
Endowment and similar net assets at January 1, 2022	\$ 1,560,403	\$ 7,091,372	\$ 8,651,775
Investment income, net	17,897	84,488	102,385
Net realized and unrealized losses	<u>(283,811)</u>	<u>(1,176,380)</u>	<u>(1,460,191)</u>
Total endowment return	(265,914)	(1,091,892)	(1,357,806)
Gifts to endowment	22,426	-	22,426
Endowment spending for operations	<u>(115,721)</u>	<u>(290,608)</u>	<u>(406,329)</u>
Endowment and similar net assets at December 31, 2022	\$ 1,201,194	\$ 5,708,872	\$ 6,910,066

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 7. Endowment

Changes in endowment for 2021:

	Without donor restrictions	With donor restrictions	Total
Endowment and similar net assets at January 1, 2021	\$ 1,239,278	\$ 6,481,039	\$ 7,720,317
Investment income, net	22,234	107,338	129,572
Net realized and unrealized gains	<u>140,060</u>	<u>712,118</u>	<u>852,178</u>
Total endowment return	162,294	819,456	981,750
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	\$ 1,560,403	\$ 7,091,372	\$ 8,651,775

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 December 31, 2022 and 2021, the Diocese's endowment amounts to be held in perpetuity totaled \$1,931,666 and \$1,927,922, respectively.

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 8. Commitments

Guaranties

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.

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 8. Commitments

Guaranties

Total outstanding balances were as follows:

	2022	2021
Church of the Good Shepherd	\$ 2,229,377	\$ 2,329,353
Church of the Holy Spirit	<u>429,083</u>	<u>457,271</u>
	\$ 2,658,460	\$ 2,786,624

The Diocese has not provided any debt assistance in 2022 or 2021 and does not anticipate providing assistance on these notes in the future. Therefore, no accrual for debt assistance is included in the 2022 or 2021 financial statements.

Retirement Plans

The Diocese makes contributions to The Church Pension Fund Clergy Pension Plan (Clergy Plan) 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 \$86,138 and \$80,686 for 2022 and 2021, respectively.

The Diocese also participates in The Episcopal Church Lay Employees' Retirement Plan (Lay 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 \$12,046 and \$13,711 for 2022 and 2021, respectively.

At March 31, 2023 (the most recent available plan information), Clergy Plan net assets available for pension benefits after amount designated for assessment deficiency was approximately \$14.0 billion, and the actuarial present value of accumulated plan benefit obligations was approximately \$6.0 billion. At March 31, 2023, Lay Plan net assets available for pension benefits after amount designated for assessment deficiency was approximately \$269 million, and the actuarial present value of accumulated plan benefit obligations was approximately \$198 million. The Clergy Plan was in excess of 43% funded at March 31, 2023. The Lay Plan was over 73% funded at March 31, 2023. The Diocese contributions to the respective retirement plans was less than 1% of total plan contributions for the most recently reported plan year.

Note 9. Concentrations

The Diocese receives a substantial amount of its contributions from two parishes. The contributions from these two parishes comprised approximately 42% and 41% of total contributions during 2022 or 2021, 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.

The Convention of the Protestant Episcopal Church in the Diocese of Tennessee

Notes to Financial Statements

For the Years Ended December 31, 2022 and 2021

Note 9. **Concentrations**

At December 31, 2022 and 2021, investments totaled \$10,762,379 and \$13,458,765 , respectively. Investments are primarily invested in common trust funds which primarily invest in mutual funds and common stocks. Such amounts 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 10. **Subsequent Events**

Management has evaluated subsequent events through September 15, 2023, the date on which the financial statements were available for issuance.