

THE DIOCESE OF RHODE ISLAND

FINANCIAL STATEMENTS
December 31, 2021
with summarized comparative financial information
as of and for the year ended December 31, 2020

WITH
INDEPENDENT AUDITOR'S REPORT

THE DIOCESE OF RHODE ISLAND

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INDEPENDENT AUDITOR'S REPORT

To the Diocesan Council of
The Diocese of Rhode Island
Providence, Rhode Island

Opinion

We have audited the accompanying financial statements of The Diocese of Rhode Island (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and 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 financial statements referred to above present fairly, in all material respects, the financial position of The Diocese of Rhode Island as of December 31, 2021, and the changes in 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. 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 of Rhode Island 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.

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 of Rhode Island'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, including omissions, 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.

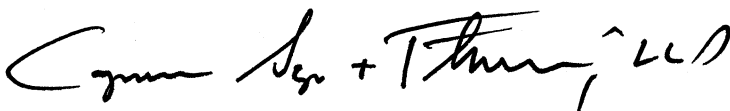
In performing an audit in accordance with generally accepted auditing standards, we:

- 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 of Rhode Island'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 of Rhode Island'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.

Report on Summarized Comparative Information

We have previously audited The Diocese of Rhode Island's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 1, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



October 13, 2022

THE DIOCESE OF RHODE ISLAND

STATEMENT OF FINANCIAL POSITION

December 31, 2021

with comparative financial information for December 31, 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 634,391	\$ 1,173,353
RECEIVABLES:		
Apportionment	1,512	31,378
Loans	465,177	331,569
Other	86,855	152,178
Total receivables	<u>553,544</u>	<u>515,125</u>
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	616,506	557,086
ENDOWMENT INVESTMENTS	40,231,710	35,419,390
PROPERTY AND EQUIPMENT, Net	<u>8,707,947</u>	<u>8,569,944</u>
TOTAL ASSETS	<u>\$ 50,744,098</u>	<u>\$ 46,234,898</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 367,490	\$ 298,961
NET ASSETS:		
Without donor restrictions:		
Undesignated	141,308	307,081
Designated by the Diocesan Council	22,070,631	20,679,137
	<u>22,211,939</u>	<u>20,986,218</u>
With donor restrictions	28,164,669	24,949,719
TOTAL NET ASSETS	<u>50,376,608</u>	<u>45,935,937</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 50,744,098</u>	<u>\$ 46,234,898</u>

See accompanying notes to financial statements.

THE DIOCESE OF RHODE ISLAND

STATEMENT OF ACTIVITIES

For the year ended December 31, 2021

with summarized comparative financial information for the year ended December 31, 2020

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	2021 <u>Total</u>	2020 <u>Total</u>
REVENUE AND OTHER SUPPORT:				
Apportionment	\$ 1,552,365	\$ 0	\$ 1,552,365	\$ 1,759,632
Contributions	0	1,017,143	1,017,143	589,546
Program services revenue	152,333	0	152,333	37,810
Interest income	6,533	0	6,533	5,660
Investment returns designated for current operations	462,868	940,800	1,403,668	1,379,009
Other income	305,922	0	305,922	283,765
Net assets released from restrictions	1,287,144	(1,287,144)	0	0
Total operating revenue and other support	<u>3,767,165</u>	<u>670,799</u>	<u>4,437,964</u>	<u>4,055,422</u>
EXPENSES:				
Program expenses	2,965,308	0	2,965,308	2,691,997
Administration and finance	879,962	0	879,962	811,973
Fundraising and development	96,476	0	96,476	108,137
Total operating expenses	<u>3,941,746</u>	<u>0</u>	<u>3,941,746</u>	<u>3,612,107</u>
CHANGES IN NET ASSETS BEFORE OTHER CHANGES				
	<u>(174,581)</u>	<u>670,799</u>	<u>496,218</u>	<u>443,315</u>
OTHER CHANGES:				
Investment returns (losses) not designated for current operations	1,294,632	2,484,732	3,779,364	2,634,863
Change in value of beneficial interests in perpetual trusts		59,419	59,419	50,236
Gain on sale of property	105,670	0	105,670	0
Grant - Paycheck Protection Program	0	0	0	287,800
Endowment additions - E.H.F.R.I.	0	0	0	242,701
Total other changes	<u>1,400,302</u>	<u>2,544,151</u>	<u>3,944,453</u>	<u>3,215,600</u>
TOTAL CHANGES IN NET ASSETS	<u>1,225,721</u>	<u>3,214,950</u>	<u>4,440,671</u>	<u>3,658,915</u>
NET ASSETS, January 1	<u>20,986,218</u>	<u>24,949,719</u>	<u>45,935,937</u>	<u>42,277,022</u>
NET ASSETS, December 31	<u>\$ 22,211,939</u>	<u>\$ 28,164,669</u>	<u>\$ 50,376,608</u>	<u>\$ 45,935,937</u>

See accompanying notes to financial statements.

THE DIOCESE OF RHODE ISLAND

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2021

with summarized comparative financial information for the year ended December 31, 2020

	Program Service - <u>Ministry</u>	Administration and <u>Finance</u>	Fundraising and <u>Development</u>	2021 <u>Total</u>	2020 <u>Total</u>
Compensation	\$ 952,698	\$ 367,284	\$ 67,462	\$ 1,387,444	\$ 1,301,974
Congregation grants	548,141	0	0	548,141	825,724
Support to National Church & Province	325,679	0	0	325,679	348,983
Charitable grants to others	283,820	0	0	283,820	211,435
Programs	164,126	0	0	164,126	113,983
Buildings and grounds	489,182	200,992	0	690,174	400,233
Depreciation	67,345	43,517	0	110,862	110,575
Office expenses	11,995	55,282	20,476	87,753	72,407
Professional services	10,691	176,149	0	186,840	92,001
Conferences	19,478	0	0	19,478	44,653
Miscellaneous	15,767	30,683	2,041	48,491	35,841
Travel	15,805	1,133	0	16,938	14,799
Communications	17,679	0	6,497	24,176	29,335
Education	22,542	366	0	22,908	2,489
Consultants	20,360	4,556	0	24,916	7,675
	<u>\$ 2,965,308</u>	<u>\$ 879,962</u>	<u>\$ 96,476</u>	<u>\$ 3,941,746</u>	<u>\$ 3,612,107</u>

See accompanying notes to financial statements.

THE DIOCESE OF RHODE ISLAND

STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

with comparative financial information for the year ended December 31, 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,440,671	\$ 3,658,915
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	110,862	110,575
Realized and unrealized (gains) losses - investments	(3,779,361)	(2,634,863)
Realized and unrealized (gains) losses - beneficial interest in perpetual trusts	(59,420)	(50,236)
Realized gain on sale of property and equipment	(105,670)	0
(Increase) decrease in receivables	(38,419)	(151,797)
Increase (decrease) in accounts payable and accrued expenses	68,529	40,058
Net cash provided by operating activities	<u>637,192</u>	<u>972,652</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(447,279)	(110,489)
Proceeds on sale of property and equipment	304,083	0
Additions to investments	(1,891,718)	(822,026)
Withdrawals from investments	858,760	80,625
Net cash used by investing activities	<u>(1,176,154)</u>	<u>(851,890)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(538,962)	120,762
CASH AND CASH EQUIVALENTS, January 1	<u>1,173,353</u>	<u>1,052,591</u>
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 634,391</u>	<u>\$ 1,173,353</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID FOR:		
Interest	\$ 0	\$ 0
Taxes	0	0
NON CASH INVESTING ACTIVITIES	0	0

See accompanying notes to financial statements.

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 with summarized comparative financial information
as of and for the year ended December 31, 2020

Note 1. PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Diocese of Rhode Island ("Diocese") is a nonprofit religious corporation established under the laws of the State of Rhode Island. The Diocese is dedicated to establishing, developing, and furthering the mission of The Episcopal Church in Rhode Island.

The Diocese is supported by apportionment amounts received from member parishes, contributions received from various donors, and endowment income.

The accompanying financial statements do not include the activities of any of the following funds or entities: The Diocesan Investment Trust; Cathedral of St. John; and the individual parishes and missions within the Diocese.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Cash Equivalents

The Diocese considers all highly liquid instruments with an original maturity of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Receivables

Accounts receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Diocese has determined no allowance for uncollectable accounts receivable is required and recorded bad debt expenses of \$3,929 in 2021 and \$6,529 in 2020.

THE DIOCESE OF RHODE ISLAND

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Property and Equipment

The Diocese records property and equipment additions over \$6,000 at cost, or if donated, at fair value on the date of donation. Missions and other real property in the name of the Diocese at January 1, 1982 were recorded at appraised value. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Diocese reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended December 31, 2021 and 2020.

Beneficial Interests in Perpetual Trusts

The Diocese is named as an irrevocable beneficiary of several perpetual trusts held and administered by independent trustees. Perpetual trusts provide for the distribution of the net income of the trusts to the Diocese; however, the Diocese will never receive the assets of the trusts. At the date the Diocese receives notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the statement of activities, and a beneficial interest in perpetual trust is recorded in the statement of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

Investments

The Diocese records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses. The Diocese's investments are in pooled investment funds held by the Diocesan Investment Trust, a separate non-regulated investment fund organized to provide investment options to the Diocese, its parishes and other related organizations. The investments in the Diocesan Investment Trust are carried at estimated fair value based principally upon the quoted market prices of the underlying assets of the trust.

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 with summarized comparative financial information
as of and for the year ended December 31, 2020

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Diocesan Council has designated, from net assets without donor restrictions, net assets for an operating reserve and functioning as an endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. There are no unrecognized contributions at December 31, 2021.

Functional Allocation of Expenses

The costs of program and supporting services activities 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.

Income Taxes

The Diocese qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Diocese qualifies for the charitable contribution deduction under Section 170(b)(1)(A).

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 with summarized comparative financial information
as of and for the year ended December 31, 2020

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

The Diocese manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions generally considered to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have occurred in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by an investment committee. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the investment committee believes that the investment policies and guidelines are prudent for the long-term welfare of the organization.

Date of Management's Review

Subsequent events were evaluated through October 13, 2022, which is the date the financial statements were available to be issued.

Note 2. LIQUIDITY AND AVAILABILITY

Minimum financial assets available for general expenditure, that is, assets without donor or other restrictions limiting their use, within one year of the balance sheet date comprise the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 422,144	\$ 381,342
Accounts receivable	88,367	183,556
Distributions from beneficial interest in perpetual trusts	24,000	24,000
Endowment spending-rate distributions and appropriations	<u>1,405,000</u>	<u>1,355,000</u>
	<u>\$ 1,939,511</u>	<u>\$ 1,943,898</u>

Endowment funds consist of donor-restricted endowments and funds designated by the Diocesan Council as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 with summarized comparative financial information
as of and for the year ended December 31, 2020

Diocesan Council-designated endowment of \$13,023,734 is subject to an annual spending rate as described in Note 5. Although spending from this Diocesan Council-designated endowment is not intended in amounts greater than those appropriated for general expenditure as part of the annual budget approval and appropriation, these funds could be made available for spending if necessary.

As part of its liquidity management plan, the Diocese invests cash in excess of daily requirements in short-term investments, certificates of deposit, and money market funds. Occasionally, the Diocese designates a portion of any operating surplus to its operating reserve fund maintained in the Diocesan Investment Trust. This designated portion was \$399,375 in 2021 and \$246,800 in 2020.

Note 3. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Diocese reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction in the asset or liability's principal or most advantageous market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that Diocesan managers can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, Diocesan managers develop inputs using the best information available in the circumstances.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021 with summarized comparative financial information
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In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

The Diocese uses net asset value (NAV) per share, as a practical expedient to estimate the fair values of pooled investment funds, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

The fair values of beneficial interests in perpetual trusts are determined by us using the fair values of trust investments as reported by their trustees.

The following table presents assets measured at fair value on a recurring basis or by using NAV per share as a practical expedient at December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Investments Measured at NAV	<u>Total</u>
Beneficial interests	\$ 0	\$ 0	\$ 616,506	\$ 0	\$ 616,506
Pooled investment funds – Diocesan Investment Trust	<u>0</u>	<u>0</u>	<u>0</u>	<u>40,231,710</u>	<u>40,231,710</u>
Investments at fair value	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 616,506</u>	<u>\$40,231,710</u>	<u>\$40,848,216</u>

The following table presents assets measured at fair value on a recurring basis or by using NAV per share as a practical expedient at December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	Investments Measured at NAV	<u>Total</u>
Beneficial interests	\$ 0	\$ 0	\$ 557,086	\$ 0	\$ 557,086
Pooled investment funds – Diocesan Investment Trust	<u>0</u>	<u>0</u>	<u>0</u>	<u>35,419,390</u>	<u>35,419,390</u>
Investments at fair value	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 557,086</u>	<u>\$35,419,390</u>	<u>\$35,976,476</u>

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

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Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes to the methodologies used.

- i Beneficial interests: Valued at the carrying value utilized by the trustee financial institutions.
- ii Pooled Investment Funds - Diocesan Investment Trust: Valued at the net asset value of shares on last day of the fiscal year, which is the basis for transactions at that date.

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2021 and 2020:

	<u>Beneficial Interests in Perpetual Trusts</u>	
	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 557,086	\$ 506,850
Investment return, net	80,910	74,101
Distributions	(21,490)	(23,865)
Ending balance	<u>\$ 616,506</u>	<u>\$ 557,086</u>

The following table summarizes investments for which fair value is measured using net asset value per share as a practical expedient as of December 31, 2021 and 2020:

<u>December 31, 2021</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Pooled investment funds – Diocesan Investment Trust	\$40,231,710	Daily	Daily
<u>December 31, 2020</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Pooled investment funds – Diocesan Investment Trust	\$35,419,390	Daily	Daily

Pooled Investments - pooled investments are held in the Diocesan Investment Trust (DIT). Funds are invested to provide long-term growth of capital and income. The asset allocation objective for the DIT in 2021 and 2020 was approximately 40-75% for equities, 25-60% for fixed income and 0-20% in cash. The portfolio is allocated among several investment managers and holds cash, securities, equities, mutual funds and alternative investments.

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

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as of and for the year ended December 31, 2020

Note 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land and buildings	\$ 12,749,614	\$ 12,802,488
Equipment	157,589	157,589
Motor vehicles	<u>106,054</u>	<u>117,954</u>
Total	13,013,257	13,078,031
Less accumulated depreciation	<u>4,305,310</u>	<u>4,508,087</u>
Property and equipment, net	<u>\$ 8,707,947</u>	<u>\$ 8,569,944</u>

Depreciation expense for 2021 and 2020 was \$110,862 and \$110,575 respectively.

Note 5. ENDOWMENT

The Diocese's endowment consists of approximately 100 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Diocese to function as endowments. Net assets associated with endowment funds, including funds designated by the Diocese to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Diocese has interpreted the Rhode Island Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2021 and 2020, there were no such donor stipulations. As a result of this interpretation, the Diocese retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Diocese in a manner consistent with the standard of prudence prescribed by UPMIFA. The Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Diocese and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Diocese
- The investment policies of the Diocese

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Net assets comprising true endowment funds and funds designated by the Diocese to function as endowments are invested in the Diocesan Investment Trust and managed by the Diocesan Commission on Investments which functions as the Trust's Board. The classification of net assets in endowment funds are as follows at December 31, 2021 and 2020:

	2021		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Diocesan Council-designated Endowment funds	\$ 13,157,958	\$ 0	\$ 13,157,958
Donor-restricted endowment funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	0	3,215,191	3,215,191
Accumulated investment gains	0	9,046,169	9,046,169
Term endowment	0	14,812,392	14,812,392
	<u>\$ 13,157,958</u>	<u>\$ 27,073,752</u>	<u>\$ 40,231,710</u>
	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Diocesan Council-designated Endowment funds	\$ 12,082,197	\$ 0	\$ 12,082,197
Donor-restricted endowment funds:			
Original donor-restricted gift amount required to be maintained in perpetuity by donor	0	3,212,191	3,212,191
Accumulated investment gains	0	7,905,525	7,905,525
Term endowment	0	12,219,477	12,219,477
	<u>\$ 12,082,197</u>	<u>\$ 23,337,193</u>	<u>\$ 35,419,390</u>

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Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Diocese has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2021 and 2020, there were no funds with fair values less than the amount required to be maintained by donors.

Investment and Spending Policies

The Diocese has adopted investment and spending policies for the endowment that attempt to provide a predictable stream of funding for programs and operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the endowment investments. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Diocese targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Each year, the Diocese uses an endowment spending-rate formula to determine the maximum amount to spend from the endowment, including any individual endowments deemed to be underwater. The rate, determined and adjusted from time to time by the Diocese, is applied to the average fair value of the Endowment investments for the prior sixteen quarters. The normal spending range is 4% to 5% with the objective being to hold the spending rate to no more than 5% over time. In establishing this policy, the Diocese's Commission on Investments considered the long-term expected return on the endowment and set the rate with the objective of maintaining the purchasing power of the endowment over time.

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Changes in endowment net assets for the year ended December 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ 12,082,197	\$ 23,337,193	\$ 35,419,390
Investment return:			
Dividend and interest income	458,337	923,841	1,382,178
Realized gains	166,274	25,522	191,796
Unrealized gains	<u>1,128,358</u>	<u>2,459,210</u>	<u>3,587,568</u>
Total investment return	<u>1,752,969</u>	<u>3,408,573</u>	<u>5,161,542</u>
Other changes:			
Contributions	0	507,555	507,555
Transfers to endowment funds	584,895	799,266	1,384,161
Appropriation of endowment assets for expenditure	<u>(1,262,103)</u>	<u>(978,835)</u>	<u>(2,240,938)</u>
Total other changes	<u>(677,208)</u>	<u>327,986</u>	<u>(349,222)</u>
Endowment net assets, end of the year	\$ 13,157,958	\$ 27,073,752	\$ 40,231,710

Changes in endowment net assets for the year ended December 31, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ 10,719,276	\$ 21,323,850	\$ 32,043,126
Investment return:			
Dividend and interest income	453,985	901,161	1,355,146
Realized gains	13,193	2,356	15,549
Unrealized gains	<u>880,335</u>	<u>1,738,979</u>	<u>2,619,314</u>
Total investment return	<u>1,347,513</u>	<u>2,642,496</u>	<u>3,990,009</u>
Other changes:			
Contributions	0	101,695	101,695
Transfers to endowment funds	514,875	205,455	720,330
Appropriation of endowment assets for expenditure	<u>(499,467)</u>	<u>(936,303)</u>	<u>(1,435,770)</u>
Total other changes	<u>15,408</u>	<u>(629,153)</u>	<u>(613,745)</u>
Endowment net assets, end of the year	\$ 12,082,197	\$ 23,337,193	\$ 35,419,390

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Note 6. LOANS RECEIVABLE

The Diocese maintains a revolving loan fund for the purpose of granting loans to parishes and missions in need of financial assistance. The Diocese approved new loans totaling \$291,429 and \$131,648 in 2021 and 2020, respectively, and collected \$105,589 and \$99,761 from repayments of loan principal and interest in 2021 and 2020, respectively. At December 31, 2021, seventeen (17) loans were outstanding totaling \$465,177 and at December 31, 2020 twenty-two (22) loans were outstanding totaling \$331,569. Interest is charged on the loan balances at an annual rate ranging from 1.50% to 3.75%. The loans mature at various dates until the year 2029.

In 2020 Diocesan Council authorized a deferral of payments for churches participating in the Revolving Loan Fund from June 2020 thru June 2021. The intent of the deferral was simply to assist churches with cash flow by reducing their debt service payments for their Revolving Loan balance during the period most impacted by the COVID pandemic. The terms of the loan payment deferral included no requirement for monthly payments including interest during the deferral period. The term of the loans has been extended by one year to match the deferral period so the total residual balance and total interest charged on the loans remains the same. Loan repayments resumed in 2021 and all loans are current at December 31, 2021.

The Diocese wrote off five (5) loans to bad debt expense totaling \$65,347 in 2021.

Based on credit worthiness established by the Diocese's review process when granting loans and its experience with the churches maintaining other payments to the Diocese such as their apportionment assessments, the Diocese does not view the Revolving Loan accounts as impaired and does not believe there is any risk of default on the remaining loans.

Note 7. FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Compensation costs such as salaries and wages, benefits, and payroll taxes have been allocated on the basis of estimates of time and effort. Depreciation and buildings and grounds expenses have been allocated on the basis of each individual property or building's primary use. Professional services, information technology, communications, and other expenses, have been allocated according to account-level information about the function supported by the expense.

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Note 8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisting of property and investments are restricted for the following purposes at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Congregational Development	\$ 50,472	\$ 84,379
Youth and Family	(141,032)	0
Outreach and Advocacy	69,240	440,321
Office of the Bishop	137,187	170,748
Custodial	<u>96,379</u>	<u>97,827</u>
	<u>212,246</u>	<u>793,275</u>
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Congregational Development	1,673,124	1,452,074
Youth and Family	2,229,996	1,479,153
Outreach and Advocacy	3,207,790	2,450,288
Office of the Bishop	4,057,719	3,599,474
Custodial	<u>3,643,762</u>	<u>3,238,488</u>
	<u>14,812,391</u>	<u>12,219,477</u>
Subject to endowment spending policy and appropriation:		
Congregational Development	1,497,025	1,355,148
Youth and Family	89,684	105,908
Outreach and Advocacy	3,258,199	2,949,406
Office of the Bishop	4,370,527	3,953,439
Custodial	<u>3,045,926</u>	<u>2,753,815</u>
	<u>12,261,361</u>	<u>11,117,716</u>
Total endowments	<u>27,073,752</u>	<u>23,337,193</u>
Not subject to spending policy or appropriation:		
Revolving loans	50,000	50,000
Beneficial interests in perpetual trusts:		
Office of the Bishop	476,402	427,604
Custodial	140,104	129,482
Land:		
Youth and Family	107,693	107,693
Custodial	<u>104,472</u>	<u>104,472</u>
	<u>878,671</u>	<u>819,251</u>
Total net assets with donor restrictions	<u>\$ 28,164,669</u>	<u>\$ 24,949,719</u>

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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions:		
Congregational Development	\$ 57,761	\$ 40,687
Youth and Family	189,085	220,692
Outreach and Advocacy	174,983	97,532
Office of the Bishop	<u>5,843</u>	<u>4,989</u>
	<u>427,672</u>	<u>363,900</u>
Distributions from beneficial interests in perpetual trusts:		
Office of the Bishop	<u>9,241</u>	<u>12,782</u>
Restricted-purpose spending-rate distributions and appropriations:		
Congregational Development	103,595	45,466
Youth and Family	63,479	58,604
Outreach and Advocacy	218,092	209,252
Office of the Bishop	273,465	234,815
Custodial	<u>191,600</u>	<u>123,307</u>
	<u>850,231</u>	<u>671,444</u>
Total net assets released from donor restrictions	<u>\$ 1,287,144</u>	<u>\$ 1,048,126</u>

Note 9. NET ASSETS DESIGNATED BY THE BOARD

Net assets without donor restrictions designated by Diocesan Council consisting of property and investments are restricted for the following purposes at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Designated for operating reserve:		
Administration and Finance	\$ 465,177	\$ 164,430
Custodial	<u>85,937</u>	<u>74,730</u>
	<u>551,114</u>	<u>239,160</u>
Designated for endowment:		
Congregational Development	9,383	8,494
Youth and Family	373,304	394,231
Office of the Bishop	60,318	54,423
Administration and finance	10,957,317	9,893,873
Custodial	<u>1,623,412</u>	<u>1,731,176</u>
	<u>13,023,734</u>	<u>12,082,197</u>

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Invested in property and equipment:		
Youth and Family	849,167	498,449
Office of the Bishop	130,522	150,050
Administration and finance	7,426,631	7,683,172
Custodial	<u>89,463</u>	<u>26,109</u>
	<u>8,495,783</u>	<u>8,357,780</u>
 Total net assets designated by the Board	 <u>\$ 22,070,631</u>	 <u>\$ 20,679,137</u>

Note 10. EMPLOYEE BENEFITS

The Diocese has a defined benefit pension plan covering certain retired lay employees. Benefits are based on years of service and the employee's average earnings for the highest five (5) consecutive years. The Diocese's funding policy is to annually contribute the amount required under the minimum funding standards.

The Diocese participates in a defined contribution plan to cover active lay employees. Contributions are made by the Diocese at a minimum of five percent of an employee's salary to a maximum of nine percent. The Diocese contributed \$47,866 and \$44,072 to this plan in 2021 and 2020, respectively.

The Diocese participates in The Church Pension Fund, a defined benefit plan to cover active clergy. Contributions are 18% of total compensation and require no employee contribution. The Diocese contributed \$84,245 and \$84,124 to this plan in 2021 and 2020, respectively.

Note 11. CONCENTRATION OF CREDIT RISK

The Diocese maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limit. The accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. The Diocese had approximately \$182,000 and \$508,000 in excess of the FDIC insured limits at December 31, 2021 and 2020, respectively. The Diocese has not experienced any losses in the accounts.

Note 12. TRANSACTIONS WITH PARISHES AND RELATED ORGANIZATIONS

The Diocese collected approximately \$1,658,001 in 2021 and \$1,954,445 in 2020 from member parishes, missions and other related entities for apportionment, repayment of revolving loans, expense reimbursements for salaries, and rents. Approximately \$466,689 of total receivables at year-end 2021, and \$362,947 at year-end 2020, represent amounts owed by member parishes and missions for these transactions.

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The Diocese paid \$315,929 in 2021 and \$324,233 in 2020 in assessments to its national organization, the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America (The Episcopal Church). Payments to the church pension fund sponsored by The Episcopal Church for lay employees and clergy employed by the Diocese amounted to \$132,111 in 2021 and \$128,196 in 2020.

Certain of these transactions are separately disclosed in the financial statements and footnotes.

The Episcopal Diocese of Rhode Island established the Diocesan Investment Trust under a Declaration of Trust and by special act of the General Assembly of the State of Rhode Island. The Episcopal Diocese of Rhode Island was also made Trustee of the Trust by that Declaration. Investments maintained by the Trust on behalf of the Episcopal Diocese of Rhode Island represent approximately 64% of the fair market value of the assets held by the Trust. The remainder of the assets held by the Trust are investments by churches affiliated with the Diocese of Rhode island.

Note 13. LEASES

The Diocese (the lessor) leases several properties to others under various lease agreements.

Approximate future minimum lease income to be received from such non-cancelable operating leases is as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 926,329
2023	33,900
2024	33,900
2025	14,125
2026 and thereafter	0

Note 14. PAYCHECK PROTECTION PROGRAM LOAN

The Diocese was granted a \$287,800 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Diocese initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for unconditional contributions, that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Diocese recognized \$287,800 as grant revenue for the year ended December 31, 2020. There was no PPP liability at December 31, 2020.

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Note 15. RISKS AND UNCERTAINTIES

COVID-19

Revenue of the Diocese is dependent on contributions and apportionment fees charged to affiliated churches, which are predominantly supported by contributions from individuals and investment income. Developments in response to the coronavirus pandemic may still have future impacts on the Diocese and its affiliated churches' contribution revenue and therefore may affect future revenue.

The Diocese is closely monitoring its revenues and liquidity as well as the financial status of its affiliates, and it is working to minimize negative effects of the pandemic as well as more recent market declines (see Note 16). These financial statements do not include any adjustments related to these events.

Affiliated entity

An affiliated not-for-profit healthcare provider ceased its operations, and all its patients were transferred to other, appropriate facilities on or by August 1, 2020. The closure of this enterprise is not expected to require economic assistance from the Diocese. These financial statements do not include any adjustments related to this event.

Note 16. SUBSEQUENT EVENT

Subsequent to 2021 year's end, the United States and global markets experienced significant declines in value. Diocesan managers are closely monitoring investment portfolio values and liquidity and actively working to minimize the impact of these declines, which could affect future cash flows from the endowment of the Diocese. These financial statements do not include adjustments to fair value that have resulted from these declines.