

THE DIOCESE OF RHODE ISLAND

FINANCIAL STATEMENTS

December 31, 2022

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

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, 2022, 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, 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. 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.

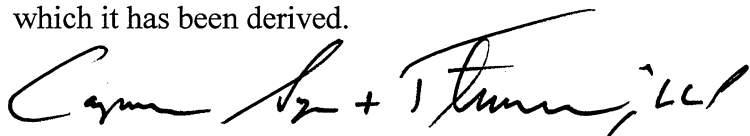
In performing an audit in accordance with generally accepted auditing standards, we:

- 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



October 2, 2023

THE DIOCESE OF RHODE ISLAND

STATEMENT OF FINANCIAL POSITION

December 31, 2022

with comparative financial information for December 31, 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 1,264,427	\$ 634,391
RECEIVABLES:		
Apportionment, net	10,132	1,512
Loans	475,154	465,177
Other	411	86,855
Total receivables	<u>485,697</u>	<u>553,544</u>
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	478,625	616,506
ENDOWMENT INVESTMENTS	33,843,280	40,231,710
PROPERTY AND EQUIPMENT, Net	<u>9,416,449</u>	<u>8,707,947</u>
TOTAL ASSETS	<u>\$ 45,488,478</u>	<u>\$ 50,744,098</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	<u>\$ 362,398</u>	<u>\$ 367,490</u>
NET ASSETS:		
Without donor restrictions	21,303,140	22,211,939
With donor restrictions	23,822,940	28,164,669
TOTAL NET ASSETS	<u>45,126,080</u>	<u>50,376,608</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 45,488,478</u>	<u>\$ 50,744,098</u>

See accompanying notes to financial statements.

THE DIOCESE OF RHODE ISLAND

STATEMENT OF ACTIVITIES

For the year ended December 31, 2022

with summarized comparative financial information for the year ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>	<u>2021 Total</u>
REVENUE AND OTHER SUPPORT:				
Apportionment	\$ 1,539,567	\$ 0	\$ 1,539,567	\$ 1,552,365
Contributions	0	783,682	783,682	1,017,143
Program services revenue	297,479	0	297,479	152,333
Interest income	7,680	0	7,680	6,533
Investment returns designated for current operations	472,065	960,545	1,432,610	1,403,668
Rental income	1,270,282	0	1,270,282	305,922
Net assets released from restrictions	1,769,445	(1,769,445)	0	0
Total operating revenue and other support	<u>5,356,518</u>	<u>(25,218)</u>	<u>5,331,300</u>	<u>4,437,964</u>
EXPENSES:				
Program expenses	3,363,217	0	3,363,217	2,965,308
Administration and finance	987,996	0	987,996	879,962
Fundraising and development	38,598	0	38,598	96,476
Total operating expenses	<u>4,389,811</u>	<u>0</u>	<u>4,389,811</u>	<u>3,941,746</u>
CHANGES IN NET ASSETS BEFORE OTHER CHANGES	<u>966,707</u>	<u>(25,218)</u>	<u>941,489</u>	<u>496,218</u>
OTHER CHANGES:				
Investment returns (losses) not designated for current operations	(2,065,913)	(4,216,751)	(6,282,664)	3,779,364
Change in value of beneficial interests in perpetual trusts	0	(137,880)	(137,880)	59,419
Gain on sale of property	190,407	0	190,407	105,670
Center for Reconciliation distribution	0	38,120	38,120	0
Total other changes	<u>(1,875,506)</u>	<u>(4,316,511)</u>	<u>(6,192,017)</u>	<u>3,944,453</u>
TOTAL CHANGES IN NET ASSETS	<u>(908,799)</u>	<u>(4,341,729)</u>	<u>(5,250,528)</u>	<u>4,440,671</u>
NET ASSETS, January 1	<u>22,211,939</u>	<u>28,164,669</u>	<u>50,376,608</u>	<u>45,935,937</u>
NET ASSETS, December 31	<u>\$ 21,303,140</u>	<u>\$ 23,822,940</u>	<u>\$ 45,126,080</u>	<u>\$ 50,376,608</u>

See accompanying notes to financial statements.

THE DIOCESE OF RHODE ISLAND

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2022

with summarized comparative financial information for the year ended December 31, 2021

	Program Service - <u>Ministry</u>	Administration and <u>Finance</u>	Fundraising and <u>Development</u>	2022 <u>Total</u>	2021 <u>Total</u>
Compensation	\$ 901,690	\$ 512,836	\$ 23,136	\$ 1,437,662	\$ 1,387,444
Congregation grants	442,187	0	0	442,187	548,141
Support to National Church & Province	381,627	0	0	381,627	325,679
Charitable grants to others	261,134	0	0	261,134	283,820
Programs	234,976	0	0	234,976	164,126
Buildings and grounds	929,442	101,078	0	1,030,520	690,174
Depreciation	66,004	23,271	0	89,275	110,862
Office expenses	18,999	69,761	12,117	100,877	87,753
Professional services and bank fees	13,727	248,786	2,072	264,585	197,491
Conferences	43,255	240	0	43,495	19,478
Miscellaneous	2,779	28,714	0	31,493	37,840
Travel	30,148	2,360	0	32,508	16,938
Communications	14,206	950	1,273	16,429	24,176
Education	2,968	0	0	2,968	22,908
Consultants	20,075	0	0	20,075	24,916
	<u>\$ 3,363,217</u>	<u>\$ 987,996</u>	<u>\$ 38,598</u>	<u>\$ 4,389,811</u>	<u>\$ 3,941,746</u>

See accompanying notes to financial statements.

THE DIOCESE OF RHODE ISLAND

STATEMENT OF CASH FLOWS

For the year ended December 31, 2022

with comparative financial information for the year ended December 31, 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (5,250,528)	\$ 4,440,671
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	89,275	110,862
Realized and unrealized (gains) losses - investments	6,282,664	(3,779,361)
Realized and unrealized (gains) losses - beneficial interest in perpetual trusts	137,880	(59,420)
Realized gain on sale of property and equipment	(190,407)	(105,670)
(Increase) decrease in receivables	67,847	(38,419)
Increase (decrease) in accounts payable and accrued expenses	(5,092)	68,529
Net cash provided by operating activities	<u>1,131,639</u>	<u>637,192</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(838,532)	(447,279)
Proceeds on sale of property and equipment	231,163	304,083
Additions to investments	(742,550)	(1,891,718)
Withdrawals from investments	848,316	858,760
Net cash used by investing activities	<u>(501,603)</u>	<u>(1,176,154)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	630,036	(538,962)
CASH AND CASH EQUIVALENTS, January 1	<u>634,391</u>	<u>1,173,353</u>
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 1,264,427</u>	<u>\$ 634,391</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, 2022 with summarized comparative financial information
as of and for the year ended December 31, 2021

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, investment income, grants and contributions received from various donors, program related fees, and rental 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, 2021, 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 determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and either a credit to accounts receivable or reclassification as a grant to the church whose debt was relieved. The Diocese has established an allowance for uncollectable accounts receivable at December 31, 2022 of \$5,429.

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with summarized comparative financial information
as of and for the year ended December 31, 2021

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 three to thirty 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, 2022 and 2021.

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, 2022 with summarized comparative financial information
as of and for the year ended December 31, 2021

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 – These are net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. Over the years, the Diocese has designated certain net assets without donor restrictions, for an operating reserve that functions as an endowment.

Net Assets With Donor Restrictions – These are net assets subject to donor (or certain grantor) restrictions. Some donor 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor 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, 2022.

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, 2022 with summarized comparative financial information
as of and for the year ended December 31, 2021

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

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 2, 2023, 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 650,352	\$ 422,144
Accounts receivable	10,543	88,367
Distributions from beneficial interest in perpetual trusts	30,000	24,000
Endowment spending-rate distributions and appropriations	<u>1,410,000</u>	<u>1,405,000</u>
	<u>\$ 2,100,895</u>	<u>\$ 1,939,511</u>

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with summarized comparative financial information
as of and for the year ended December 31, 2021

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.

Diocesan Council-designated endowment of \$11,375,205 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 \$357,987 in 2022 and \$584,895 in 2021.

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.

THE DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments Measured at NAV</u>	<u>Total</u>
Beneficial interests	\$ 0	\$ 0	\$ 478,625	\$ 0	\$ 478,625
Pooled investment funds – Diocesan Investment Trust	<u>0</u>	<u>0</u>	<u>0</u>	<u>33,843,280</u>	<u>33,843,280</u>
Investments at fair value	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 478,625</u>	<u>\$33,843,280</u>	<u>\$34,321,905</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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments Measured at NAV</u>	<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 DIOCESE OF RHODE ISLAND

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with summarized comparative financial information
as of and for the year ended December 31, 2021

A description of the valuation methodologies used for assets measured at fair value follows. 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 (DIT): 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, 2022 and 2021:

	<u>Beneficial Interests in Perpetual Trusts</u>	
	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 616,506	\$ 557,086
Investment return, net	(114,874)	80,910
Distributions	(23,007)	(21,490)
Ending balance	<u>\$ 478,625</u>	<u>\$ 616,506</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, 2022 and 2021:

<u>December 31, 2022</u>	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Pooled investment funds – Diocesan Investment Trust	\$33,843,280	Daily	Daily

<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

Pooled Investments are held in the DIT. Funds are invested to provide long-term growth of capital and income. The asset allocation objectives for the DIT in 2022 and 2021 were in the ranges of 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

December 31, 2022 with summarized comparative financial information
as of and for the year ended December 31, 2021

Note 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land and buildings	\$ 13,348,645	\$ 12,749,614
Equipment	157,589	157,589
Motor vehicles	<u>199,296</u>	<u>106,054</u>
Total	13,705,530	13,013,257
Less accumulated depreciation	<u>4,289,081</u>	<u>4,305,310</u>
Property and equipment, net	<u>\$ 9,416,449</u>	<u>\$ 8,707,947</u>

Depreciation expense for 2022 and 2021 was \$89,275 and \$110,862 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, 2022 and 2021, 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, 2022 and 2021:

	<u>2022</u>		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Diocesan Council-designated Endowment funds	\$ 11,375,205	\$ 0	\$ 11,375,205
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	7,147,442	7,147,442
Term endowment	<u>0</u>	<u>12,105,442</u>	<u>12,105,442</u>
	<u>\$ 11,375,205</u>	<u>\$ 22,468,075</u>	<u>\$ 33,843,280</u>
	<u>2021</u>		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</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	<u>0</u>	<u>14,812,392</u>	<u>14,812,392</u>
	<u>\$ 13,157,958</u>	<u>\$ 27,073,752</u>	<u>\$ 40,231,710</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, 2022 and 2021, 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's Commission on Investments, 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, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ 13,157,958	\$ 27,073,752	\$ 40,231,710
Investment return:			
Dividend and interest income	467,160	942,442	1,409,602
Gains (losses)	(2,065,913)	(4,216,751)	(6,282,664)
Total investment return	(1,598,753)	(3,274,309)	(4,873,062)
Other changes:			
Contributions	0	202,394	202,394
Transfers to endowment funds	357,987	182,169	540,156
Appropriation of endowment assets for expenditure	(541,987)	(1,715,931)	(2,257,918)
Total other changes	(184,000)	(1,331,368)	(1,515,368)
Endowment net assets, end of the year	<u>\$ 11,375,205</u>	<u>\$ 22,468,075</u>	<u>\$ 33,843,280</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
Gains (losses)	1,294,632	2,484,732	3,779,364
Total investment return	1,752,969	3,408,573	5,161,542
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	(1,262,103)	(978,835)	(2,240,938)
Total other changes	(677,208)	327,986	(349,222)
Endowment net assets, end of the year	<u>\$ 13,157,958</u>	<u>\$ 27,073,752</u>	<u>\$ 40,231,710</u>

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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 \$149,000 and \$291,429 in 2022 and 2021, respectively, and collected \$139,023 and \$105,589 from repayments of loan principal and interest in 2022 and 2021, respectively. At December 31, 2022, fourteen (14) loans were outstanding totaling \$475,154 and at December 31, 2021 seventeen (17) loans were outstanding totaling \$465,177. 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 through 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 each loan was extended by one year to match the deferral period so the total residual balance and total interest charged on the loans remained the same. Loan repayments resumed in 2021, and all loans were current at December 31, 2022.

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Congregational Development	\$ 64,218	\$ 50,472
Youth and Family	4,213	(141,032)
Outreach and Advocacy	183,858	69,240
Office of the Bishop	163,613	137,187
Custodial	<u>198,173</u>	<u>96,379</u>
	<u>614,075</u>	<u>212,246</u>
Endowments:		
Subject to appropriation and expenditure when a specified event occurs:		
Congregational Development	1,420,334	1,673,124
Youth and Family	1,396,861	2,229,996
Outreach and Advocacy	2,682,022	3,207,790
Office of the Bishop	3,454,789	4,057,719
Custodial	<u>3,151,435</u>	<u>3,643,762</u>
	<u>12,105,441</u>	<u>14,812,391</u>
Subject to endowment spending policy and appropriation:		
Congregational Development	1,264,709	1,497,025
Youth and Family	76,172	89,684
Outreach and Advocacy	2,752,576	3,258,199
Office of the Bishop	3,692,532	4,370,527
Custodial	<u>2,576,645</u>	<u>3,045,926</u>
	<u>10,362,634</u>	<u>12,261,361</u>
Total endowments	<u>22,468,075</u>	<u>27,073,752</u>
Not subject to spending policy or appropriation:		
Revolving loans	50,000	50,000
Beneficial interests in perpetual trusts:		
Office of the Bishop	371,182	476,402
Custodial	107,443	140,104
Land:		
Youth and Family	107,693	107,693
Custodial	<u>104,472</u>	<u>104,472</u>
	<u>740,790</u>	<u>878,671</u>
Total net assets with donor restrictions	<u>\$ 23,822,940</u>	<u>\$ 28,164,669</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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Congregational Development	\$ 87,067	\$ 57,761
Youth and Family	118,603	189,085
Outreach and Advocacy	96,739	174,983
Office of the Bishop	1,681	5,843
Custodial	<u>2,775</u>	<u>0</u>
	<u>306,865</u>	<u>427,672</u>
Distributions from beneficial interests in perpetual trusts:		
Office of the Bishop	<u>17,325</u>	<u>9,241</u>
Restricted-purpose spending-rate distributions and appropriations:		
Congregational Development	77,729	103,595
Youth and Family	787,364	63,479
Outreach and Advocacy	226,070	218,092
Office of the Bishop	265,238	273,465
Custodial	<u>88,854</u>	<u>191,600</u>
	<u>1,445,255</u>	<u>850,231</u>
Total net assets released from donor restrictions	<u>\$ 1,769,445</u>	<u>\$ 1,287,144</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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Designated for operating reserve:		
Administration and Finance	\$ 413,072	\$ 465,177
Custodial	<u>553,408</u>	<u>85,937</u>
	<u>966,480</u>	<u>551,114</u>
Designated for endowment:		
Congregational Development	7,927	9,383
Youth and Family	367,824	373,304
Office of the Bishop	50,958	60,318
Administration and finance	9,536,075	10,957,317
Custodial	<u>1,412,421</u>	<u>1,623,412</u>
	<u>11,375,205</u>	<u>13,023,734</u>

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Invested in property and equipment:		
Youth and Family	1,564,388	849,167
Office of the Bishop	110,993	130,522
Administration and finance	7,344,152	7,426,631
Custodial	<u>184,751</u>	<u>89,463</u>
	<u>9,204,284</u>	<u>8,495,783</u>
Total net assets designated by the Board	<u>\$ 21,545,969</u>	<u>\$ 22,070,631</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 \$55,524 and \$47,866 to this plan in 2022 and 2021, 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 clergy contribution. The Diocese contributed \$89,676 and \$84,245 to this plan in 2022 and 2021, 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 \$747,000 and \$182,000 in excess of the FDIC insured limits at December 31, 2022 and 2021, respectively. The Diocese has not experienced any losses in the accounts.

Note 12. TRANSACTIONS WITH PARISHES AND RELATED ORGANIZATIONS

The Diocese collected approximately \$1,678,590 in 2022 and \$1,658,001 in 2021 from member parishes, missions, and other related entities for apportionment, repayment of revolving loans, expense reimbursements for salaries, and rents. Approximately \$490,715 of total receivables at year-end 2022, and \$466,689 at year-end 2021, represent amounts owed by member parishes and missions for these transactions.

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The Diocese paid \$378,877 in 2022 and \$315,929 in 2021 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 \$145,200 in 2022 and \$132,111 in 2021.

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 63% 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>
2023	\$ 441,510
2024	74,535
2025	44,860
2026 and thereafter	0

Note 14. LINE OF CREDIT

The Diocese obtained a \$1,500,000 revolving line of credit with a bank in 2022, secured by real estate owned by the Diocese. The Diocese also expensed one-time costs of \$31,972 in 2022 to obtain the line of credit. The line requires an annual maintenance fee of \$5,000, subject to waiver by maintaining a certificate of deposit with the lender with a minimum balance of \$150,000. The Diocese is currently maintaining that certificate of deposit. Borrowings under the line bear interest at the bank's prime rate plus 0.250% (7.75% at December 31, 2022). Accrued interest and principal are due at maturity (June 16, 2027). At December 31, 2022, there was no outstanding balance.

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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 investments, revenues, and liquidity as well as the financial status of its affiliates to guard against any negative effects from the corona virus and recent market declines. 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.