THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022
(with summarized financial information for 2021)

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

TABLE OF CONTENTS

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

ROSTER OF OFFICIALS

For the Year Ended June 30, 2022

<u>Office of the Bishop</u>

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

<u>Finance Council</u>

Joe Evangelisti, Council Chair
John Bossier
Christy Cornell
Jim McMahon
Tom Scherer
Sam King
Greg Barnes
Jonathan Frase
Ross Harris
Ali Sinkular
Very Reverend Keith Stewart, V.G.

<u>Management</u>

David Zaleski, Chief Financial Officer

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

Watkins Uiberall, PLLC

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

417 West Main Street • Suite 100
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Qualified Opinion

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, 2022, 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.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Diocese as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 1 to the consolidated financial statements, 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. The effect of these omissions on the accompanying consolidated financial statements has not been reasonably determined.

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Diocese and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibility for Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Diocese’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Diocese’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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.

Other Information

Management is responsible for the other information included in the consolidated financial statements. The other information comprises the roster of officials but does not include the basic consolidated financial statements and our auditor's report thereon. Our opinions on the basic consolidated financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2023, 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, and 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 2021 financial statements, and we expressed a qualified audit opinion on those audited consolidated financial statements in our report dated March 24, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Watkins Uiberall, PLLC

Memphis, Tennessee
July 27, 2023

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2022
(with summarized financial information at June 30, 2021)

Assets	2022	2021
Cash and cash equivalents	$ 24,512,523	$ 23,242,630
Receivables		
Unconditional promises to give, net	635,327	1,417,327
Tuition, net	81,979	87,356
Related party	777,606	56,906
Other	643,814	3,296,244
Prepaid expenses	89,865	138,665
Investments	51,612,076	58,941,406
Beneficial interest in trusts	6,411,064	7,353,263
Property and equipment	271,723,434	267,848,424
Pension asset	-	5,532,927
Right-of-use assets	715,366	630,556
Other assets	689,762	432,139
Total assets	$ 357,892,816	$ 368,977,843

Liabilities and Net Assets	2022	2021
Accounts payable and accrued expenses	$ 4,180,923	$ 4,369,276
Collections held for transmittal	529,723	305,084
Deferred revenue	2,893,394	3,267,848
Lease liabilities	673,935	671,205
Due to annuitants	239,664	249,826
Due to beneficiaries	-	244,780
Minimum pension liability	4,039,889	-
Post-retirement benefit obligation	4,733,186	6,343,844
Related party payables	646,587	825,782
Derivative financial instruments	734,444	2,233,549
Long-term debt	11,746,733	22,277,856
Total liabilities	30,418,478	40,789,050
Net Assets		
Without Donor Restrictions		
Investment in property and equipment, net of debt	259,976,701	245,570,568
Diocese-designated	8,518,157	10,139,380
Undesignated	25,717,157	41,233,602
	294,212,015	296,943,550
With Donor Restrictions		
Perpetual in nature	6,311,136	6,260,605
Purpose restrictions	24,305,158	22,350,940
Time-restricted for future periods	2,646,029	2,633,698
	33,262,323	31,245,243
Total net assets	327,474,338	328,188,793
Total liabilities and net assets	$ 357,892,816	$ 368,977,843

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, 2022
(with summarized financial information at June 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Total 2021
Operating Support and Revenues				
Contributions and Grants				
General contributions	$ 23,342,161	$ 11,371,198	$ 34,713,359	$ 30,410,835
Annual Catholic Appeal	-	2,464,250	2,464,250	2,409,399
Grant revenue	1,650,310	-	1,650,310	339,376
Estate donations	-	3,578	3,578	3,419,038
Government grants	827,772	-	827,772	1,846,260
Missions and societies	120,425	-	120,425	109,500
Education				
Tuition and fees, net	22,275,996	-	22,275,996	22,164,889
Other education revenue	4,767,948	-	4,767,948	3,329,460
Social and fundraising	3,346,617	-	3,346,617	1,614,883
Auxiliary services	707,391	-	707,391	525,811
Cemeteries	768,522	-	768,522	737,997
Other income	4,914,698	-	4,914,698	3,735,076
Net assets released from restrictions	10,230,493	(10,230,493)	-	-
Total operating support and revenues	72,952,333	3,608,533	76,560,866	70,642,524
Operating Expenses				
Program Services				
Cemeteries	523,943	-	523,943	468,433
Ministry	24,570,791	-	24,570,791	18,682,920
Education	24,683,133	-	24,683,133	25,223,882
Total program services	49,777,867	-	49,777,867	44,375,235
General and administration	15,249,724	-	15,249,724	14,894,606
Fundraising	2,104,263	-	2,104,263	632,681
Total operating expenses	67,131,854	-	67,131,854	59,902,522
Income from operations	5,820,479	3,608,533	9,429,012	10,740,002
Nonoperating Gains (Losses)				
Forgiveness of Paycheck Protection Program loans	3,951,023	-	3,951,023	4,096,096
Change in value of beneficial interest in trusts	(708,350)	-	(708,350)	919,023
Net investment return (loss)	(5,417,582)	(1,576,398)	(6,993,980)	8,880,150
Change in fair value of derivatives	1,499,105	-	1,499,105	1,014,045
Minimum pension liability adjustment	(8,803,610)	-	(8,803,610)	30,513,941
Postretirement benefits adjustment	1,610,658	-	1,610,658	688,340
Loss on uncollectible promises to give	-	(15,055)	(15,055)	(103,300)
Loss on sale of assets	(683,258)	-	(683,258)	(828,414)
Total nonoperating gains (losses)	(8,552,014)	(1,591,453)	(10,143,467)	45,179,881
Change in net assets	(2,731,535)	2,017,080	(714,455)	55,919,883
Net assets, beginning of year	296,943,550	31,245,243	328,188,793	272,268,910
Net assets, end of year	$ 294,212,015	$ 33,262,323	$ 327,474,338	$ 328,188,793

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, 2022
(with summarized financial information for the year ended June 30, 2021)

	Program Services				Supporting Services		Totals	
	Cemeteries	Ministry	Education	Total Program Services	General & Administrative	Fundraising	2022	2021
Salaries and benefits	$ 129,178	$ 7,312,356	$ 17,491,278	$ 24,932,812	$ 11,209,533	$ -	$ 36,142,345	$ 35,395,722
Operations	82,771	9,140,112	3,648,711	12,871,594	3,034,374	2,104,263	18,010,231	14,187,933
Occupancy costs	310,838	7,580,485	1,851,769	9,743,092	455,155	-	10,198,247	6,339,579
Technology	1,156	312,225	1,034,943	1,348,324	365,635	-	1,713,959	2,696,216
Interest	-	225,613	656,432	882,045	185,027	-	1,067,072	1,283,072
Total expenses	$ 523,943	$ 24,570,791	$ 24,683,133	$ 49,777,867	$ 15,249,724	$ 2,104,263	$ 67,131,854	$ 59,902,522

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, 2022
(with summarized financial information for the year ended June 30, 2021)

	2022	2021
Cash Flows From Operating Activities:		
Change in net assets	$ (714,455)	$ 55,919,883
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Change in value of beneficial interest in trusts	708,350	(919,023)
Change in fair value of derivatives	(1,499,105)	(1,014,045)
Realized and unrealized (gains) and losses on investments	7,444,218	(8,443,061)
Minimum pension liability adjustment	8,803,610	(30,513,941)
Post-retirement benefits adjustment	(1,610,658)	(688,340)
Loss on uncollectible promises to give	15,055	103,300
Loss on sale of assets	683,258	828,414
Amortization of right-of-use-assets	371,755	679,226
Forgiveness of Paycheck Protection Program loans	(3,951,023)	(4,096,096)
Contributions received for capital expenditures	(5,246,017)	(3,578,585)
Contributions restricted for endowment	(2,071,837)	(257,608)
Changes in Operating Assets and Liabilities:		
Receivables	3,164,934	(3,017,182)
Prepaid expenses	48,800	(66,827)
Other assets	(257,623)	(117,416)
Accounts payable and accrued expenses	(188,353)	1,020,274
Collections held for transmittal	224,639	(31,978)
Deferred revenue	(374,454)	65,263
Related party payables	(297,237)	35,114
Net cash provided by operating activities	5,253,857	5,907,372
Cash Flows From Investing Activities:		
Purchases of investments	(4,556,822)	(9,281,179)
Proceeds from sales of investments	4,323,892	7,389,707
Proceeds from sale of property and equipment	4,998,750	1,448,890
Purchases of property and equipment	(8,961,154)	(5,183,045)
Payments to annuitants and beneficiaries	(380,873)	(18,006)
Net cash used for investing activities	(4,576,207)	(5,643,633)
Cash Flows From Financing Activities:		
Proceeds from contributions received for capital expenditures	5,554,341	2,698,681
Contributions restricted for endowment	2,071,837	257,608
Principal payments on lease liabilities	(453,835)	(515,033)
Principal payments on long-term debt	(6,580,100)	(1,571,115)
Proceeds from issuance of long-term debt	-	1,530,188
Net cash provided by financing activities	592,243	2,400,329
Net increase in cash and cash equivalents	1,269,893	2,664,068
Cash and cash equivalents, beginning of year	23,242,630	20,578,562
Cash and cash equivalents, end of year	$ 24,512,523	$ 23,242,630

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, 2022
(with summarized financial information for the year ended June 30, 2021)

	2022	2021
Supplemental Cash Flow Information:		
Cash paid during the year for interest	$ 1,070,499	$ 1,285,828
Noncash Investing and Financing Activities:		
Increase (decrease) in related party receivables due to change in their respective pension liabilities	$ 769,206	$ (1,950,000)
Increase (decrease) in related party payables due to change in their investments	$ (118,042)	$ 124,299
Noncash transfer to investments from beneficial interest in trust	$ -	$ 489,560
Property and equipment purchases included in accounts payable	$ 595,864	$ 577,078
Property and equipment purchases through issuance of notes payable	$ -	$ 64,000
Lease liabilities arising from obtaining right-of-use assets	$ 456,565	$ 76,384
Refinancing of long-term debt	$ 7,448,518	$ -

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, 2021, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform with the current year presentation.

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, 2022 and 2021 were $3,610,704 and $2,350,096, 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 money market funds and other 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 $400,329 and $428,745 at June 30, 2022 and 2021, 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 $147,503 and $89,532 for the years ended June 30, 2022 and 2021, 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. Entities are permitted to apply the amendments to all contracts and agreements that exist as of March 12, 2020. In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extends the relief period through December 31, 2024. 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.

Date of Management's Review

The Diocese evaluated its June 30, 2022 consolidated financial statements for subsequent events through July 27, 2023, the date the consolidated financial statements were available to be issued. Other than the events disclosed in Notes 7, 8, and 9, 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:

	2022	2021
Cash and cash equivalents	$ 24,512,523	$ 23,242,630
Net unconditional promises to give due within one year	136,858	636,127
Tuition receivable	81,979	87,356
Other receivables	643,814	3,296,244
Investments		
Non-designated	34,259,481	38,031,892
Diocese-designated	8,518,157	10,139,380
Endowments	8,834,438	10,770,134
Total investments	51,612,076	58,941,406
	76,987,250	86,203,763
Less: Diocese-designated and endowment amounts	(17,352,595)	(20,909,514)
	$ 59,634,655	$ 65,294,249

The Diocese's goal is generally to maintain financial assets to meet 6 months of operating expenses (currently approximately $34 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 discussed in Note 7.

NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

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

	2022	2021
Annual Catholic Appeal	$ 44,404	$ 578,079
Holy Cross Church, Paris	-	25,855
St. Philip	502,825	779,941
Cathedral of Immaculate Conception	232,900	322,500
	$ 780,129	$ 1,706,375

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

	2022	2021
Due within one year	$ 281,660	$ 925,175
Due within one to five years	498,469	781,200
	780,129	1,706,375
Less allowance for uncollectible promises	(108,714)	(225,680)
Less unamortized discount	(36,088)	(63,368)
Total net unconditional promises to give	$ 635,327	$ 1,417,327

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 beneficiary of certain irrevocable trusts that were created independently by donors and are held and administered by outside trustees designated by the donors. Therefore, the Diocese has neither possession nor control over the assets of the trusts but does however receive periodic distributions that are generally restricted for certain parishes or priest retirement housing. The Gauthreaux trust is a remainder trust for which the Diocese will receive a percentage of the remaining trust assets upon the death of the lead beneficiary. The other trusts are intended to continue indefinitely as there are no termination dates specified. The Diocese's beneficial interest in these trusts is carried at fair value in the consolidated statement of financial position based on the fair value of the underlying trust assets, with changes in fair value recognized in the consolidated statement of activities.

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

	2022	2021
Gauthreaux Trust	$ 183,009	$ 225,528
Lattus Trust	630,254	667,775
Carmer Trust	4,551,529	5,164,785
Jarboe Trust	1,046,272	1,295,175
	$ 6,411,064	$ 7,353,263

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, 2022 and 2021. 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.

Limited partnerships: Management uses unobservable inputs including information from fund managers and general partners. 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 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. Investments measured at NAV are presented in a separate column to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

The following tables present the Diocese's assets and liabilities measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at June 30, 2022 and 2021:

	June 30, 2022				
	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Investments					
Money market funds (at cost)	$ -	$ -	$ -	$ -	$ 6,386,253
Mutual Funds					
Equity	7,599,594	-	-	-	7,599,594
Fixed income	15,865,465	-	-	-	15,865,465
Common stocks	8,951,348	-	-	-	8,951,348
Limited Partnerships					
Strategic hedge funds	-	-	-	6,867,201	6,867,201
Conservative hedge funds	-	-	-	5,942,215	5,942,215
Total investments	32,416,407	-	-	12,809,416	51,612,076
Beneficial interest in trusts	-	-	6,411,064	-	6,411,064
Total assets at fair value	$ 32,416,407	$ -	$ 6,411,064	$ 12,809,416	$ 58,023,140
Liabilities					
Due to annuitants	$ -	$ -	$ 239,664	$ -	$ 239,664
Derivative financial instruments	-	734,444	-	-	734,444
Total liabilities at fair value	$ -	$ 734,444	$ 239,664	$ -	$ 974,108

	June 30, 2021				
	Level 1	Level 2	Level 3	Investments Measured at NAV	Total
Investments					
Money market funds (at cost)	$ -	$ -	$ -	$ -	$ 6,927,037
Mutual Funds					
Equity	9,478,544	-	-	-	9,478,544
Fixed income	19,197,265	-	-	-	19,197,265
Common Stocks	12,103,108	-	-	-	12,103,108
Limited Partnerships					
Strategic hedge funds	-	-	-	6,771,296	6,771,296
Conservative hedge funds	-	-	-	4,464,156	4,464,156
Total investments	40,778,917	-	-	11,235,452	58,941,406
Beneficial interest in trusts	-	-	7,353,263	-	7,353,263
Total assets at fair value	$ 40,778,917	$ -	$ 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

The Diocese serves as custodian for the investments for several religious organizations that operate outside 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, 2022 and 2021 was $596,259 and $780,334, respectively.

The table below presents additional information regarding investments whose fair value is estimated using the practical expedient of reported NAV at June 30, 2022 and 2021:

	Conservative Hedge Funds (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
Fair value at June 30, 2022	$ 5,942,215	$ 6,867,201
Fair value at June 30, 2021	$ 4,464,156	$ 6,771,296

(1) *Conservative hedge funds:* These are funds 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. The funds do not contain an investor gate but there is an overall fund level gate which could limit the Diocese's redemptions to 20% of its fund balance if all investors were making redemption requests simultaneously.

(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:

	2022			
	Cost			
	Land and Improvements	Buildings and Equipment	1971 Appraisal	Total
Administrative offices	$ 1,135,494	$ 14,591,170	$ 665,622	$ 16,392,286
Parish churches and rectories	5,244,654	170,907,491	20,682,052	196,834,197
Parish and Diocesan schools	4,483,263	45,655,143	4,353,290	54,491,696
Cemeteries and other Diocesan institutions	10,875	3,245,907	748,473	4,005,255
	$ 10,874,286	$ 234,399,711	$ 26,449,437	$ 271,723,434

	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

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 Bloomberg Short-Term Bank Yield (BSBY) plus 225 basis points, currently 3.86%. There was no outstanding balance at June 30, 2022 and 2021. The line of credit was renewed on July 20, 2022 with a decreased credit limit of $5,000,000. The line is secured by a negative pledge agreement and matures on July 20, 2023.

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 4.04%. There was no outstanding balance at June 30, 2022 and 2021. The line of credit was renewed on May 2, 2023 with interest at the Prime Rate minus a margin of 0.80. This line is secured by negative pledge agreements and matures on July 30, 2023.

NOTE 8 – DERIVATIVE FINANCIAL INSTRUMENTS

The Diocese 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, 2022 and 2021 are summarized as follows:

Swap Inception	Notional Principal at 6/30/2022	Fixed Rate	Variable Rate	Termination Date	2022 Asset/ (Liability)	2021 Asset/ (Liability)
7/1/2003	$ 6,427,500	3.61%	% of 30-day LIBOR	5/1/2033	$ (598,235)	$ (1,239,056)
9/4/2013	$ 9,085,689	5.09%	30-day LIBOR +1.65	9/1/2025	(136,209)	(994,493)
					$ (734,444)	$ (2,233,549)

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.

In December 2022, the Diocese terminated the interest rate swap contract with original maturity date of May 1, 2033 by paying a settlement to the counterparty in the amount of $135,000.

In March 2023, the interest rate swap contract with original maturity date of September 1, 2025 was modified to change the variable rate from LIBOR to the 1-month CME Term SOFR rate plus 1.70%.

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 loans"). In May 2022, the bank-qualified loans were refinanced at a fixed interest rate of 3.50%.

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.

Effective March 1, 2023, the note was amended to change the interest rate from 1-month LIBOR plus 1.65% to the sum of the variable rate index of 1-month CME Term SOFR rate plus 1.70%.

The Diocese is subject to various restrictive debt covenant ratios for the bank loan agreements. At June 30, 2022, the Diocese was not aware of any non-compliance with such covenants.

Paycheck Protection Program Loans

During 2020, the Diocese obtained unsecured loans totaling $6,739,404 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. During 2022, the remaining first round PPP loans totaling $2,643,308 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. During 2022, the Diocese was notified that the SBA had fully forgiven loans totaling $1,307,714, and the forgiveness is recorded as a gain in the statement of activities. Subsequent to June 30, 2022, the remaining second round PPP loans totaling $48,155 were forgiven by the SBA.

Outstanding long-term debt at June 30, 2022 and 2021 is summarized as follows:

	2022	2021
Bank qualified loan, Tranche A, payable in monthly installments of $33,661 at 3.50% interest, matures on May 1, 2033, secured by a deed of trust on real estate.	$ 3,663,245	$ 6,628,994
Bank qualified loan, Tranche B, payable in monthly installments of $33,987 at 3.50% interest, matures on May 1, 2033, secured by a deed of trust on real estate.	3,695,704	6,665,782
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 3.44%, matures September 1, 2025, secured by substantially all assets of the Diocese.	4,155,780	4,741,428
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.	20,002	27,472
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; paid off in April 2022.	-	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.	163,847	166,278
Paycheck Protection Program loans - round 1	-	2,643,308
Paycheck Protection Program loans - round 2	48,155	1,355,869
	$ 11,746,733	$ 22,277,856

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

2023	$ 1,211,354
2024	1,263,914
2025	1,443,254
2026	2,840,905
2027	648,319
Thereafter	4,338,987
	$ 11,746,733

Interest expense on long-term debt totaled $1,025,236 and $1,202,239 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the leases have a weighted-average remaining term of 2.9 years and 1.8 years, respectively.

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

2023	$ 256,292
2024	291,242
2025	82,107
2026	62,186
2027	43,214
Less amount representing interest	(61,106)
	$ 673,935

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

	2022	2021
Finance-Type Lease Costs:		
Amortization of right-of-use assets	$ 371,755	$ 679,226
Interest on lease liabilities	41,836	80,833
	$ 413,591	$ 760,059

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, 2022 and 2021. Related assets are recognized at fair value, with no contributions received in 2022 or 2021.

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 ranges are as follows:

	Minimum Weight	Maximum Weight
Equities	30%	70%
Fixed income	10%	60%
Alternative investments	0%	30%
Cash/short-term bonds	0%	10%

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

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds:			
Gadomski Scholarship Trust	$ -	$ 907,834	$ 907,834
Forsdick Scholarship Trust	-	2,988,598	2,988,598
Canale Scholarship Trust	-	650,070	650,070
Walsh Trust	-	1,305,974	1,305,974
Hearst Scholarship Trust	-	143,425	143,425
Todd Education Trust	-	187,159	187,159
St. Louis Parish - Msgr. Clunan	2,447,849	1,781,021	4,228,870
OLPH School (Costa Family)	-	250,170	250,170
St. Francis School - Msgr. Buchignani	735,993	306,892	1,042,885
Dr. Sullivan Memorial	-	11,342	11,342
Sister Graeber Memorial	-	31,354	31,354
St. Benedict at Auburndale	76,564	270,599	347,163
	$ 3,260,406	$ 8,834,438	$ 12,094,844

	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

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, 2022 and 2021.

The changes in endowment net assets for the year ended June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 3,765,142	$ 10,770,134	$ 14,535,276
Net investment return (loss)	(504,736)	(1,576,398)	(2,081,134)
Contributions	-	95,236	95,236
Appropriations	-	(454,534)	(454,534)
Endowment net assets, end of year	$ 3,260,406	$ 8,834,438	$ 12,094,844

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

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2022	2021
Purpose Restrictions:		
Capital projects	$ 12,358,730	$ 9,883,457
Education	4,303,467	5,843,050
Debt reduction	643,125	557,933
Housing - priests/retired priests	2,054,306	2,471,631
Other ministries	2,968,929	3,594,869
United in Faith future endowment	1,976,601	-
	24,305,158	22,350,940
Time-restricted for future periods	2,646,029	2,633,698
Perpetual in nature	6,311,136	6,260,605
	$ 33,262,323	$ 31,245,243

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

	2022	2021
Satisfaction of Purpose Restrictions:		
Capital projects	$ 3,110,955	$ 1,381,859
Education	2,929,357	1,653,214
Debt reduction	668,110	1,956,329
Housing - priests/retired priests	421,719	262,392
Other ministries	648,433	20,562
Expiration of time restrictions	2,451,919	2,153,898
	$ 10,230,493	$ 7,428,254

NOTE 14 – DIOCESE-DESIGNATED NET ASSETS

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

	2022	2021
Holy Rosary school trust	$ 993,651	$ 1,370,196
Perpetual care for cemeteries	3,362,352	3,919,826
Retreat center	901,748	1,084,216
St. Louis Parish - Msgr. Clunan	2,447,849	2,802,877
St. Francis School - Msgr. Buchignani	735,993	886,999
St. Benedict at Auburndale	76,564	75,266
	$ 8,518,157	$ 10,139,380

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, 2022 and 2021, employer contributions to the plan totaled $178,764 and $181,267, 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:

	2022		
	Priest Plan	Employee Plan	Total
Change in Projected Benefit Obligation:			
Projected benefit obligation, beginning of year	$ 8,847,820	$ 94,846,433	$ 103,694,253
Service cost	129,309	-	129,309
Interest cost	218,581	2,362,910	2,581,491
Plan amendments	2,038,232	-	2,038,232
Actuarial (gain)/loss	(1,518,401)	(16,764,134)	(18,282,535)
Benefits paid	(426,518)	(4,834,895)	(5,261,413)
Projected benefit obligation, end of year	$ 9,289,023	$ 75,610,314	$ 84,899,337
Change in Plan Assets:			
Fair value of plan assets, beginning of year	$ 10,085,230	$ 99,141,950	$ 109,227,180
Actual return on plan assets, net of expenses	(2,029,898)	(22,894,240)	(24,924,138)
Employer contributions	104,598	1,713,221	1,817,819
Benefits paid	(426,518)	(4,834,895)	(5,261,413)
Fair value of plan assets, end of year	$ 7,733,412	$ 73,126,036	$ 80,859,448
Funded status	$ (1,555,611)	$ (2,484,278)	$ (4,039,889)

	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

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 liability attributed to Catholic Charities, Inc. totaled $479,465 at June 30, 2022.The portion of the additional minimum pension asset attributed to Catholic Charities, Inc. totaled $289,741 at June 30, 2021.

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

	2022	
	Priest Plan	Employee Plan
Discount rate	4.32%	4.35%
Rate of compensation increase	N/A	N/A

	2021	
	Priest Plan	Employee Plan
Discount rate	2.48%	2.56%
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:

	2022		
	Priest Plan	Employee Plan	Total
Net Periodic Pension Cost:			
Service cost	$ 129,309	$ -	$ 129,309
Interest cost	218,581	2,362,910	2,581,491
Expected return on plan assets	(742,222)	(7,308,998)	(8,051,220)
Amortization of prior service cost	10,596	-	10,596
Amortization of net loss	23,106	62,543	85,649
	$ (360,630)	$ (4,883,545)	$ (5,244,175)

	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

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

	2022	
	Priest Plan	Employee Plan
Discount rate	2.48%	2.56%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	N/A	N/A

	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

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:

	2022		
	Priest Plan	Employee Plan	Total
Prepaid Pension Cost:			
Balance, beginning of year	$ 2,596,689	$ 14,660,648	$ 17,257,337
Net periodic pension credit (cost)	360,630	4,883,545	5,244,175
Employer contributions	104,598	1,713,221	1,817,819
Balance, end of year	$ 3,061,917	$ 21,257,414	$ 24,319,331

	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

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

	Priest Plan	Employee Plan	Total
2023	$ 582,000	$ 5,091,000	$ 5,673,000
2024	635,000	5,108,000	5,743,000
2025	642,000	5,126,000	5,768,000
2026	667,000	5,101,000	5,768,000
2027	701,000	5,093,000	5,794,000
2028 - 2032	3,279,000	24,971,000	28,250,000
	$ 6,506,000	$ 50,490,000	$ 56,996,000

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 2023 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
Equities	30%	70%
Fixed income	10%	60%
Alternative investments	0%	30%
Cash and equivalents	0%	10%

The following tables present the Plans' assets that are measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at June 30:

	2022		
	Priest Plan	Employee Plan	Total
At Cost			
Money market funds	$ 356,985	$ 2,538,458	$ 2,895,443
Level 1			
Mutual Funds			
Equities	4,274,599	40,899,295	45,173,894
Fixed income	643,799	5,756,791	6,400,590
Total level 1	4,918,398	46,656,086	51,574,484
Investments Measured at NAV			
Limited Partnerships			
Conservative hedge fund	967,467	10,046,659	11,014,126
Strategic hedge fund	1,490,562	13,884,833	15,375,395
Total investments measured at NAV	2,458,029	23,931,492	26,389,521
Total plan assets at fair value	$ 7,733,412	$ 73,126,036	$ 80,859,448

	2021		
	Priest Plan	Employee Plan	Total
At Cost			
Money market funds	$ 205,292	$ 1,263,821	$ 1,469,113
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 level 1	7,381,226	69,355,574	76,736,800
Investments Measured at NAV			
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

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, 2022 and 2021:

	Conservative Hedge Funds (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
Fair value at June 30, 2022	$ 11,014,126	$ 15,375,395
Fair value at June 30, 2021	$ 10,034,463	$ 20,986,804

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

(1) *Conservative hedge funds:* These are funds 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. The funds do not contain an investor gate but there is an overall fund level gate which could limit the Diocese's redemptions to 20% of its fund balance if all investors were making redemption requests simultaneously.

(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, 2022 and 2021:

	2022	2021
Change in Projected Benefit Obligation:		
Projected benefit obligation, beginning of year	$ 6,343,844	$ 7,032,184
Service cost	190,394	238,343
Interest cost	169,469	179,113
Actuarial (gain)/loss	(1,875,107)	(1,007,062)
Benefits paid	(95,414)	(98,734)
Projected benefit obligation, end of year	$ 4,733,186	$ 6,343,844
Fair value of plan assets	-	-
Funded status	$ (4,733,186)	$ (6,343,844)

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

	2022	2021
Net Periodic Benefit Cost:		
Service cost	$ 190,394	$ 238,343
Interest cost	169,469	179,113
Amortization of prior service cost	172,330	218,133
Amortization of net (gain)/loss	(117,220)	(54,966)
Net periodic benefit cost	$ 414,973	$ 580,623

Weighted-average actuarial assumptions used to calculate the projected benefit obligation and net periodic benefit cost were as follows for 2022 and 2021:

	2022	2021
Discount rate	4.42%	2.71%

For the next six 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, 2022 and 2021 are as follows:

	2022	2021
Prepaid (Accrued) Benefit Cost:		
Balance, beginning of year	$ (8,736,511)	$ (8,254,622)
Net periodic benefit cost	414,973	580,623
Employer contributions	95,414	98,734
Balance, end of year	$ (9,056,070)	$ (8,736,511)

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, 2022 and 2021.

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

2023	$ 172,000
2024	195,000
2025	207,000
2026	227,000
2027	249,000
2028 - 2032	1,324,000
	$ 2,374,000

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 2022 and 2021. Amounts accrued totaled $329,082 and $261,489 at June 30, 2022 and 2021, 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, 2022 and 2021, of $193,959 and $235,805, 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:

	2022	2021
Catholic Charities, Inc.		
Pension liability (asset)	$ 479,465	$ (289,741)
Cafeteria benefits	334,840	454,925
Other	3,288	-
Loan receivable	237,159	237,159
Total due from Catholic Charities, Inc.	1,054,752	402,343
Less allowance	(277,146)	(345,437)
	$ 777,606	$ 56,906

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 $6,910,000 and remaining commitments on the contracts at June 30, 2022 totaled approximately $2,480,000.

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, 2022 totaled approximately $500,000.

NOTE 21 – CAPITAL CAMPAIGN

During August 2021, the Diocese began a capital campaign (United in Faith) for the purpose of funding the Annual Catholic Appeal for fiscal year 2022, creating new endowments for the Diocese, and funding specific projects outlined by the parishes. For 2022, approximately $5,100,000 of cash was collected, with approximately $2,500,000 being allocated to the Annual Catholic Appeal, $2,000,000 for future endowments, and $600,000 for parish projects. Additional campaign commitments have been obtained from donors; however, since these are considered intentions to give, they are not reflected in the accompanying financial statements as they do not meet the criteria for recognition as contributions under GAAP, and accordingly, will be recognized when collected.

In February 2022, the Catholic Foundation of West Tennessee (the “Foundation”) was formed for the purpose of holding and investing the endowment funds raised from the campaign. As of June 30, 2022, no amounts had been transferred to the Foundation.

Unaudited Information

The initial campaign target was $22 million but as of the date of this report, the Diocese has over $30 million in commitments. Of this total, $5 million will go to the Seminarian Endowment, $3 million to the Priest Retirement Endowment, $2 million to the Youth/College/Young Adult Endowment and $500,000 to the Permanent Diaconate Endowment. The remaining balance will be utilized by the individual parishes for their campaign projects.

SUPPLEMENTAL SCHEDULES

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2022
(with summarized financial information at June 30, 2021)

		Diocesan Activities							
	Diocesan Administrative Offices	Parishes		St. Benedict at Auburndale High School	Cemeteries	Combined Total	Eliminations	2022 Consolidated Total	2021 Consolidated Total
		Churches	Schools						
Assets									
Cash and cash equivalents	$ 7,069,598	$ 16,604,933	$ 2,613,301	$ (1,856,663)	$ 9,512	$ 24,440,681	$ 71,842	$ 24,512,523	$ 23,242,630
Receivables									
Unconditional promises to give, net	34,404	600,923	-	-	-	635,327	-	635,327	1,417,327
Tuition, net	-	1,650	65,782	18,818	-	86,250	(4,271)	81,979	87,356
Related party	15,513,258	9,656,253	2,941,244	437,086	122,906	28,670,747	(27,893,141)	777,606	56,906
Other	771,419	21,859	16,547	-	250,931	1,060,756	(416,942)	643,814	3,296,244
Prepaid expenses	71,956	9	101,273	-	-	173,238	(83,373)	89,865	138,665
Investments	35,488,355	8,969,990	3,788,570	-	3,365,161	51,612,076	-	51,612,076	58,941,406
Beneficial interest in trusts	1,229,281	5,181,783	-	-	-	6,411,064	-	6,411,064	7,353,263
Property and equipment	16,392,286	196,834,197	21,109,885	33,381,811	4,005,255	271,723,434	-	271,723,434	267,848,424
Pension asset	-	-	-	-	-	-	-	-	5,532,927
Right-of-use assets	715,366	-	-	-	-	715,366	-	715,366	630,556
Other assets	196,711	493,051	-	-	-	689,762	-	689,762	432,139
Total assets	$ 77,482,634	$ 238,364,648	$ 30,636,602	$ 31,981,052	$ 7,753,765	$ 386,218,701	$ (28,325,885)	$ 357,892,816	$ 368,977,843
Liabilities and Net Assets									
Accounts payable and accrued expenses	$ 1,437,571	$ 2,915,980	$ 1,304,903	$ 329,636	$ 14,018	$ 6,002,108	$ (1,821,185)	$ 4,180,923	$ 4,369,276
Line of credit	-	3,694,313	-	122,728	-	3,817,041	(3,817,041)	-	-
Collections held for transmittal	307,353	180,075	15,116	27,179	-	529,723	-	529,723	305,084
Deferred revenue	15,586	132,754	1,403,021	1,339,743	2,290	2,893,394	-	2,893,394	3,267,848
Lease liabilities	757,308	-	-	-	-	757,308	(83,373)	673,935	671,205
Due to annuitants	239,664	-	-	-	-	239,664	-	239,664	249,826
Due to beneficiaries	-	-	-	-	-	-	-	-	244,780
Minimum pension liability	4,039,889	-	-	-	-	4,039,889	-	4,039,889	-
Post-retirement benefit obligation	4,733,186	-	-	-	-	4,733,186	-	4,733,186	6,343,844
Related party payables	11,996,071	4,341,638	3,321,087	-	3,592,077	23,250,873	(22,604,286)	646,587	825,782
Derivative financial instruments	136,209	-	-	598,235	-	734,444	-	734,444	2,233,549
Long-term debt	4,155,779	232,005	-	7,358,949	-	11,746,733	-	11,746,733	22,277,856
Total liabilities	27,818,616	11,496,765	6,044,127	9,776,470	3,608,385	58,744,363	(28,325,885)	30,418,478	40,789,050
Net assets	49,664,018	226,867,883	24,592,475	22,204,582	4,145,380	327,474,338	-	327,474,338	328,188,793
Total liabilities and net assets	$ 77,482,634	$ 238,364,648	$ 30,636,602	$ 31,981,052	$ 7,753,765	$ 386,218,701	$ (28,325,885)	$ 357,892,816	$ 368,977,843

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF ACTIVITIES

For the Year Ended June 30, 2022
(with summarized financial information for the year ended June 30, 2021)

	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	2022 Consolidated Total	2021 Consolidated Total
Operating Support and Revenues									
Contributions and Grants									
General contributions	$ 2,925,263	$ 29,932,679	$ 1,083,890	$ 788,088	$ 36,246	$ 34,766,166	$ (52,807)	$ 34,713,359	$ 30,410,835
Annual Catholic Appeal	2,464,250	-	-	-	-	2,464,250	-	2,464,250	2,409,399
Grant revenue	16,209	530,761	1,546,328	125,175	-	2,218,473	(568,163)	1,650,310	339,376
Estate donations	3,578	-	-	-	-	3,578	-	3,578	3,419,038
Government grants	-	-	654,088	173,684	-	827,772	-	827,772	1,846,260
Missions and societies	120,425	-	-	-	-	120,425	-	120,425	109,500
Education									
Tuition and fees, net	4,750	757,562	15,959,256	5,554,428	-	22,275,996	-	22,275,996	22,164,889
Other education revenue	-	943,146	3,065,523	759,279	-	4,767,948	-	4,767,948	3,329,460
Social and fundraising	-	2,966,281	378,546	1,790	-	3,346,617	-	3,346,617	1,614,883
Auxiliary services	460,503	286,642	-	4,400	-	751,545	(44,154)	707,391	525,811
Cemeteries	-	75,933	-	-	692,589	768,522	-	768,522	737,997
Assessments and subsidies	3,544,225	-	-	-	-	3,544,225	(3,544,225)	-	-
Other income	627,271	3,919,259	186,096	177,787	4,285	4,914,698	-	4,914,698	3,735,076
Total operating support and revenue	10,166,474	39,412,263	22,873,727	7,584,631	733,120	80,770,215	(4,209,349)	76,560,866	70,642,524

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATING SCHEDULE OF ACTIVITIES (continued)

For the Year Ended June 30, 2022
(with summarized financial information for the year ended June 30, 2021)

		Diocesan Activities							
	Diocesan Administrative Offices	Parishes		St. Benedict at Auburndale High School	Cemeteries	Combined Total	Eliminations	2022 Consolidated Total	2021 Consolidated Total
		Churches	Schools						
Operating Expenses									
Program Services									
Cemeteries	$ -	$ -	$ -	$ -	$ 523,943	$ 523,943	$ -	$ 523,943	$ 468,433
Ministry	2,891,015	21,712,230	-	-	-	24,603,245	(32,454)	24,570,791	18,682,920
Education	-	-	18,588,968	6,094,165	-	24,683,133	-	24,683,133	25,223,882
Total program services	2,891,015	21,712,230	18,588,968	6,094,165	523,943	49,810,321	(32,454)	49,777,867	44,375,235
General and administration	4,480,588	6,098,993	4,072,630	684,498	148,369	15,485,078	(235,354)	15,249,724	14,894,606
Fundraising	1,844,471	180,549	59,260	19,933	50	2,104,263	-	2,104,263	632,681
Total operating expenses	9,216,074	27,991,772	22,720,858	6,798,596	672,362	67,399,662	(267,808)	67,131,854	59,902,522
Income (loss) from operations	950,400	11,420,491	152,869	786,035	60,758	13,370,553	(3,941,541)	9,429,012	10,740,002
Nonoperating Gains (Losses)									
Subsidies - Diocesan entities	(859,826)	(3,747,832)	211,331	284,192	-	(4,112,135)	(4,112,135)	-	-
Forgiveness of Paycheck Protection Program	-	1,947,031	2,003,992	-	-	3,951,023	-	3,951,023	4,096,096
Change in value of beneficial interest in trusts	(298,818)	(409,532)	-	-	-	(708,350)	-	(708,350)	919,023
Net investment return (loss)	(4,520,387)	(1,184,724)	(532,282)	-	(585,993)	(6,823,386)	(170,594)	(6,993,980)	8,880,150
Change in value of derivatives	858,284	-	-	640,821	-	1,499,105	-	1,499,105	1,014,045
Minimum pension liability adjustment	(8,803,610)	-	-	-	-	(8,803,610)	-	(8,803,610)	30,513,941
Postretirement benefits adjustment	1,610,658	-	-	-	-	1,610,658	-	1,610,658	688,340
Loss on uncollectible promises to give	(2,050)	(13,005)	-	-	-	(15,055)	-	(15,055)	(103,300)
Gain (loss) on sale of assets	(221,036)	6,220	(468,442)	-	-	(683,258)	-	(683,258)	(828,414)
Total nonoperating gains (losses)	(12,236,785)	(3,401,842)	1,214,599	925,013	(585,993)	(14,085,008)	(4,282,729)	(10,143,467)	45,179,881
Change in net assets	(11,286,385)	8,018,649	1,367,468	1,711,048	(525,235)	(714,455)	-	(714,455)	55,919,883
Net assets, beginning 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
Interfund transfers	(138,541)	-	108,566	29,975	-	-	-	-	-
Net assets, beginning of year	60,950,403	218,849,234	23,225,007	20,493,534	4,670,615	328,188,793	-	328,188,793	272,268,910
Net assets, end of year	$ 49,664,018	$ 226,867,883	$ 24,592,475	$ 22,204,582	$ 4,145,380	$ 327,474,338	$ -	$ 327,474,338	$ 328,188,793

See independent auditor’s report.

THE ROMAN CATHOLIC DIOCESE OF MEMPHIS IN TENNESSEE

CONSOLIDATED SCHEDULE OF PARISH INTERCOMPANY BANK INDEBTEDNESS

June 30, 2022 and 2021

	2022	2021
St. Ann Church, Bartlett	$ 1,840,306	$ 2,128,444
St. Anne Church	298,808	281,130
St. Benedict at Auburndale School	122,728	203,600
St. Brigid Church	210,285	577,246
St. Mary Church, Memphis	1,344,916	1,456,595
Additional payments by the Diocese	338,737	94,413
	$ 4,155,780	$ 4,741,428
Bank note balance (Note 9)	$ 4,155,780	$ 4,741,428

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, 2022

Grantor/Pass-Through Agency	Contract Number	State Expenditures
Tennessee Department of Education:		
Emergency Assistance to Non-Public Schools - COVID-19	N/A	$ 827,772

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

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2022

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 state government for the year ended June 30, 2022. 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.

NOTE C – INDIRECT COST RATE

The Diocese has elected not to use the 10% de minimis indirect cost rate as allowed in the Uniform Guidance.

WATKINS UIBERALL
Certified Public Accountants
Independent Member of BKR International

Watkins Uiberall, PLLC

1661 Aaron Brenner Drive • Suite 300
Memphis, Tennessee 38120
901.761.2720 • Fax: 901.683.1120

417 West Main Street • Suite 100
Tupelo, Mississippi 38804
662.269.4014 • Fax: 662.269.4016

www.wucpas.com

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, 2022, 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 July 27, 2023.

Report On 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002, that we consider to be significant deficiencies.

Report On 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

Government Auditing Standards require the auditor to perform limited procedures on the Diocese's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses and management's corrective action plan. The Diocese's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the 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 Diocese'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 Diocese's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins Uiberall, PLLC

Memphis, Tennessee
July 27, 2023

2022-001 – 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.

2022-002 – 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, 2022

Prior Year Finding Number	Finding Title	Status/ Current Year Finding Number
2021-001	Property and Equipment	Repeated (2022-001)
2021-001	Segregation of Duties	Repeated (2022-002)

THE CATHOLIC DIOCESE OF MEMPHIS

5825 SHELBY OAKS DRIVE
P.O. BOX 341669
MEMPHIS, TN 38184-1669
(901) 373-1200

MANAGEMENT'S CORRECTIVE ACTION PLAN

The Catholic Diocese of Memphis submits the following corrective action plan for the year ended June 30, 2022. The findings from the June 30, 2022 schedule of findings and recommendations are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2022-001-Property and Equipment

Corrective Action: The fixed asset and depreciation issue is a long standing issue which will take some time to rectify. To date, we have been unable to obtain an accounting firm that would be willing to undertake the project and therefore we will begin to work with the Parishes to ensure that they are in fact recording all new assets as well as disposals. We will review the existing accounting policies and ensure that this is included, then we will begin to assess this as part of our parish review process.

Responsible for Corrective Action: Chief Financial Officer and Controller

Anticipated Completion Date for Corrective Action: October 1, 2023

2022-002-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 as well as the smaller parishes. 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