THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021
(with summarized financial information for 2020)

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

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THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

ROSTER OF OFFICIALS

For the Year Ended June 30, 2021

Office of the Bishop

Most Reverend David P. Talley, Bishop
Very Reverend James M. Clark, Chancellor
Mrs. Anna Lynn, Vice-chancellor

Finance Council

Joe Evangelisti, Council Chair
John Bossier
Christy Cornell
Jim McMahon
Tom Scherer
Sam King
Greg Barnes
Jonathan Frase
Ross Harris
Ali Sinkular

Management

David Zaleski, Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

His Excellency The Most Reverend David P. Talley
The Roman Catholic Diocese of Memphis in Tennessee

We have audited the accompanying consolidated financial statements of the Roman Catholic Diocese of Memphis in Tennessee (a nonprofit organization) (the "Diocese"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As described more fully in Note 1, the Diocese has elected not to provide for depreciation of exhaustible property and equipment in accordance with accounting principles generally accepted in the United States of America. Additionally, the Diocese has not recorded the cost of certain land, as the cost of such land is not readily determinable. Certain disposals, retirements, and the related gains and losses have also not been recorded. The effect of these omissions on the accompanying consolidated financial statements has not been reasonably determined.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of June 30, 2021, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules of financial position and activities, and the consolidated schedule of parish intercompany bank indebtedness, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. In addition, the schedule of expenditures of state awards, as required by the Tennessee Comptroller of the Treasury, is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The roster of officials has not been subjected to auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2022, on our consideration of the Diocese's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Diocese's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Diocese's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Roman Catholic Diocese of Memphis in Tennessee's 2020 financial statements, and we expressed a qualified audit opinion on those audited consolidated financial statements in our report dated December 18, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Watkins Uiberall, PLLC

Memphis, Tennessee
March 24, 2022

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2021
(with summarized financial information at June 30, 2020)

Assets	2021	2020
Cash and cash equivalents	$ 23,242,630	$ 20,578,562
Receivables		
Unconditional promises to give, net	1,417,327	652,493
Tuition, net	87,356	104,733
Related party	56,906	1,846,639
Other	3,296,244	410,182
Prepaid expenses	138,665	71,838
Investments	58,941,406	47,993,014
Beneficial interest in trusts	7,353,263	6,935,021
Property and equipment	267,848,424	265,455,761
Pension asset	5,532,927	-
Right-of-use assets	630,556	1,233,398
Other assets	432,139	314,723
Total assets	$ 368,977,843	$ 345,596,364

Liabilities and Net Assets	2021	2020
Accounts payable and accrued expenses	$ 4,369,276	$ 3,926,080
Collections held for transmittal	305,084	337,062
Deferred revenue	3,267,848	3,202,585
Lease liabilities	671,205	1,109,854
Due to annuitants	249,826	269,862
Due to beneficiaries	244,780	239,305
Minimum pension liability	-	26,931,014
Post-retirement benefit obligation	6,343,844	7,032,184
Related party payables	825,782	681,035
Derivative financial instruments	2,233,549	3,247,594
Long-term debt	22,277,856	26,350,879
Total liabilities	40,789,050	73,327,454
Net Assets		
Without Donor Restrictions		
Investment in property and equipment, net of debt	245,570,568	239,104,882
Diocese-designated	10,139,380	6,767,797
Undesignated	41,233,602	(250,503)
	296,943,550	245,622,176
With Donor Restrictions		
Perpetual in nature	6,260,605	6,002,997
Purpose restrictions	22,350,940	18,289,793
Time-restricted for future periods	2,633,698	2,353,944
	31,245,243	26,646,734
Total net assets	328,188,793	272,268,910
Total liabilities and net assets	$ 368,977,843	$ 345,596,364

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

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF ACTIVITIES

June 30, 2021
(with summarized financial information at June 30, 2020)

	Without Donor Restrictions	With Donor Restrictions	Total 2021	Total 2020
Operating Support and Revenues				
Contributions and Grants				
General contributions	$ 26,562,132	$ 3,848,703	$ 30,410,835	$ 27,346,826
Annual Catholic Appeal	-	2,409,399	2,409,399	2,153,898
Grant revenue	339,376	-	339,376	236,687
Estate donations	-	3,419,038	3,419,038	510,973
Government grants	1,846,260	-	1,846,260	-
Missions and societies	109,500	-	109,500	130,077
Education				
Tuition and fees, net	22,164,889	-	22,164,889	25,258,494
Other education revenue	3,329,460	-	3,329,460	3,311,677
Social and fundraising	1,614,883	-	1,614,883	1,349,451
Auxiliary services	525,811	-	525,811	587,532
Cemeteries	737,997	-	737,997	419,010
Other income	3,735,076	-	3,735,076	3,332,063
Net assets released from restrictions	7,428,254	(7,428,254)	-	-
Total operating support and revenues	68,393,638	2,248,886	70,642,524	64,636,688
Operating Expenses				
Program Services				
Cemeteries	468,433	-	468,433	434,198
Ministry	18,682,920	-	18,682,920	18,729,474
Education	25,223,882	-	25,223,882	27,539,469
Total program services	44,375,235	-	44,375,235	46,703,141
General and administration	14,894,606	-	14,894,606	15,204,387
Fundraising	632,681	-	632,681	365,522
Total operating expenses	59,902,522	-	59,902,522	62,273,050
Income (loss) from operations	8,491,116	2,248,886	10,740,002	2,363,638
Nonoperating Gains (Losses)				
Forgiveness of Paycheck Protection Program loans	4,096,096	-	4,096,096	-
Change in value of beneficial interest in trusts	919,023	-	919,023	(355,955)
Net investment return	6,427,227	2,452,923	8,880,150	2,734,575
Change in fair value of derivatives	1,014,045	-	1,014,045	(1,012,208)
Minimum pension liability adjustment	30,513,941	-	30,513,941	(6,627,416)
Postretirement benefits adjustment	688,340	-	688,340	(1,401,004)
Loss on uncollectible promises to give	-	(103,300)	(103,300)	(188,206)
Gain (loss) on sale of assets	(828,414)	-	(828,414)	-
Total nonoperating gains (losses)	42,830,258	2,349,623	45,179,881	(6,850,214)
Change in net assets	51,321,374	4,598,509	55,919,883	(4,486,576)
Net assets, beginning of year	245,622,176	26,646,734	272,268,910	276,755,486
Net assets, end of year	$ 296,943,550	$ 31,245,243	$ 328,188,793	$ 272,268,910

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

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2021
(with summarized financial information for the year ended June 30, 2020)

	Program Services				Supporting Services		Totals	
	Cemeteries	Ministry	Education	Total Program Services	General & Administrative	Fundraising	2021	2020
Salaries and benefits	$ 138,799	$ 7,166,487	$ 17,724,105	$ 25,029,391	$ 10,366,331	$ -	$ 35,395,722	$ 37,889,529
Operations	94,597	7,358,393	2,873,620	10,326,610	3,228,642	632,681	14,187,933	15,872,590
Occupancy costs	233,831	3,638,973	1,516,313	5,389,117	950,462	-	6,339,579	6,453,327
Technology	1,206	194,446	2,351,378	2,547,030	149,186	-	2,696,216	840,631
Interest	-	324,621	758,466	1,083,087	199,985	-	1,283,072	1,216,973
Total expenses	$ 468,433	$ 18,682,920	$ 25,223,882	$ 44,375,235	$ 14,894,606	$ 632,681	$ 59,902,522	$ 62,273,050

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

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2021
(with summarized financial information for the year ended June 30, 2020)

	2021	2020
Cash Flows From Operating Activities:		
Change in net assets	$ 55,919,883	$ (4,486,576)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Change in value of beneficial interest in trusts	(919,023)	355,955
Change in fair value of derivatives	(1,014,045)	1,012,208
Realized and unrealized (gains) and losses on investments	(8,443,061)	(1,986,735)
Minimum pension liability adjustment	(30,513,941)	6,627,416
Post-retirement benefits adjustment	(688,340)	1,401,004
Loss on uncollectible promises to give	103,300	188,206
(Gain) loss on sale of property and equipment	828,414	-
Amortization of right-of-use-assets	679,226	739,054
Forgiveness of Paycheck Protection Program loans	(4,096,096)	-
Contributions received for capital expenditures	(3,578,585)	-
Contributions restricted for endowment	(257,608)	-
Changes in Operating Assets and Liabilities:		
Receivables	(3,017,182)	65,413
Prepaid expenses	(66,827)	38,790
Other assets	(117,416)	(72,939)
Accounts payable and accrued expenses	1,020,274	(1,349,982)
Collections held for transmittal	(31,978)	99,122
Deferred revenue	65,263	(884,116)
Related party payables	35,114	(440)
Net cash provided by operating activities	5,907,372	1,746,380
Cash Flows From Investing Activities:		
Purchases of investments	(9,281,179)	(2,297,930)
Proceeds from sales of investments	7,389,707	1,882,168
Proceeds from sale of property and equipment	1,448,890	-
Purchases of property and equipment	(5,183,045)	(2,172,871)
Payments to annuitants and beneficiaries	(18,006)	(22,000)
Net cash used for investing activities	(5,643,633)	(2,610,633)
Cash Flows From Financing Activities:		
Proceeds from contributions received for capital expenditures	2,698,681	131,614
Contributions restricted for endowment	257,608	-
Principal payments on lease liabilities	(515,033)	(739,107)
Principal payments on long-term debt	(1,571,115)	(1,471,640)
Proceeds from issuance of long-term debt	1,530,188	6,775,408
Net cash provided by financing activities	2,400,329	4,696,275
Net increase in cash and cash equivalents	2,664,068	3,832,022
Cash and cash equivalents, beginning of year	20,578,562	16,746,540
Cash and cash equivalents, end of year	$ 23,242,630	$ 20,578,562

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

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the Year Ended June 30, 2021
(with summarized financial information for the year ended June 30, 2020)

	2021	2020
Supplemental Cash Flow Information:		
Cash paid during the year for interest	$ 1,285,828	$ 1,230,882
Noncash Investing and Financing Activities:		
Increase (decrease) in related party receivables due to change in their respective pension liabilities	$ (1,950,000)	$ 325,000
Increase in related party payables due to change in their investments	$ 124,299	$ 31,039
Noncash transfer to investments from beneficial interest in trust	$ 489,560	$ -
Property and equipment purchases included in accounts payable	$ 577,078	$ -
Property and equipment purchases through issuance of notes payable	$ 64,000	$ -
Lease liabilities arising from obtaining right-of-use assets	$ 76,384	$ 744,558

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

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Activities

The Roman Catholic Diocese of Memphis in Tennessee (the "Diocese") is a non-profit religious organization consisting of parishes and missions, grade schools, high schools, cemeteries, and the administrative offices. Title to Diocesan property vests in the Bishop and his successors; similarly, Diocesan obligations are those of the Bishop and his successors.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation

The accompanying consolidated financial statements include the financial position, activities and cash flows of all parishes and missions, grade schools, high schools, cemeteries, and the administrative offices, which operate under Diocesan management and are fiscally responsible to the Bishop. All significant inter-organizational balances and transactions have been eliminated to the extent respective equity of those organizations is combined for presentation purposes. Various religious orders, lay societies, and religious organizations that operate within the Diocese, and are not fiscally responsible to the Bishop, have not been included in the accompanying consolidated financial statements.

Comparative Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but only by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the consolidated financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Diocese receives support from a variety of sources including contributions from individuals, estates, missions, and societies. Contributions are recognized when cash, securities or other assets, or an unconditional promise to give 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 condition on which they depend have been met. Contributions derived from the Annual Catholic Appeal are used primarily for seminarian education, ministries of the Diocese and subsidies for various funded agencies. These contributions are restricted for use during the following fiscal year. Accordingly, all contributions for the Annual Catholic Appeal have been recognized as contributions with donor restrictions and will be released from restriction in the following fiscal year in order to support operations for that year.

The Diocese recognizes revenue from student tuition and fees during the year in which the related services are provided to students. The performance obligation of delivering educational services is simultaneously received and consumed by the students; therefore, the revenue is recognized ratably over the course of the academic year. Any fees received in advance of the applicable school year are reported as deferred revenue in the consolidated statement of financial position. Tuition revenue is reported net of discounts and financial aid awarded to students. Total discounts and financial aid awarded for the years ended June 30, 2021 and 2020 were $2,350,096 and $2,860,631, respectively.

Revenue from cemetery services is recognized when the services are performed, and in the case of lot sales, upon transfer of the lot.

Credit Risks

The Diocese's credit risks primarily relate to cash and cash equivalents, receivables, investments, and derivatives. The Diocese maintains cash on deposit at local banks in excess of federally insured limits. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of $250,000. The Diocese has minimized risk by depositing cash in banks with high credit standings. The Diocese has not experienced any losses of such funds, and management believes the Diocese is not exposed to significant risk on cash.

Investments, which are not insured by the FDIC, are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least possible that changes in the values of investments will occur in the near term and such changes could materially affect the Diocese's financial position and changes in its net assets. See Note 8 for credit risks related to derivatives.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Diocese considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. All certificates of deposit are considered to be cash equivalents since interest penalties for early withdrawal are insignificant. The Diocese has excluded cash and cash equivalents held in investment accounts.

Receivables

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Promises that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates, and amortization of the discounts is included in contribution revenue. Unconditional promises to give are stated at the amount management expects to collect. Management provides for an allowance based on historical collection rates and the evaluation of past due promises to give.

Tuition and other receivables are stated at the amount management expects to collect from outstanding balances. Management monitors outstanding balances and provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current status of individual accounts. The allowance for uncollectible accounts for tuition and other receivables was $428,745 and $509,934 at June 30, 2021 and 2020, respectively. Balances that are still outstanding after a reasonable period of time has elapsed are generally written off through a charge to the valuation allowance and a credit to the appropriate receivable.

Investments

Purchased investments are carried at their fair values in the consolidated statements of financial position. Donated investments are recorded at fair value at the date of donation. Net investment return (loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less any related investment advisory fees.

Property and Equipment

The land for thirty-two of the forty-eight parishes and missions, as well as six other properties owned by the Diocese, has been excluded from the accompanying consolidated financial statements. The cost of such land is not readily determinable, since most of it was developed more than fifty years ago. Current zoning regulations indicate that this land is restricted for a single purpose and, accordingly, has no determinable commercial resale value. Due to the absence of certain records, most of the buildings and equipment recorded upon the founding of the Diocese in 1971 are stated at insurance appraisal value at that time.

Other property and equipment purchases in excess of $5,000 are capitalized and stated at cost if purchased or constructed, or the estimated fair value on the date received if donated. The Diocese does not record depreciation expense for property and equipment.

Leases

The Diocese follows the provisions of Topic 842 of the FASB Accounting Standards Codification. Topic 842 requires the recognition of right-of-use (“ROU”) assets and offsetting lease liabilities for substantially all leases. The Diocese determines if an arrangement is a lease at inception. Finance-type leases are included in ROU assets and lease liabilities on the consolidated statement of financial position. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Diocese’s leases do not provide an implicit rate, the Diocese uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Derivatives

Derivatives are recorded as either assets or liabilities in the consolidated statement of financial position at fair market value. The interest rate swap agreements described in Note 8 are derivative instruments whose fair values are based on the expected cash flows over the lives of the trades.

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 restrictions. The Diocese has designated, from net assets without donor restrictions, net assets for endowment scholarship funds and other purposes as described in Note 14.

Net Assets With Donor Restrictions – Net assets subject to donor-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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions are reported in the consolidated statement of activities as net assets released from restriction.

Retirement Plans

The Diocese follows the provisions of the Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans Topic of the FASB Accounting Standards Codification. This topic requires plan sponsors to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through a change in net assets, apart from expenses, to the extent those changes are not included in the net periodic costs.

Functional Expenses

The costs of program and supporting services have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Expenses that are identified with a specific program or support service are charged directly to the appropriate function. Other shared costs have been allocated among the programs and supporting services benefited based on management's estimate of the relative effort expended for the related functions.

Advertising Costs

Advertising costs are expensed as incurred and totaled $89,532 and $125,996 for the years ended June 30, 2021 and 2020, respectively.

Income Taxes

No provision for federal income taxes is required since the Diocese is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined to be an Organization that is not a private foundation. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements.

Donated Services

A substantial number of volunteers and contributors donated significant amounts of their time to the Diocese in promoting and assisting with various special fundraising events and other programs. No amounts have been included in the accompanying consolidated financial statements to reflect the value of such donated services since the criteria for recognition has not been met.

Recent Accounting Pronouncements

In January 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2021-01, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU provides optional guidance to ease the potential burden in accounting for reference rate reform on financial reporting in response to the risk of cessation of the London Interbank Offered Rate ("LIBOR"). This amendment provides for optional expedients and exceptions for applying generally accepted accounting principles to contracts and hedging relationships that are affected by LIBOR and other reference rates. Entities are permitted to apply the amendments to all contracts, cash flow and net investment hedge relationships that exist as of March 12, 2020. The relief provided in this ASU is only available for a limited time, generally through December 31, 2022. The Diocese's debt agreements that utilize LIBOR have not yet discontinued the use of LIBOR and, therefore, this ASU is not yet effective. To the extent the Diocese's debt agreements change to another accepted rate, the relief in this ASU will be utilized.

In September 2020, the FASB issued ASU No. 2020-07 – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which enhances presentation and disclosure requirements for not-for-profit entities that receive contributed nonfinancial assets. The main provisions require entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and to disclose additional details including a disaggregation of the various types of contributed nonfinancial assets and whether those assets were monetized or utilized, among others. The amendments will be effective for fiscal years beginning after June 15, 2021. Early adoption is permitted. The Diocese is currently evaluating the effect that implementation of the new standard will have on its financial statements.

Adoption of New Accounting Standard

The Diocese has adopted ASU No. 2018-13, *Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. The standard was implemented on a retrospective basis and resulted in the removal of the disclosure of a rollforward for Level 3 fair value measurements.

Date of Management's Review

The Diocese evaluated its June 30, 2021 consolidated financial statements for subsequent events through March 24, 2022, the date the consolidated financial statements were available to be issued. Other than the events disclosed in Notes 9 and 21, the Diocese is not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor purpose restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2021	2020
Cash and cash equivalents	$ 23,242,630	$ 20,578,562
Net promises to give due within one year	636,127	596,944
Tuition receivable	87,356	104,733
Other receivables	3,296,244	410,182
Investments		
Non-designated	38,031,892	32,734,861
Diocese-designated	10,139,380	6,767,797
Endowments	10,770,134	8,490,356
Total investments	58,941,406	47,993,014
	86,203,763	69,683,435
Less: Diocese-designated and endowment amounts	(20,909,514)	(15,258,153)
	$ 65,294,249	$ 54,425,282

The Diocese's goal is generally to maintain financial assets to meet 6 months of operating expenses (currently approximately $30 million). As part of its liquidity plan, the Diocese's liquidity management focuses on investing its cash balances in short and longer-term investments to balance its needs between the short-term liquidity needs of its operations versus the long-term needs of future operations including its Priest and Lay retirement funds. These investments are managed by the investment committee of the Diocese, with additional oversight from the Diocesan Finance Council. Additional liquidity is available by drawing down on its lines of credit with First Horizon Bank, as further discussed in Note 7.

NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following at June 30:

	2021	2020
Annual Catholic Appeal	$ 578,079	$ 700,254
Holy Cross Church, Paris	25,855	76,123
St. Philip	779,941	-
Cathedral of Immaculate Conception	322,500	-
	$ 1,706,375	$ 776,377

A summary of expected collections of unconditional promises to give, net of present value discounts and allowances, at June 30 are as follows:

	2021	2020
Due within one year	$ 925,175	$ 720,828
Due within one to five years	781,200	55,549
	1,706,375	776,377
Less allowance for uncollectible promises	(225,680)	(119,031)
Less unamortized discount	(63,368)	(4,853)
Total net unconditional promises to give	$ 1,417,327	$ 652,493

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 5%.

NOTE 4 – BENEFICIAL INTEREST IN TRUSTS

The Diocese is the designated beneficiary for several irrevocable charitable remainder trusts. The Diocese is the trustee for the Powell trust; the others are administered by third-party trustees. The agreement for the Powell trust requires quarterly payments to the lead beneficiaries equal to 7% of the fair value of the trust assets. The difference between the fair value of the assets received and the present value of the obligation to beneficiaries over their estimated life expectancies is recognized as contribution revenue in the year the agreement is signed. The fair value of the trust assets has been included in the consolidated statement of financial position, and a corresponding liability has been recorded to reflect the present value of required lifetime payments to the named beneficiaries using the IRS discount rate of 1.2% and 0.6% for the years ended June 30, 2021 and 2020, respectively.

The trust agreements for which assets are held and administered by other trustees are similar. Upon the death of the lead beneficiaries, the Diocese will receive a percentage of the remaining trust assets, ranging from 37.5% to 75%. The estimated amount to be collected upon the death of the lead beneficiaries is recorded in the consolidated statement of financial position and is based on the fair value of the trust assets and the respective life expectancies, discounted to present value at the IRS discount rate of 1.2% and 0.6% for the years ended June 30, 2021 and 2020, respectively. Realized and unrealized gains and losses from market value fluctuations of the trust assets and amortization of discounts and changes in life expectancy assumptions are reported in the change in fair value of beneficial interest in trusts in the consolidated statement of activities.

The Diocese is the sole beneficiary of an irrevocable trust for priest retirement housing. The trust terms stipulate periodic distributions as determined by the trustee, which are restricted for the Villa Vianney priest retirement community or other residences for retired priests of the Diocese. The trust is intended to continue indefinitely as there is no termination date specified. The Diocese's beneficial interest in this trust is carried at fair value in the consolidated statement of financial position based on the fair value of the underlying trust assets.

The Diocese is the sole beneficiary of an irrevocable trust. The trust terms stipulate periodic distributions of the net income of the trust, without restriction, to Holy Angels Catholic Church in Dyersburg, Tennessee. Distributions of the principal of the Trust to Holy Angels Catholic Church are restricted for the construction of a new sanctuary. The trust is intended to continue indefinitely as there is no termination date specified. The Diocese's beneficial interest in this trust is carried at fair value in the consolidated statement of financial position based on the fair value of the underlying trust assets.

Beneficial interest in trusts consisted of the following at June 30:

	2021	2020
Powell Trust	$ -	$ 396,368
Gauthreaux Trust	225,528	200,046
Kavanagh Trust	-	182,980
Lattus Trust	667,775	644,962
Carmer Trust	5,164,785	4,309,080
Jarboe Trust	1,295,175	1,201,585
	$ 7,353,263	$ 6,935,021

NOTE 5 – FAIR VALUE MEASUREMENTS

The Diocese reports certain assets at fair value in the consolidated 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 most advantageous market at the measurement date. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, 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 based on market data obtained from sources independent of the Diocese. Unobservable inputs are inputs that reflect the Diocese'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 – Unadjusted quoted prices in active markets for identical assets or liabilities the Diocese has the ability to access.

- Level 2 – Inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or other inputs that can be corroborated by observable market data.

- Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020. See Notes 4 and 11 for valuation methods used for beneficial interest in trusts, due to beneficiaries and charitable gift annuities.

Common stock and mutual funds: Valued at the closing price reported on the active market on which the individual securities are traded.

Money market funds: Valued based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Limited partnerships: Management uses significant unobservable inputs including information from fund managers and general partners. The fund managers value these investments using the practical expedient based upon the Diocese's proportional share of the net asset values ("NAV") of the underlying securities or as reported by the underlying entities. Since these investments are measured at NAV, there is no requirement to categorize them within the fair value hierarchy. Rather, they are presented in a separate column labeled "Investments Measured at Net Asset Value" in order to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position. Management reviews and evaluates the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair values. Because of the inherent uncertainty of the valuation of these assets, the values reported in these financial statements may differ significantly from the values that would have been used had a ready market for the investments existed.

The following tables set forth by level, within the fair value hierarchy, the Diocese's assets and liabilities at fair value at June 30, 2021 and 2020:

	June 30, 2021				
	Fair Value Measurements				
	Level 1	Level 2	Level 3	Investments Measured at Net Asset Value	Total
Investments					
Mutual Funds					
Equity	$ 9,478,544	$ -	$ -	$ -	$ 9,478,544
Fixed income	19,197,265	-	-	-	19,197,265
Total mutual funds	28,675,809	-	-	-	28,675,809
Common stocks	12,103,108	-	-	-	12,103,108
Limited Partnerships					
Strategic hedge funds	-	-	-	6,771,296	6,771,296
Conservative hedge fund	-	-	-	4,464,156	4,464,156
Total limited partnerships	-	-	-	11,235,452	11,235,452
Money market funds	-	6,927,037	-	-	6,927,037
Total investments	40,778,917	6,927,037	-	11,235,452	58,941,406
Beneficial interest in trusts	-	-	7,353,263	-	7,353,263
Total assets at fair value	$ 40,778,917	$ 6,927,037	$ 7,353,263	$ 11,235,452	$ 66,294,669
Liabilities					
Due to annuitants	$ -	$ -	$ 249,826	$ -	$ 249,826
Due to beneficiaries	-	-	244,780	-	244,780
Derivative financial instruments	-	2,233,549	-	-	2,233,549
Total liabilities at fair value	$ -	$ 2,233,549	$ 494,606	$ -	$ 2,728,155

	June 30, 2020				
	Fair Value Measurements				
	Level 1	Level 2	Level 3	Investments Measured at Net Asset	Total
Investments					
Mutual Funds					
Equity	$ 10,866,437	$ -	$ -	$ -	$ 10,866,437
Fixed income	20,286,457	-	-	-	20,286,457
Total mutual funds	31,152,894	-	-	-	31,152,894
Common Stocks	4,158,468	-	-	-	4,158,468
Limited Partnerships					
Strategic hedge fund	-	-	-	4,344,451	4,344,451
Conservative hedge fund	-	-	-	3,103,347	3,103,347
Total limited partnerships	-	-	-	7,447,798	7,447,798
Money market funds	-	5,233,854	-	-	5,233,854
Total investments	35,311,362	5,233,854	-	7,447,798	47,993,014
Beneficial interest in trusts	-	-	6,935,021	-	6,935,021
Total assets at fair value	$ 35,311,362	$ 5,233,854	$ 6,935,021	$ 7,447,798	$ 54,928,035
Liabilities					
Due to annuitants	$ -	$ -	$ 269,862	$ -	$ 269,862
Due to beneficiaries	-	-	239,305	-	239,305
Derivative financial instruments	-	3,247,594	-	-	3,247,594
Total liabilities at fair value	$ -	$ 3,247,594	$ 509,167	$ -	$ 3,756,761

The Diocese serves as custodian for the investments for several religious organizations that operate within the Diocese and are not consolidated. Investments for these organizations are offset by liabilities included in the consolidated statement of financial position as related party payables. The amount included in investments and related party payables at June 30, 2021 and 2020 was $780,334 and $656,035, respectively.

The table below presents additional information regarding investments whose fair value is estimated using the practical expedient of reported NAV at June 30, 2021 and 2020:

	Conservative Hedge Fund (1)	Strategic Hedge Funds (2)
Liquidity		
Initial lock-up	1 year	0 - 2 years
Redemption fees	Up to 5%	0 - 3%
Redemption frequency	Quarterly/semi-annual	Quarterly/semi-annual
Notice	95 days	90 - 105 days
Gate	10%	None
Fair value at June 30, 2021	$ 4,464,156	$ 6,771,296
Fair value at June 30, 2020	$ 3,103,347	$ 4,344,451

(1) *Conservative hedge fund:* This is a fund of funds that seeks consistent returns by primarily investing in funds that generally engage in more non-directional strategies such as Equity Market Neutral and Fixed Income Arbitrage.

(2) *Strategic hedge funds*: These are funds of funds that seek superior returns by primarily investing in funds that engage in more opportunistic strategies such as Emerging Markets, Sector specific, Equity Hedge, credit-related investments, and structured products.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2021			
	Cost			
	Land and Improvements	Buildings and Equipment	1971 Appraisal	Total
Administrative offices	$ 1,135,494	$ 17,163,197	$ 2,355,087	$ 20,653,778
Parish churches and rectories	5,244,654	162,790,435	20,609,467	188,644,556
Parish and Diocesan schools	4,483,263	45,708,282	4,353,290	54,544,835
Cemeteries and other Diocesan institutions	10,875	3,245,907	748,473	4,005,255
	$ 10,874,286	$ 228,907,821	$ 28,066,317	$ 267,848,424

	2020			
	Cost			
	Land and Improvements	Buildings and Equipment	1971 Appraisal	Total
Administrative offices	$ 1,135,494	$ 17,080,866	$ 2,355,087	$ 20,571,447
Parish churches and rectories	4,923,613	156,613,172	21,411,339	182,948,124
Parish and Diocesan schools	4,475,145	49,102,500	4,353,290	57,930,935
Cemeteries and other Diocesan institutions	10,875	3,245,907	748,473	4,005,255
	$ 10,545,127	$ 226,042,445	$ 28,868,189	$ 265,455,761

NOTE 7 – LINES OF CREDIT

The Diocese has a $7,500,000 line of credit with a bank at a variable interest rate of 30-day LIBOR plus 225 basis points, currently 2.34%. There was no outstanding balance at June 30, 2021 and 2020. The line is secured by a negative pledge agreement and matures on April 20, 2022.

The Diocese has a $3,000,000 line of credit with a bank at a variable interest rate of 30-day LIBOR plus 225 basis points, currently 2.34%. There was no outstanding balance at June 30, 2021 and 2020. This line is secured by negative pledge agreements and matures on January 31, 2022.

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS

The Diocese has entered into various interest rate swap contracts under which the Diocese pays a fixed rate of interest times a notional principal amount and receives in return an amount equal to a specified variable rate of interest times a notional principal amount. No other cash payments are made unless the contracts are terminated prior to maturity, in which case the amount paid or received in settlement is established by an agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contracts.

The interest rate swaps are considered to be economic hedges against the change in the amount of future cash flows associated with the Diocese's bond and bank loan interest payments (see Note 9). Outstanding interest rate swap contracts at June 30, 2021 and 2020 are summarized as follows:

Swap Inception	Notional Principal at 6/30/2021	Fixed Rate	Variable Rate	Termination Date	2021 Asset/ (Liability)	2020 Asset/ (Liability)
7/1/2003	$ 6,900,000	3.61%	% of 30-day LIBOR	5/1/2033	$ (1,239,056)	$ (1,762,410)
9/4/2013	$ 9,671,337	5.09%	30-day LIBOR +1.65	9/1/2025	(994,493)	(1,485,184)
					$ (2,233,549)	$ (3,247,594)

In the event that the counterparty fails to perform under the contract, the Diocese bears the risk that payments due to the Diocese may not be collected. The amounts recorded for all swap contracts have been combined as a net liability in the accompanying consolidated statement of financial position. The changes in fair value of the swaps are included in the consolidated statement of activities.

NOTE 9 – LONG-TERM DEBT

Bonds

In May 2003, the Diocese was involved in the issuance by the Health, Educational and Housing Facility Board of the County of Shelby, Tennessee of $25,170,000 of variable rate demand revenue bonds for the St. Benedict at Auburndale High School Project. In July 2010, the 2003 variable rate demand revenue bonds were redeemed through the issuance of Series 2010 Revenue Refunding Bonds. In September 2013, the Series 2010 Revenue Refunding Bonds were redeemed through the issuance of Series 2013A and Series 2013B Revenue Refunding Bonds. Pursuant to the bond issuance, the Diocese entered into a loan agreement with a bank for $20,000,000 (two $10,000,000 tranches) at a fixed interest rate of 3.55% ("bank-qualified loan"). The agreement contains a mandatory prepayment clause at the election of the bank. Not later than November 30, 2022, the bank shall give written notice to the Diocese as to whether it will continue to own the Series 2013A and Series 2013B bonds upon the same or different terms after July 1, 2023, or the bank could elect to require prepayment in full of the bonds on July 1, 2023. If no prepayment is required, the bonds will mature on May 1, 2033.

Bank Note

In September 2009, the Diocese entered into a loan agreement with a bank for $11,000,000. In September 2013, the Diocese refinanced the note in the amount of $13,336,667 at a variable rate of interest, which included additional indebtedness of $4,000,000 for the purpose of paying down the line of credit. The specific terms of the loan agreement are presented in the following table. In connection with the refinancing, the Diocese entered into an interest rate swap agreement at the notional amount of $13,039,514, effectively fixing the interest rate at approximately 5.09%. The swap agreement terminates on September 1, 2025. See Note 8 for additional information.

The Diocese is subject to various restrictive debt covenant ratios for the bank loan agreements. At June 30, 2021, the Diocese was not aware of any non-compliance with such covenants.

Paycheck Protection Program

During 2020, the Diocese obtained unsecured loans totaling $6,739,405 through the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act. The loans bear interest at 1.00% per annum and are payable in monthly installments of principal and interest over two years. Payments are deferred until ten months after the end of the loan forgiveness covered period of 8 weeks. The loans and accrued interest are forgivable as long as the Diocese uses the loan proceeds for eligible purposes, including covered payroll costs, rent, and utilities, and maintains its payroll levels. During 2021, the Diocese was notified that the SBA had fully forgiven loans totaling $4,096,096, and the forgiveness is recorded as a gain in the statement of activities. Subsequent to June 30, 2021, the remaining first round PPP loans totaling $2,608,357 were forgiven by the SBA.

During 2021, the Diocese obtained a second round of PPP loans totaling $1,355,869, which bear interest at a fixed rate of 1.0% per annum, with the first ten months of principal and interest deferred, are payable over five years, and are unsecured and guaranteed by the SBA. The second round PPP loans are also forgivable to the extent the proceeds are used for qualifying expenditures such as payroll costs, covered rent and mortgage obligations, and covered utility payments.

Outstanding long-term debt at June 30, 2021 and 2020 is summarized as follows:

	2021	2020
Bank qualified loan, Tranche A, payable in monthly installments of $61,313 at 3.55% interest, matures on May 1, 2033, secured by a deed of trust on real estate.	$ 6,628,994	$ 7,120,271
Bank qualified loan, Tranche B, payable in monthly installments of $61,509 at 3.55% interest, matures on May 1, 2033, secured by a deed of trust on real estate.	6,665,782	7,158,113
Bank note, principal payments ranging from $33,017 to $57,475 due monthly plus interest at a variable rate of 1.65% over one month LIBOR, currently 1.82%, matures September 1, 2025, secured by substantially all assets of the Diocese.	4,741,428	5,298,294
St. Brigid Church unsecured note payable, payable in three interest only payments then monthly installments of principal and interest of $663, including interest at 2.00%, through January 10, 2025.	27,472	34,796
Incarnation Church note payable, payable in 84 monthly installments of principal and interest of $1,129, including interest at 11.99%, through March 15, 2027, secured by an organ.	48,725	-
St. Michael's Church note payable, payable in 59 monthly installments of principal and interest of $1,300, including interest at 4.00% with a balloon payment on July 20, 2025, secured by a deed of trust.	166,278	-
Paycheck Protection Program loans - round 1	2,643,308	6,739,405
Paycheck Protection Program loans - round 2	1,355,869	-
	$ 22,277,856	$ 26,350,879

Principal maturities of long-term debt are as follows for the years ending June 30:

2022	$	4,543,722
2023		1,968,955
2024		2,040,529
2025		2,238,518
2026		3,655,530
Thereafter		7,830,602
	$	22,277,856

Interest expense on long-term debt totaled $1,202,239 and $1,109,967 for the years ended June 30, 2021 and 2020, respectively.

NOTE 10 – FINANCE-TYPE LEASES

The Diocese leases copiers, computer equipment, and postage machines under finance-type leases. Lease liabilities are calculated as the present value of lease payments not yet paid, using a discount rate equal to the Diocese's incremental borrowing rate of 6%. Right-of-use assets are amortized on a straight-line basis over the lease term, or over their useful lives, if shorter. At June 30, 2021 and 2020, the leases have a weighted-average remaining term of 1.8 years and 2.1 years, respectively.

Future maturities of lease liabilities are as follows for the years ending June 30:

2022	$	290,512
2023		227,946
2024		169,828
2025		47,529
2026		9,031
Thereafter		4,464
Less amount representing interest		(78,105)
	$	671,205

The components of lease expense were as follows for the years ended June 30:

	2021		2020	
Finance-Type Lease Costs:				
Amortization of right-of-use assets	$	679,226	$	739,054
Interest on lease liabilities		80,833		107,006
	$	760,059	$	846,060

NOTE 11 – CHARITABLE GIFT ANNUITIES

The Diocese is a party to charitable gift annuity arrangements under which donors make gifts to the Diocese and, in turn, receive income payments for the remainder of their lives. The expected future cash flows to be paid to the annuitants have been discounted to present values using a rate of 5.0% at June 30, 2021 and 2020. Related assets are recognized at fair value, with no contributions received in 2021 or 2020.

NOTE 12 – ENDOWMENT FUNDS

The Diocese maintains endowment funds which consist of donor-restricted net assets intended to support the various ministries of the Diocese in perpetuity. To the extent allowed by donor stipulations, the spending policy of the Diocese is to annually spend up to 5% of the five-year rolling average of the endowment fair values. In the event the fair values of the endowment assets fall below the original restricted gift amounts, the Diocese will make no appropriations until the original gift amounts are restored.

Interpretation of Relevant Law

The Diocese is subject to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), which governs the State of Tennessee. The Diocese has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Diocese retains in perpetuity the following:

(1) The original value of gifts donated to the endowment;
(2) Subsequent gifts to the endowment; and
(3) Accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument.

Donor-restricted amounts not retained in perpetuity are classified as donor-restricted until those amounts are appropriated for expenditure by the Finance Council in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Diocese considers the following factors in making decisions related to appropriations for expenditures or accumulations of donor-restricted endowment funds:

(1) The duration and preservation of the various funds;
(2) The purposes of the donor-restricted endowment funds;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the Diocese; and
(7) The Diocese’s investment policies.

Endowment Investment Policy

The Diocese follows an investment policy of placing endowments in its long-term investment portfolio because of their intended long-term duration. The overall objective of this portfolio is to preserve capital and achieve, at a minimum, a total return, net of investment management fees, which is sufficient to offset normal inflation plus reasonable spending.

The asset allocation targets are as follows:

Equities	60.0%
Fixed income	17.5%
Alternative/hedge fund investments	22.5%
	100.0%

The following tables set forth the net asset composition of the endowment funds at June 30:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Gadomski Scholarship Trust	$ -	$ 1,096,322	$ 1,096,322
Forsdick Scholarship Trust	-	3,745,995	3,745,995
Canale Scholarship Trust	-	815,121	815,121
Walsh Trust	-	1,566,683	1,566,683
Hearst Scholarship Trust	-	179,651	179,651
Todd Education Trust	-	234,463	234,463
St. Louis Parish - Msgr. Clunan	2,802,877	2,116,203	4,919,080
OLPH School (Costa Family)	-	313,539	313,539
St. Francis School - Msgr. Buchignani	886,999	366,543	1,253,542
Dr. Sullivan Memorial	-	11,698	11,698
Sister Graeber Memorial	-	34,003	34,003
Our Lady of Sorrows School	-	53,646	53,646
St. Benedict at Auburndale	75,266	236,267	311,533
	$ 3,765,142	$ 10,770,134	$ 14,535,276

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Gadomski Scholarship Trust	$ -	$ 948,829	$ 948,829
Forsdick Scholarship Trust	-	2,982,598	2,982,598
Canale Scholarship Trust	-	648,523	648,523
Walsh Trust	-	1,205,575	1,205,575
Hearst Scholarship Trust	-	143,025	143,025
Todd Education Trust	-	186,719	186,719
St. Louis Parish - Msgr. Clunan	1,108,700	1,664,692	2,773,392
OLPH School (Costa Family)	-	249,497	249,497
St. Francis School - Msgr. Buchignani	679,512	362,055	1,041,567
Dr. Sullivan Memorial	-	11,640	11,640
Sister Graeber Memorial	-	33,841	33,841
Our Lady of Sorrows School	-	53,362	53,362
	$ 1,788,212	$ 8,490,356	$ 10,278,568

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Diocese to retain as a fund of perpetual duration. There were no deficiencies of this nature at June 30, 2021 and 2020.

The changes in endowment net assets for the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,788,212	$ 8,490,356	$ 10,278,568
Net investment return	408,030	2,452,923	2,860,953
Transfers	1,568,900	-	1,568,900
Contributions	-	257,608	257,608
Appropriations	-	(430,753)	(430,753)
Endowment net assets, end of year	$ 3,765,142	$ 10,770,134	$ 14,535,276

The changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 1,040,632	$ 8,268,593	$ 9,309,225
Net investment return	77,400	537,778	615,178
Transfers	670,180	-	670,180
Contributions	-	33,565	33,565
Appropriations	-	(349,580)	(349,580)
Endowment net assets, end of year	$ 1,788,212	$ 8,490,356	$ 10,278,568

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS

A summary of net assets with donor restrictions at June 30 is as follows:

	2021	2020
Purpose Restrictions:		
Capital projects	$ 9,883,457	$ 7,708,472
Education	5,843,050	4,594,738
Debt reduction	557,933	858,302
Housing - priests/retired priests	2,471,631	2,377,256
Other ministries	3,594,869	2,751,025
	22,350,940	18,289,793
Time-restricted for future periods	2,633,698	2,353,944
Perpetual in nature	6,260,605	6,002,997
	$ 31,245,243	$ 26,646,734

A summary of releases from net assets with donor restrictions at June 30 is as follows:

	2021	2020
Satisfaction of Purpose Restrictions:		
Capital projects	$ 1,381,859	$ 871,467
Education	1,653,214	2,827,932
Debt reduction	1,956,329	1,744,020
Housing - priests/retired priests	262,392	63,722
Other ministries	20,562	224,972
Expiration of time restrictions	2,153,898	1,945,838
	$ 7,428,254	$ 7,677,951

NOTE 14 – DIOCESE-DESIGNATED NET ASSETS

Net assets without donor restrictions were designated by the Diocese for the following purposes at June 30:

	2021	2020
Holy Rosary school trust	$ 1,370,196	$ 1,054,815
Perpetual care for cemeteries	3,919,826	3,093,294
Retreat center	1,084,216	831,476
St. Louis Parish - Msgr. Clunan	2,802,877	1,108,700
St. Francis School - Msgr. Buchignani	886,999	679,512
St. Benedict at Auburndale	75,266	-
	$ 10,139,380	$ 6,767,797

NOTE 15 – RETIREMENT PLANS

403(b) Plan

On July 1, 2011, the Diocese established a 403(b) retirement plan for employees with discretionary employer matching contributions up to 1% of compensation. All employees are immediately eligible to make contributions under the Plan. Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Vesting in the employer contributions portion of their accounts is based on a 3-Year Cliff (0% Years 1-2, 100% at end of 3rd year). For the years ended June 30, 2021 and 2020, employer contributions to the plan totaled $181,267 and $194,135, respectively.

Priest Plan

On July 1, 1973, the Diocese adopted a non-contributory defined benefit plan covering all of its eligible priests (the “Priest Plan”). The Diocese acts as the receiving agent for parish and institutional contributions, which are forwarded to the trustee. Prior service costs are being funded over a thirty (30) year period, after giving effect to actuarial gains or losses.

Employee Plan

On July 1, 1974, a similar non-contributory defined benefit plan (the “1974 Employee Plan”) was adopted covering all full-time lay employees of the Diocese and related organizations included in this report as well as those related entities not included in these financial statements. Prior service costs are being funded over a thirty (30) year period, after giving effect to actuarial gains or losses. The Diocese executed an agreement to freeze accumulated benefits as of August 31, 2007. Accordingly, no new participants have been admitted to the Employee Plan after that date, and years of credited service were frozen on that date.

Additionally, On September 1, 2007, the Diocese adopted another non-contributory defined benefit plan (the "2007 Employee Plan") with similar terms as the 1974 Employee Plan. The Diocese executed an agreement to freeze accumulated benefits as of June 30, 2011. Accordingly, no new participants have been admitted to the 2007 Employee Plan after that date, and years of credited service were frozen on that date. The 1974 Employee Plan and the 2007 Employee Plan were merged effective December 31, 2012, hereinafter referred to as (the "Employee Plan").

The following tables provide a reconciliation of benefit obligations, plan assets, and funded status of the Plans for the years ended June 30:

	2021		
	Priest Plan	Employee Plan	Total
Change in Projected Benefit Obligation:			
Projected benefit obligation, beginning of year	$ 9,311,310	$ 100,802,720	$ 110,114,030
Service cost	132,211	-	132,211
Interest cost	210,144	2,348,604	2,558,748
Actuarial (gain)/loss	(409,460)	(3,437,535)	(3,846,995)
Benefits paid	(396,385)	(4,867,356)	(5,263,741)
Projected benefit obligation, end of year	$ 8,847,820	$ 94,846,433	$ 103,694,253
Change in Plan Assets:			
Fair value of plan assets, beginning of year	$ 8,053,305	$ 75,129,711	$ 83,183,016
Actual return on plan assets, net of expenses	2,302,490	27,084,667	29,387,157
Employer contributions	125,820	1,794,928	1,920,748
Benefits paid	(396,385)	(4,867,356)	(5,263,741)
Fair value of plan assets, end of year	$ 10,085,230	$ 99,141,950	$ 109,227,180
Funded status	$ 1,237,410	$ 4,295,517	$ 5,532,927

	2020		
	Priest Plan	Employee Plan	Total
Change in Projected Benefit Obligation:			
Projected benefit obligation, beginning of year	$ 8,071,234	$ 92,099,870	$ 100,171,104
Service cost	142,615	-	142,615
Interest cost	256,055	2,959,431	3,215,486
Actuarial (gain)/loss	1,196,135	10,627,262	11,823,397
Benefits paid	(354,729)	(4,883,843)	(5,238,572)
Projected benefit obligation, end of year	$ 9,311,310	$ 100,802,720	$ 110,114,030
Change in Plan Assets:			
Fair value of plan assets, beginning of year	$ 7,762,901	$ 72,429,605	$ 80,192,506
Actual return on plan assets, net of expenses	500,683	4,269,523	4,770,206
Employer contributions	144,450	3,314,426	3,458,876
Benefits paid	(354,729)	(4,883,843)	(5,238,572)
Fair value of plan assets, end of year	$ 8,053,305	$ 75,129,711	$ 83,183,016
Funded status	$ (1,258,005)	$ (25,673,009)	$ (26,931,014)

Since the accumulated benefits have been frozen for the employee plan, the accumulated benefit obligation is equal to the projected benefit obligation. The accumulated benefit obligation for the priest plan is equal to the projected benefit obligation as the plan benefits are not based on compensation of the priests.

The additional minimum pension asset/liability as reflected on the consolidated statement of financial position is offset by related party payables/receivables for the portion of this liability owed to/owed by Catholic Charities, Inc. The portion of the additional minimum pension asset attributed to Catholic Charities, Inc. totaled $289,741 at June 30, 2021.The portion of the additional minimum pension liability attributed to Catholic Charities, Inc. totaled $1,660,259 at June 30, 2020.

Weighted-average actuarial assumptions used to calculate the projected benefit obligation were as follows for June 30:

	2021	
	Priest Plan	Employee Plan
Discount rate	2.48%	2.56%
Rate of compensation increase	N/A	N/A

	2020	
	Priest Plan	Employee Plan
Discount rate	2.31%	2.39%
Rate of compensation increase	N/A	N/A

The components of the net periodic pension cost for the years ended June 30 are as follows:

	2021		
	Priest Plan	Employee Plan	Total
Net Periodic Pension Cost:			
Service cost	$ 132,211	$ -	$ 132,211
Interest cost	210,144	2,348,604	2,558,748
Expected return on plan assets	(592,653)	(5,511,930)	(6,104,583)
Amortization of net loss	178,643	3,940,052	4,118,695
	$ (71,655)	$ 776,726	$ 705,071

	2020		
	Priest Plan	Employee Plan	Total
Net Periodic Pension Cost:			
Service cost	$ 142,615	$ -	$ 142,615
Interest cost	256,055	2,959,431	3,215,486
Expected return on plan assets	(573,188)	(5,375,002)	(5,948,190)
Amortization of net loss	112,479	2,705,851	2,818,330
	$ (62,039)	$ 290,280	$ 228,241

Weighted-average actuarial assumptions used to calculate the net periodic benefit cost for the years ended June 30 are as follows:

	2021	
	Priest Plan	Employee Plan
Discount rate	2.31%	2.39%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

	2020	
	Priest Plan	Employee Plan
Discount rate	3.25%	3.30%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

The rate used for the expected return on plan assets is within an acceptable range of typical long-term expected return on plan assets assumptions used by actuaries and is based upon the expected return on each asset class together with consideration of the long-term asset strategy of the plan sponsor.

A reconciliation of prepaid pension cost is as follows for the years ended June 30:

	2021		
	Priest Plan	Employee Plan	Total
Prepaid Pension Cost:			
Balance, beginning of year	$ 2,399,214	$ 13,642,446	$ 16,041,660
Net periodic pension credit (cost)	71,655	(776,726)	(705,071)
Employer contributions	125,820	1,794,928	1,920,748
Balance, end of year	$ 2,596,689	$ 14,660,648	$ 17,257,337

	2020		
	Priest Plan	Employee Plan	Total
Prepaid Pension Cost:			
Balance, beginning of year	$ 2,192,725	$ 10,618,300	$ 12,811,025
Net periodic pension credit (cost)	62,039	(290,280)	(228,241)
Employer contributions	144,450	3,314,426	3,458,876
Balance, end of year	$ 2,399,214	$ 13,642,446	$ 16,041,660

Expected future benefit payments for the next ten years ending June 30 are as follows:

	Priest Plan	Employee Plan	Total
2022	$ 471,000	$ 5,064,000	$ 5,535,000
2023	487,000	5,068,000	5,555,000
2024	512,000	5,080,000	5,592,000
2025	522,000	5,104,000	5,626,000
2026	532,000	5,078,000	5,610,000
2027 - 2031	2,590,000	25,086,000	27,676,000
	$ 5,114,000	$ 50,480,000	$ 55,594,000

Funding

The Diocese has historically funded its pension plans using a formula of approximately 8% of employee salaries. In 2019, management increased the annual amount funded per priest to $2,880. Management anticipates continuing this funding approach in the foreseeable future and estimates employer contributions to the plans in 2022 will be approximately $1,800,000.

Investment Strategy for Plan Assets

The Retirement Allowance Committee of the Diocese has established four primary objectives for the plans which include (1) to maximize total return within reasonable and prudent levels of risk, (2) to provide annual cash flow sufficient to meet the annual benefit and cash expenditures, (3) to control costs of administering and managing the plans and managing the investments, and (4) to ensure that the investment portfolios are managed responsibly and in compliance with investment manager defined guidelines.

To achieve its investment objectives, the following asset allocation mix has been established:

	Minimum Weight	Maximum Weight	Actual Weight
Equities	30%	70%	37%
Fixed income	10%	60%	33%
Alternative/hedge fund investments	0%	25%	19%
Cash and equivalents	0%	10%	12%
			100%

The following tables set forth by level, within the fair value hierarchy, the Plans' assets that are measured on a recurring basis at June 30:

	2021		
	Priest Plan	Employee Plan	Total
Level 1			
Mutual Funds			
Equities	$ 6,056,117	$ 57,029,498	$ 63,085,615
Fixed Income	1,325,109	12,326,076	13,651,185
Total mutual funds	7,381,226	69,355,574	76,736,800
Level 2			
Money market funds	205,292	1,263,821	1,469,113
Investments Measured at Net Asset Value			
Limited Partnerships			
Conservative hedge fund	873,172	9,161,291	10,034,463
Strategic hedge fund	1,625,540	19,361,264	20,986,804
Total investments measured at NAV	2,498,712	28,522,555	31,021,267
Total plan assets at fair value	$ 10,085,230	$ 99,141,950	$ 109,227,180

	2020		
	Priest Plan	Employee Plan	Total
Level 1			
Mutual Funds			
Equities	$ 4,350,265	$ 40,933,973	$ 45,284,238
Fixed Income	1,366,371	11,815,566	13,181,937
Total mutual funds	5,716,636	52,749,539	58,466,175
Level 2			
Money market funds	326,824	2,345,710	2,672,534
Investments Measured at Net Asset Value			
Limited Partnerships			
Conservative hedge fund	755,495	7,812,434	8,567,929
Strategic hedge fund	1,254,350	12,222,028	13,476,378
Total investments measured at NAV	2,009,845	20,034,462	22,044,307
Total plan assets at fair value	$ 8,053,305	$ 75,129,711	$ 83,183,016

See Note 5 for a description of the valuation methodologies used for assets measured at fair value.

The table below presents additional information regarding plan assets whose fair value is estimated using the practical expedient of reported NAV at June 30, 2021 and 2020:

	Conservative Hedge Fund (1)	Strategic Hedge Funds (2)
Liquidity		
Initial lock-up	1 year	0 - 2 years
Redemption fees	Up to 5%	0 - 3%
Redemption frequency	Quarterly/semi-annual	Quarterly/semi-annual
Notice	95 days	90 - 105 days
Gate	10%	None
Fair value at June 30, 2021	$ 10,034,463	$ 20,986,804
Fair value at June 30, 2020	$ 8,567,929	$ 13,476,378

The following are descriptions of the investment strategies and any restrictions of the Plan's hedge funds:

(1) *Conservative hedge fund:* This is a fund of funds that seeks consistent returns by primarily investing in funds that generally engage in more non-directional strategies such as Equity Market Neutral and Fixed Income Arbitrage.

(2) *Strategic hedge funds*: These are funds of funds that seek superior returns by primarily investing in funds that engage in more opportunistic strategies such as Emerging Markets, Sector specific, Equity Hedge, credit-related investments, and structured products.

NOTE 16 – POST-RETIREMENT BENEFIT OBLIGATION

The Diocese pays all healthcare costs incurred for its retired priests. The following table presents a summary of Plan assets, projected benefit obligation, funded status and benefit activity of the Plan for the years ended June 30, 2021 and 2020:

	2021	2020
Change in Projected Benefit Obligation:		
Projected benefit obligation, beginning of year	$ 7,032,184	$ 5,631,180
Service cost	238,343	275,435
Interest cost	179,113	191,709
Actuarial (gain)/loss	(1,007,062)	1,028,058
Benefits paid	(98,734)	(94,198)
Projected benefit obligation, end of year	$ 6,343,844	$ 7,032,184
Fair value of plan assets	-	-
Funded status	$ (6,343,844)	$ (7,032,184)

The components of net periodic post-retirement benefit cost are as follows for the years ended June 30:

	2021	2020
Net Periodic Benefit Cost:		
Service cost	$ 238,343	$ 275,435
Interest cost	179,113	191,709
Amortization of prior service cost	218,133	218,133
Amortization of net (gain)/loss	(54,966)	(135,718)
Net periodic benefit cost	$ 580,623	$ 549,559

Weighted-average actuarial assumptions used to calculate the projected benefit obligation and net periodic benefit cost were as follows for 2021 and 2020:

	2021	2020
Discount rate	2.71%	2.58%

For the next five years, the healthcare cost trend rate is 7% and graded to 4% in year seven and beyond.

Accrued post-retirement benefit costs at June 30, 2021 and 2020 are as follows:

	2021	2020
Prepaid (Accrued) Benefit Cost:		
Balance, beginning of year	$ (8,254,622)	$ (7,799,261)
Net periodic benefit cost	580,623	549,559
Employer contributions	98,734	94,198
Balance, end of year	$ (8,736,511)	$ (8,254,622)

As this obligation is unfunded, the projected benefit obligation exceeds the fair value of the Plan assets requiring recognition of an additional post-retirement liability at June 30, 2021 and 2020.

Expected future benefit payments are as follows for the next ten years ending June 30:

2022	$ 181,000
2023	204,000
2024	224,000
2025	239,000
2026	256,000
2027 - 2031	1,422,000
	$ 2,526,000

NOTE 17 – OTHER EMPLOYEE BENEFIT PLANS

It is Diocesan policy to self-insure for health and medical benefits for its employees. The Diocese accrues its estimated liability for these self-insured benefits, including an estimate for incurred but not reported claims, and maintains stop-loss insurance for those individual claims exceeding $175,000 for 2021 and 2020. Amounts accrued totaled $261,489 and $441,897 at June 30, 2021 and 2020, respectively.

The Diocese maintains an Employee Flexible Benefits Plan (the “Plan”) for full-time employees. The Plan is qualified under Section 125 of the Internal Revenue Code, Cafeteria Compensation Plans. The Plan includes various medical and life insurance coverage, childcare reimbursement accounts, medical care reimbursement accounts, and other qualified pre-tax benefits. The Plan is funded by both employer and employee contributions depending upon the benefits selected. The Diocese serves as the receiving agent in the administration of the funding for this Plan.

NOTE 18 – CATHOLIC UMBRELLA POOL

The Diocese participates in a self-insurance fund for certain Dioceses of the Roman Catholic Church in North America (the “Pool”) which provides excess liability coverages for its membership. Participating Dioceses share in the operating and investment income and expenses of the Pool based on their contributions for each fiscal year. Participants are responsible for claims and claim expenses incurred during fiscal years in which they participate in the Pool; however, historically claims have been less than participant equity. Management believes the Pool’s reserve for unpaid claims and claim expenses is adequate. The Diocese’s equity in the pool at June 30, 2021 and 2020, of $235,805 and $214,783, respectively, is included in other assets on the consolidated statement of financial position.

NOTE 19 – RELATED PARTY TRANSACTIONS

The Diocese advances and borrows amounts on behalf of related party religious organizations which operate within the Diocese. Amounts due from related parties consisted of the following at June 30:

	2021	2020
Catholic Charities, Inc.		
Pension liability (asset)	$ (289,741)	$ 1,660,259
Cafeteria benefits	454,925	505,714
Other	-	8,488
Loan receivable	237,159	262,160
Total due from Catholic Charities, Inc.	402,343	2,436,621
Less allowance	(345,437)	(589,982)
	$ 56,906	$ 1,846,639

See Note 5 for related party payable information.

NOTE 20 – COMMITMENTS

The Diocese has entered into various contracts for the construction and renovation of its facilities. The construction contracts totaled approximately $7,750,000 and remaining commitments on the contracts at June 30, 2021 totaled approximately $6,290,000.

The Diocese has entered into a contract for an organization to help administer its capital campaign, with the goal of raising $22,000,000. The contract totaled approximately $1,950,000 and remaining commitments on the contract at June 30, 2021 totaled approximately $1,650,000.

NOTE 21 – SUBSEQUENT EVENT

In January 2021, the Diocese sold the property of the former Memphis Catholic High School for approximately $5,000,000.

SUPPLEMENTAL SCHEDULES

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2021
(with summarized financial information at June 30, 2020)

		Diocesan Activities							
	Diocesan Administrative Offices	Parishes		St. Benedict at Auburndale High School	Cemeteries	Combined Total	Eliminations	2021 Consolidated Total	2020 Consolidated Total
		Churches	Schools						
Assets									
Cash and cash equivalents	$ 961,459	$ 15,576,940	$ 3,261,025	$ 3,435,307	$ 7,899	$ 23,242,630	$ -	$ 23,242,630	$ 20,578,562
Receivables									
Unconditional promises to give, net	508,079	909,248	-	-	-	1,417,327	-	1,417,327	652,493
Tuition, net	-	363	55,765	33,579	-	89,707	(2,351)	87,356	104,733
Related party	15,439,378	9,261,974	2,552,501	399,890	119,476	27,773,219	(27,716,313)	56,906	1,846,639
Other	2,713,238	15,608	416,350	54,388	222,798	3,422,382	(126,138)	3,296,244	410,182
Prepaid expenses	67,487	57,737	13,441	-	-	138,665	-	138,665	71,838
Investments	40,257,360	10,436,183	4,314,326	-	3,933,537	58,941,406	-	58,941,406	47,993,014
Beneficial interest in trusts	1,520,702	5,832,561	-	-	-	7,353,263	-	7,353,263	6,935,021
Property and equipment	20,653,778	188,644,556	21,163,024	33,381,811	4,005,255	267,848,424	-	267,848,424	265,455,761
Pension asset	5,532,927	-	-	-	-	5,532,927	-	5,532,927	-
Right-of-use assets	630,556	-	-	-	-	630,556	-	630,556	1,233,398
Other assets	235,805	196,334	-	-	-	432,139	-	432,139	314,723
Total assets	$ 88,520,769	$ 230,931,504	$ 31,776,432	$ 37,304,975	$ 8,288,965	$ 396,822,645	$ (27,844,802)	$ 368,977,843	$ 345,596,364
Liabilities and Net Assets									
Accounts payable and accrued expenses	$ 1,438,873	$ 3,097,951	$ 1,047,604	$ 408,222	$ 12,887	$ 6,005,537	$ (1,636,261)	$ 4,369,276	$ 3,926,080
Line of credit	-	4,443,416	-	203,599	-	4,647,015	(4,647,015)	-	-
Collections held for transmittal	167,808	95,236	14,864	27,176	-	305,084	-	305,084	337,062
Deferred revenue	6,677	116,063	1,474,231	1,668,587	2,290	3,267,848	-	3,267,848	3,202,585
Lease liabilities	671,205	-	-	-	-	671,205	-	671,205	1,109,854
Due to annuitants	249,826	-	-	-	-	249,826	-	249,826	269,862
Due to beneficiaries	244,780	-	-	-	-	244,780	-	244,780	239,305
Minimum pension liability	-	-	-	-	-	-	-	-	26,931,014
Post-retirement benefit obligation	6,343,844	-	-	-	-	6,343,844	-	6,343,844	7,032,184
Related party payables	11,217,023	2,872,580	4,694,532	-	3,603,173	22,387,308	(21,561,526)	825,782	681,035
Derivative financial instruments	994,493	-	-	1,239,056	-	2,233,549	-	2,233,549	3,247,594
Long-term debt	6,097,296	1,457,024	1,428,760	13,294,776	-	22,277,856	-	22,277,856	26,350,879
Total liabilities	27,431,825	12,082,270	8,659,991	16,841,416	3,618,350	68,633,852	(27,844,802)	40,789,050	73,327,454
Net assets	61,088,944	218,849,234	23,116,441	20,463,559	4,670,615	328,188,793	-	328,188,793	272,268,910
Total liabilities and net assets	$ 88,520,769	$ 230,931,504	$ 31,776,432	$ 37,304,975	$ 8,288,965	$ 396,822,645	$ (27,844,802)	$ 368,977,843	$ 345,596,364

See independent auditor's report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended June 30, 2021
(with summarized financial information for the year ended June 30, 2020)

	Diocesan Administrative Offices	Diocesan Activities: Parishes: Churches	Diocesan Activities: Parishes: Schools	Diocesan Activities: St. Benedict at Auburndale High School	Diocesan Activities: Cemeteries	Combined Total	Eliminations	2021 Consolidated Total	2020 Consolidated Total
Operating Support and Revenues									
Contributions and Grants									
General contributions	$ 1,257,302	$ 28,508,383	$ 738,609	$ 700,025	$ 36,062	$ 31,240,381	$ (829,546)	$ 30,410,835	$ 27,346,826
Annual Catholic Appeal	2,409,399	-	-	-	-	2,409,399	-	2,409,399	2,153,898
Grant revenue	50,000	10,000	558,004	100,964	-	718,968	(379,592)	339,376	236,687
Estate donations	3,067,014	352,024	-	-	-	3,419,038	-	3,419,038	510,973
Government grants	-	-	927,426	918,834	-	1,846,260	-	1,846,260	-
Missions and societies	109,500	-	-	-	-	109,500	-	109,500	130,077
Education									
Tuition and fees, net	-	638,680	15,328,659	6,197,550	-	22,164,889	-	22,164,889	25,258,494
Other education revenue	-	433,811	2,239,579	656,070	-	3,329,460	-	3,329,460	3,311,677
Social and fundraising	-	1,372,608	240,729	1,546	-	1,614,883	-	1,614,883	1,349,451
Auxiliary services	323,928	265,553	1,600	570	-	591,651	(65,840)	525,811	587,532
Cemeteries	-	45,779	-	-	692,218	737,997	-	737,997	419,010
Assessments and subsidies	3,334,331	-	-	-	-	3,334,331	(3,334,331)	-	-
Other income	686,779	2,645,225	331,229	62,107	13,736	3,739,076	(4,000)	3,735,076	3,332,063
Total operating support and revenue	11,238,253	34,272,063	20,365,835	8,637,666	742,016	75,255,833	(4,613,309)	70,642,524	64,636,688

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF ACTIVITIES (continued)

For the Year Ended June 30, 2021
(with summarized financial information for the year ended June 30, 2020)

	Diocesan Administrative Offices	Diocesan Activities: Parishes – Churches	Diocesan Activities: Parishes – Schools	Diocesan Activities: St. Benedict at Auburndale High School	Cemeteries	Combined Total	Eliminations	2021 Consolidated Total	2020 Consolidated Total
Operating Expenses									
Program Services									
Cemeteries	$ -	$ -	$ -	$ -	$ 468,433	$ 468,433	$ -	$ 468,433	$ 434,198
Ministry	2,635,203	16,087,957	-	-	-	18,723,160	(40,240)	18,682,920	18,729,474
Education	-	-	18,109,773	7,118,582	-	25,228,355	(4,473)	25,223,882	27,539,469
Total program services	2,635,203	16,087,957	18,109,773	7,118,582	468,433	44,419,948	(44,713)	44,375,235	46,703,141
General and administration	4,374,127	6,048,464	4,020,565	412,790	171,303	15,027,249	(132,643)	14,894,606	15,204,387
Fundraising	522,442	55,004	29,445	24,327	1,463	632,681	-	632,681	365,522
Total operating expenses	7,531,772	22,191,425	22,159,783	7,555,699	641,199	60,079,878	(177,356)	59,902,522	62,273,050
Income (loss) from operations	3,706,481	12,080,638	(1,793,948)	1,081,967	100,817	15,175,955	(4,435,953)	10,740,002	2,363,638
Nonoperating Gains (Losses)									
Subsidies - Diocesan entities	(1,339,512)	(3,300,217)	(129,167)	282,240	-	(4,486,656)	(4,486,656)	-	-
Forgiveness of Paycheck Protection Program loans	519,018	1,414,977	1,318,312	794,501	49,288	4,096,096	-	4,096,096	-
Change in value of beneficial interest in trusts	25,837	893,186	-	-	-	919,023	-	919,023	(355,955)
Net investment return	5,840,276	1,600,576	688,147	1,454	800,400	8,930,853	(50,703)	8,880,150	2,734,575
Change in value of derivatives	490,691	-	-	523,354	-	1,014,045	-	1,014,045	(1,012,208)
Minimum pension liability adjustment	30,513,941	-	-	-	-	30,513,941	-	30,513,941	(6,627,416)
Postretirement benefits adjustment	688,340	-	-	-	-	688,340	-	688,340	(1,401,004)
Loss on uncollectible promises to give	89,853	(193,153)	-	-	-	(103,300)	-	(103,300)	(188,206)
Gain/(loss) on sale of assets	(833,414)	5,000	-	-	-	(828,414)	-	(828,414)	-
Total nonoperating gains (losses)	35,995,030	420,369	1,877,292	1,601,549	849,688	40,743,928	(4,537,359)	45,179,881	(6,850,214)
Change in net assets	39,701,511	12,501,007	83,344	2,683,516	950,505	55,919,883	-	55,919,883	(4,486,576)
Net assets, beginning of year	19,806,751	206,008,723	24,953,283	17,780,043	3,720,110	272,268,910	-	272,268,910	276,755,486
Transfers	1,580,682	339,504	(1,920,186)	-	-	-	-	-	-
Net assets, beginning of year	21,387,433	206,348,227	23,033,097	17,780,043	3,720,110	272,268,910	-	272,268,910	276,755,486
Net assets, end of year	$ 61,088,944	$ 218,849,234	$ 23,116,441	$ 20,463,559	$ 4,670,615	$ 328,188,793	$ -	$ 328,188,793	$ 272,268,910

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED SCHEDULE OF PARISH INTERCOMPANY BANK INDEBTEDNESS

June 30, 2021 and 2020

	2021	2020
St. Ann Church, Bartlett	$ 2,128,444	$ 2,434,693
St. Anne Church	281,130	264,273
St. Benedict at Auburndale School	203,600	279,452
St. Brigid Church	577,246	841,085
St. Mary Church, Memphis	1,456,595	1,560,480
Additional payments by the Diocese	94,413	(81,689)
	$ 4,741,428	$ 5,298,294
Bank note balance (Note 9)	$ 4,741,428	$ 5,298,294

The above figures do not include non-bank related inter-Parish debts.

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2021

Grantor/Pass-Through Agency	Contract Number	State Expenditures
Tennessee Department of Education:		
Emergency Assistance to Non-Public Schools - COVID-19	N/A	$ 1,846,260

See independent auditor’s report and accompanying notes to schedule.

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of state awards (the "Schedule") includes the state grant activity of the Roman Catholic Diocese of Memphis in Tennessee (the "Diocese") under programs of the federal government for the year ended June 30, 2021. The information in the Schedule is presented in accordance with the requirements of the State of Tennessee. Because the Schedule presents only a selected portion of the operations of the Diocese, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Diocese.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the State of Tennessee audit manual, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

His Excellency The Most Reverend David P. Talley
The Roman Catholic Diocese of Memphis in Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Roman Catholic Diocese of Memphis in Tennessee (a nonprofit organization) (the "Diocese"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 24, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Diocese's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Diocese's internal control. Accordingly, we do not express an opinion on the effectiveness of the Diocese's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Diocese's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Responses to Findings

The Diocese's responses to the findings identified in our audit are described in the accompanying management's corrective action plan. The Diocese's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on these responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins Uiberall, PLLC

Memphis, Tennessee
March 24, 2022

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2021

2021-001 – Property and Equipment

Condition – Property and equipment values are not recorded in accordance with generally accepted accounting principles.

Criteria – Generally accepted accounting principles require long-lived assets to be capitalized and depreciated over their useful lives.

Cause – Due to the large amount of property and equipment in the Diocese, difficult to ascertain land values, and the multiple locations that assets are held, it has been challenging for the Diocese to maintain detailed fixed asset records sufficient to calculate and record depreciation.

Effect – Property and equipment values are overstated, which resulted in a qualified audit opinion.

Recommendation – We recommend that the Diocese maintain detailed property records including the date of purchase, purchase price, description, asset identification number and location which will facilitate the recording of depreciation. In addition, the Diocese should develop a policy for recording asset disposals.

Response – See management's corrective action plan.

2021-002 – Segregation of Duties

Condition – There is a lack of segregation of duties and monitoring of internal controls at certain parishes and schools.

Criteria – In order to promote a sound control environment, proper segregation of duties and monitoring are required.

Cause – Diocesan policies and procedures are not being followed consistently.

Effect – There is a greater risk that assets could be misappropriated and go undetected by management.

Recommendation – We recommend that the smaller parishes and schools monitor and adhere to existing controls to help mitigate risks inherent in small parishes and implement additional controls where appropriate.

Response – See management's corrective action plan.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

SCHEDULE OF PRIOR YEAR FINDINGS

June 30, 2021

No prior year findings were reported.

THE CATHOLIC DIOCESE OF MEMPHIS

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MANAGEMENT'S CORRECTIVE ACTION PLAN

The Catholic Diocese of Memphis submits the following corrective action plan for the year ended June 30, 2021. The findings from the June 30, 2021, schedule of findings and recommendations are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2021-001-Property and Equipment

Corrective Action: The fixed asset and depreciation issue is a long standing issue which will take some time to rectify. We had hoped that the two Parishes which had committed to the process at the end of last year, would have started the project and thus provide some insight as to how best to structure the overall project. However, the parishes deemed the project too big for their staff and did not undertake the task. We are in conversation with other Accounting and Asset firms to hire them to perform this task for the Diocese as the existing Chancery staff does not have the capacity. Once we find a firm willing to undertake the project, we will work with Watkins-Uiberall to ensure that they review and approve the process so that the results achieved are agreeable to them. It is anticipated that it will take multiple years both to identify all assets and their values across all 50+ locations and to pay for the overall cost of the project.

Responsible for Corrective Action: Chief Financial Officer and Controller

Anticipated Completion Date for Corrective Action: Unknown

2021-002-Segregation of Duties

Corrective Action: We will continue to visit and audit the parishes, focusing first on the parishes identified as deficient from the audit. We will also investigate additional means of spot checking and communicating with the parishes, ensuring that the Pastors are aware of the internal control deficiencies we find and are part of the implementation of the solutions.

Responsible for Corrective Action: Controller and Regional Accounting Manager

Anticipated Completion Date for Corrective Action: Immediately

Signature: ______________________
David Zaleski, CFO

Signature: ______________________
Patti Morris, Controller