# Independent Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and Government Auditing Standards and Related Information

**The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates**

December 31, 2021 and 2020

**Contents**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Executive Council of
The Domestic and Foreign Missionary Society
of the Protestant Episcopal Church in the
United States of America and Affiliates:

## Report on the financial statements

### Opinion

We have audited the consolidated financial statements of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (collectively, the "Society"), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Society as of December 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for opinion

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for one year after the date the consolidated 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 US GAAS 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 US GAAS 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 Society'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 Society'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 audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedule of financial position as of December 31, 2021, the consolidating schedule of activities and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and*

*Audit Requirements for Federal Awards*,) are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary 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 audits of the consolidated financial statements and certain additional procedures. These additional procedures included 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 US GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

## Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022 on our consideration of the Society'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 Society'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 Society's internal control over financial reporting and compliance.

Grant Thornton LLP

New York, New York
June 30, 2022

**The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31,**
**(Dollar amounts in thousands)**

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 32,829 | $ 31,873 |
| Receivables: | | |
| Diocesan commitments receivable, net | - | 453 |
| Loans receivable, net | 8,593 | 7,728 |
| Government grants | 2,196 | 1,454 |
| Contributions and other receivables, net | 8,740 | 6,415 |
| Prepaid expenses and other assets | 2,893 | 2,198 |
| Investments: | | |
| DFMS-controlled funds | 438,739 | 413,580 |
| Funds held for the benefit of others and in a trustee relationship | 251,322 | 211,495 |
| Interest rate swap | 423 | - |
| Property and equipment, net | 28,703 | 29,755 |
| Beneficial interest in outside trusts | 9,585 | 8,800 |
| Total assets | $ 784,023 | $ 713,751 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities** | | |
| Accounts payable and accrued expenses | $ 5,843 | $ 10,040 |
| Payroll Protection Program loans | - | 5,099 |
| Notes payable and line of credit | 20,803 | 22,283 |
| Interest rate swap | - | 60 |
| Mortgage payable | 2,301 | 2,864 |
| Accrued postretirement benefits other than pensions | 13,256 | 18,472 |
| Funds held for the benefit of others | 213,943 | 175,848 |
| Funds held in a trustee relationship | 37,379 | 35,647 |
| Total liabilities | 293,525 | 270,313 |
| **Contingencies** | | |
| **Net assets** | | |
| Net assets without donor restrictions | 221,669 | 200,389 |
| Net assets with donor restrictions | 268,829 | 243,049 |
| Total net assets | 490,498 | 443,438 |
| Total liabilities and net assets | $ 784,023 | $ 713,751 |

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

**The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**Years ended December 31, (Dollars amounts in thousands)**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
| **Revenues and other support** | | | | | | |
| Diocesan commitments | $ 30,104 | $ - | $ 30,104 | $ 29,679 | $ - | $ 29,679 |
| Contributions and bequests | 592 | 854 | 1,446 | 666 | 731 | 1,397 |
| Contributions and other income - Episcopal Relief and Development | - | 23,261 | 23,261 | - | 15,687 | 15,687 |
| Contributed services | 38 | - | 38 | 160 | - | 160 |
| Investment return designated for current operations | 11,054 | 1,874 | 12,928 | 10,841 | 1,987 | 12,828 |
| Other investment income | 174 | (131) | 43 | 1,129 | 337 | 1,466 |
| Government revenue | 10,171 | - | 10,171 | 6,678 | (69) | 6,609 |
| Fees and other income | 8,293 | 1,462 | 9,755 | 4,952 | 35 | 4,987 |
| Revenue from the Episcopal Church in Micronesia | 9,143 | - | 9,143 | 7,983 | - | 7,983 |
| Net assets released from restrictions | 24,819 | (24,819) | - | 31,514 | (31,514) | - |
| Total revenues and other support | 94,388 | 2,501 | 96,889 | 93,602 | (12,806) | 80,796 |
| **Expenses** | | | | | | |
| Program services: | | | | | | |
| Canonical and missional programs | 39,758 | - | 39,758 | 32,684 | - | 32,684 |
| General convention | 3,234 | - | 3,234 | 3,136 | - | 3,136 |
| Grant-related activities and other | 2,677 | - | 2,677 | 3,213 | - | 3,213 |
| Episcopal Relief & Development | | | | | | |
| Development | 13,774 | - | 13,774 | 12,081 | - | 12,081 |
| Disaster | 4,187 | - | 4,187 | 4,046 | - | 4,046 |
| Expenses from the Episcopal Church in Micronesia | 6,821 | - | 6,821 | 7,652 | - | 7,652 |
| Total program services | 70,451 | - | 70,451 | 62,812 | - | 62,812 |
| Supporting services: | | | | | | |
| General and administrative | 9,205 | - | 9,205 | 9,107 | - | 9,107 |
| Fundraising | 375 | - | 375 | 395 | - | 395 |
| General and administrative - Episcopal Relief and Development | 974 | - | 974 | 1,343 | - | 1,343 |
| Fundraising - Episcopal Relief and Development | 2,614 | - | 2,614 | 2,929 | - | 2,929 |
| Total supporting services | 13,168 | - | 13,168 | 13,774 | - | 13,774 |
| Total expenses | 83,619 | - | 83,619 | 76,586 | - | 76,586 |
| Changes in net assets from operations | 10,769 | 2,501 | 13,270 | 17,016 | (12,806) | 4,210 |
| **Non-operating activities** | | | | | | |
| Investment return | 16,274 | 25,721 | 41,995 | 21,647 | 41,981 | 63,628 |
| Less: Other investment loss | (174) | (568) | (742) | (1,129) | (930) | (2,059) |
| Net investment gain | 16,100 | 25,153 | 41,253 | 20,518 | 41,051 | 61,569 |
| Less: Investment return designated for current operations | (11,054) | (1,874) | (12,928) | (10,841) | (1,987) | (12,828) |
| Change in value of interest rate swap agreement | 483 | - | 483 | 34 | - | 34 |
| Postretirement related activities other than service cost | 4,982 | - | 4,982 | (722) | - | (722) |
| Total non-operating activities | 10,511 | 23,279 | 33,790 | 8,989 | 39,064 | 48,053 |
| **CHANGES IN NET ASSETS** | 21,280 | 25,780 | 47,060 | 26,005 | 26,258 | 52,263 |
| Net assets, beginning of year | 200,389 | 243,049 | 443,438 | 174,384 | 216,791 | 391,175 |
| Net assets, end of year | $ 221,669 | $ 268,829 | $ 490,498 | $ 200,389 | $ 243,049 | $ 443,438 |

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

**The Domestic and Foreign Missionary Society**
**of the Protestant Episcopal Church in the**
**United States of America and Affiliates**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended December 31,**
**(Dollar amounts in thousands)**

| | 2021 | 2020 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Changes in net assets | $ 47,060 | $ 52,263 |
| used in operating activities: | | |
| Non-cash items: | | |
| Depreciation | 1,797 | 2,129 |
| Payroll Protection Program loan forgiveness | (5,099) | - |
| Change in allowance for uncollectible amounts | 419 | 333 |
| Amortization of discount to present value receivables | 2 | (72) |
| Total non-cash adjustments | (2,881) | 2,390 |
| Change in working capital: | | |
| Diocesan commitments receivable | 34 | (8) |
| Loans receivable | (865) | (654) |
| Government grants receivable | (742) | (441) |
| Contributions and other receivables | (2,327) | 1,959 |
| Prepaid expenses and other assets | (695) | (636) |
| Accounts payable and accrued expenses | (4,197) | 2,909 |
| Total change in working capital accounts | (8,792) | 3,129 |
| Change in investments: | | |
| Net realized and unrealized gains on investments | (41,253) | (61,569) |
| Total change in investments | (41,253) | (61,569) |
| Other changes: | | |
| Change in value of beneficial interests in outside trusts | (785) | (686) |
| Change in value of interest rate swap agreement | (483) | (34) |
| Change in accrued postretirement benefits other than pensions | (5,216) | 1,615 |
| Total other changes | (6,484) | 895 |
| Total change in working capital accounts and other | (56,529) | (57,545) |
| Net cash used in operating activities | (12,350) | (2,892) |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (745) | (569) |
| Proceeds from sales of investments | 82,194 | 67,644 |
| Purchases of investments | (66,100) | (64,317) |
| Net cash provided by investing activities | 15,349 | 2,758 |
| **Cash flows from financing activities:** | | |
| Repayments under notes payable and line of credit | (1,480) | (1,480) |
| Proceeds from Payroll Protection Program loans | - | 5,099 |
| Principal payments on mortgage loan | (563) | 324 |
| Net cash (used in) provided by financing activities | (2,043) | 3,943 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 956 | 3,809 |
| **Cash and cash equivalents, beginning of year** | 31,873 | 28,064 |
| **Cash and cash equivalents, end of yeaı** | $ 32,829 | $ 31,873 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest during the yeaı | $ 519 | $ 877 |

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

## NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America ("DFMS") is the corporate organization charged with the legal and financial responsibilities for the operations of The Episcopal Church in the United States and 15 other countries. It does not, however, operate or otherwise control individual dioceses. The General Convention is the legislative body of the Episcopal Church and meets in convention once every three years. Between conventions, the Executive Council of the General Convention is charged with the responsibility of implementing the programs and policies adopted by the General Convention.

DFMS's consolidated financial statements include the activities of Episcopal Relief & Development ("ERD"), a separate 501(c)(3) not-for-profit corporation. ERD was established by resolution of the General Convention in 1940 in order to meet the needs of refugees fleeing the war in Europe. Today, ERD is a compassionate response of the Episcopal Church to human suffering in the world. Hearing God's call to seek and serve Christ in all persons and to respect the dignity of every human being, ERD serves to bring together the generosity of Episcopalians and others to heal a hurting world.

DFMS's consolidated financial statements also include the activities of Episcopal Church Women, United Thank Offering and all other direct agencies of DFMS, as well as the missional church and school activities in Micronesia ("Guam").

All intercompany transactions are eliminated upon consolidation. These entities and programs are collectively known as the "Society."

A significant amount of the Society's support comes from amounts provided by the dioceses.

DFMS and ERD have been classified by the Internal Revenue Service as not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Presentation*

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, the classification of the Society's net assets and its support, revenues and expenses are based on the existence or absence of donor-imposed restrictions.

Net assets consist of the following:

Without donor restrictions - net assets that are not restricted by donor-imposed stipulations and, therefore, are available to carry out the Society's operations. Net assets without donor restrictions also include those net assets that are limited as to their use by action of the Executive Council.

With donor restrictions - net assets resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Society pursuant to those stipulations. When such stipulations end or are fulfilled, such net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

(Dollar amounts in thousands)

Net assets with donor restrictions also include contributions and other inflows of assets whose use by the Society is limited in perpetuity by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Society. Such net assets with donor restrictions are comprised primarily of funds restricted by donors to be held in perpetuity, the income from which is intended to support the operations of the Society.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Society to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit, and investments. Management does not believe that a significant risk of loss is likely due to the failure of a financial institution the Society utilizes to perform. Management also believes that its market risk is mitigated by an adequate diversification of its investments amongst a variety of asset classes.

***Diocesan Commitments Receivable***

The Society provides for an allowance for uncollectible receivables based on an assessment of various factors, including historical collection experience and current economic conditions. These allowances are maintained at a level management considers adequate to provide for potentially uncollectible accounts. These estimates are reviewed periodically and, if the financial condition of a diocese changes significantly, the Society will evaluate the recoverability of any commitments due from that diocese and write-off any amounts that are no longer considered to be recoverable. Subsequent collections of receivables previously written-off are recorded as revenue in the year received.

Diocesan commitments receivables, net, at December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Amounts expected to be collected: | | |
| Within one year | $ 85 | $ 587 |
| Between one and five years | - | - |
| Greater than five years | - | 370 |
| Total Diocesan commitments | 85 | 957 |
| Allowance for uncollectible receivables | (85) | (504) |
| Diocesan commitments receivable, net | $ - | $ 453 |

***Investments***

Investments include those that belong to the Society as well as those held on behalf of others. They consist of both marketable and non-marketable securities, stated at quoted market values or values provided by the respective fund manager or general partner as of the measurement date. Purchases and sales of securities are reflected on a trade-date basis. Dividends and interest pertaining to the Society are recognized as earned. Realized and unrealized gains or losses on investments pertaining to the Society are recorded on the consolidated statements of activities in the period in which the securities are sold.

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility changes. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported on the accompanying consolidated financial statements.

***Fair Value Measurements***

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by U.S. GAAP, for fair value measurements, the Society uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity. The Society considers observable data to be market data that are readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Society's perceived risk of that instrument.

The Society estimates that the fair value of its financial instruments does not differ materially from the carrying values as presented on the accompanying consolidated statements of financial position.

### *Cash and Cash Equivalents*

The Society considers all highly liquid investments with original maturities of less than three months from the date of purchase to be cash and cash equivalents, except for those cash equivalents which are included in the Society's investment portfolio which are for long-term investment purposes.

### *Valuation of Investments*

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include actively traded equities, certain U.S. government and sovereign obligations, and certain money market securities. The Society does not adjust the quoted price for such instruments, even in situations where the Society holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government and sovereign obligations, not included in Level 1, most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for these securities, the Society uses one or more valuation techniques (e.g., the market approach, the income approach or the cost approach) for which enough and reliable data are available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the Society in estimating the fair value of Level 3 investments include the original transaction price, recent transactions for the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Society in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Society in valuing such assets, due to the lack of observable inputs, may significantly impact the resulting fair value and therefore the Society's changes in net assets for the respective reporting period.

The Society also measures certain investments using a net asset value ("NAV"), which is exempted from categorization within the fair value hierarchy and related disclosures. Instead, the Society separately discloses the information required for assets measured using the NAV practical expedient and discloses a reconciling item between the total amount of investments categorized within the fair value hierarchy and total investments measured at fair value on the accompanying consolidated statements of financial position.

(Dollar amounts in thousands)

### *Property and Equipment*

The Society's investment in property and equipment consists of its New York headquarters, property in Austin, Texas, and the school and missional churches of Micronesia (Guam). Property and equipment costing greater than $1.5 and with useful lives greater than five years are capitalized. Property and equipment, except for land, are depreciated using the straight-line method over the estimated service lives of the respective assets. The useful lives assigned to furniture and equipment and buildings and improvements range from 5 to 30 years. Maintenance and repairs are expensed as incurred.

### *Beneficial Interest in Outside Trusts*

From time to time, certain donors have established trusts with third-party administrators, typically banks or other Episcopal entities that call for the income earned on these gifts to be paid to the Society and/or other stipulated beneficiaries and the principal to be invested in perpetuity. Historically, the income received from these outside trusts has been recorded as either net assets with donor restrictions or net assets without donor restrictions based upon the donors' imposed stipulations. The fair value of these outside trust assets is recognized as a component of net assets with donor restrictions. The beneficial interest in outside trusts is adjusted each year and the change in fair value is recognized on the consolidated statements of activities based on changes in the fair values of the trusts' underlying investments. Pursuant to certain of the trust arrangements, however, the earnings that are initially paid to the Society are distributable to other beneficiaries. A liability has been recorded for such amounts payable to others and is reflected as annuities payable in the accompanying consolidated statements of financial position. The Society's beneficial interest in outside trusts is classified as Level 3 within the fair value hierarchy as of December 31, 2021 and 2020.

The following table summarizes the changes in fair value associated with the Society's beneficial interest in outside trusts for the years ended December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Balance, beginning of the year | $ 8,800 | $ 8,114 |
| Change in value of amounts due to beneficiaries | 47 | 60 |
| Unrealized gains | 738 | 626 |
| Balance, end of the year | $ 9,585 | $ 8,800 |

### *Grants Payable*

The awarding of grants is reflected on the consolidated financial statements at the time they are approved by the appropriate board and the respective grantee is notified. Grants payable represent unconditional promises to give that are expected to be paid within one year of award and are included in accounts payable and accrued expenses on the consolidated statements of financial position.

### *Funds Held for the Benefit of Others*

In the ordinary course of business, the Society acts as a custodian for funds owned by others and for which no benefit of income or principal is received. In these cases, the balances are treated as liabilities, rather than included in the Society's net assets, and as assets held in investment accounts. The income derived from these investments is not included on the consolidated statements of activities but is reflected as a change in value of related assets and liabilities.

### *Funds Held in a Trustee Relationship*

Funds held in a trustee relationship are funds held in a fiduciary relationship by the Society, as trustee, where the original principal is invested permanently, and the income is payable to specific third-party beneficiaries. Amounts held on behalf of others are reflected as assets and equivalent liabilities. The income derived from these investments is not included on the consolidated statements of activities but is reflected as a change in value of related assets and liabilities.

### *Contributions, Bequests and Government Contracts*

The Society recognizes revenue from contributions, grants and contracts in accordance with Accounting Standards Update ("ASU") 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In accordance with ASU 2018-08, the Society evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, the Society applies guidance under FASB Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). If the transfer of assets is determined to be a contribution, the Society evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before the Society is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The Society has determined that its revenues from grants and contracts were not exchange contracts and, therefore, treated the transfer of assets as contributions.

Contributions, including unconditional promises to give (pledges), are reported as revenues in the period received or pledged. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted using an appropriate credit adjusted discount rate which corresponds with the collection period of the respective pledge. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fundraising activity. Contributions receivable are written off in the period deemed uncollectible.

Revenue from government grants and contracts deemed to be conditional in nature is recognized as related costs are incurred under the grant or contract agreement. Amounts received in advance under these government grants and contracts are reflected as deferred revenue.

### *Contributed Services*

Contributed services are recorded at their estimated fair value and are recognized as revenues and expenses on the consolidated statements of activities in the period received. Contributed legal services for the years ended December 31, 2021 and 2020 totaled $38 and $160, respectively.

### *Income Taxes*

DFMS follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the consolidated financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

DFMS is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Internal Revenue Code. DFMS has processes presently in place to ensure the maintenance of its tax-exempt status, to identify and report unrelated income, to determine its filing and tax obligations in jurisdictions for which it was nexus, and to identify and evaluate other matters that may be considered tax positions. At December 31, 2021 and 2020, DFMS has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. The most significant of which pertain to the determination of specific reserves against loans, contributions and other accounts receivable, the valuation of non-exchange traded alternative investments, postretirement benefit obligations, and the useful lives assigned to fixed assets, amongst others. Actual results may differ from these estimates.

***Subsequent Events***

The Society evaluated its December 31, 2021 consolidated financial statements for subsequent events through June 30, 2022, the date the consolidated financial statements were available to be issued. Management is not aware of any subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements.

***New Pronouncements***

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, that allowed certain entities the option to defer the adoption of ASU 2016-02 by one year. ASU No. 2016-02 is effective for the Society for fiscal year 2022. Early adoption is permitted. The Society is in the process of evaluating the impact this standard will have on the consolidated financial statements.

In September 2020, the FASB issued ASU No. 2020-07, Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets to increase the transparency of contributed nonfinancial assets through enhancement to presentation and disclosure. The new guidance requires contributed nonfinancial assets to be presented as a separate line item on the consolidated statement of activities, apart from cash and other financial asset contributions. This guidance also requires disclosure of the types of contributed nonfinancial assets and, for each category, information about whether the assets were monetized or utilized, a description of the policies to monetize or utilize such assets, a description of donor-imposed restrictions associated with the contributions, and a description of the valuation techniques and principal market used to arrive at a fair value measure at initial recognition. ASU No. 2020-07 will be effective for the Society in fiscal year 2022. The Society is in the process of evaluating the impact this standard will have on the consolidated financial statements.

(Dollar amounts in thousands)

## NOTE 3 - INVESTMENTS

At December 31, 2021, total investments of approximately $690,260 consist of $646,960 in trust fund endowment assets, $6,500 in unit-trust and pooled income funds, $32,200 in medium-term investments, and $4,600 in St. John's School (Guam) investments.

At December 31, 2020, total investments of approximately $625,075 consist of $586,475 in trust fund endowment assets, $6,500 in unit-trust and pooled income funds, $28,300 in medium-term investments, and $3,800 in St. John's School (Guam) investments.

Investments are carried at fair value and consist of the following at December 31:

| | Fair Value | |
|---|---|---|
| | 2021 | 2020 |
| Stocks: | | |
| Common stock | $ 398,726 | $ 356,116 |
| Stock funds | 77,385 | 60,650 |
| Total stocks | 476,111 | 416,766 |
| Bonds: | | |
| Corporate | 8,003 | 8,107 |
| Government | 4,866 | 4,712 |
| Other, primarily mutual bond funds | 21,599 | 18,042 |
| Total bonds | 34,468 | 30,861 |
| Mutual funds (primarily common stock and bonds) | 5,554 | 4,854 |
| Other, primarily money market funds and other cash equivalents | 6,912 | 6,943 |
| Alternative investments: | | |
| Commingled funds | 167,016 | 165,651 |
| Total investments | 690,061 | 625,075 |
| Funds held for the benefit others | (251,322) | (211,495) |
| Total DFMS-controlled funds | $ 438,739 | $ 413,580 |

Since alternative investments may not be readily marketable, the estimated fair value assigned to such interests is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The fair values assigned to such holdings do not necessarily represent amounts which might ultimately be realized upon sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. Because of the inherent uncertainty of such valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed and the differences could be material.

**The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2021 and 2020 (Dollar amounts in thousands)**

The following tables prioritize the inputs used to measure the fair value of the Society's investments within the fair value hierarchy at December 31, 2021 and 2020.

| | 2021 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Stocks | $ 476,111 | $ - | $ - | $ 476,111 |
| Bonds | 34,468 | - | - | 34,468 |
| Mutual funds | 5,554 | - | - | 5,554 |
| Other, primarily money market funds and other cash equivalents | 6,912 | - | - | 6,912 |
| | $ 523,045 | $ - | $ - | 523,045 |
| Alternative Investments reported at NAV | | | | 167,016 |
| Total | | | | $ 690,061 |

| | 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Stocks | $ 416,766 | $ - | $ - | $ 416,766 |
| Bonds | 30,861 | - | - | 30,861 |
| Mutual funds | 4,854 | - | - | 4,854 |
| Other, primarily money market funds and other cash equivalents | 6,943 | - | - | 6,943 |
| | $ 459,424 | $ - | $ - | 459,424 |
| Alternative Investments reported at NAV | | | | 165,651 |
| Total | | | | $ 625,075 |

In accordance with ASC Subtopic 820-10, investments measured at fair value using the NAV per share practical expedient have not been categorized in the fair value hierarchy.

The Society uses the NAV per share, or its equivalent to determine the fair value as of the measurement date of all the underlying investments which: (a) do not have a readily determinable fair value and (b) prepare their investees financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

(Dollar amounts in thousands)

The following tables detail certain attributes pertaining to the investments reported at fair value using a NAV, or its equivalent, as of December 31, 2021 and 2020:

2021

| Type | Strategy | NAV in Funds | # of Funds | Remaining Life | $ Amount of Unfunded Commitments | Redemption Terms | Redemption Restrictions |
|---|---|---|---|---|---|---|---|
| Commingled funds | Commodities, equity, and interest rate-driven focused commingled funds. | $ 167,016 | 4 | N/A | $ - | 2 funds have monthly redemption within 5-10 days' notice; 1 funds has daily redemption with 15 days' notice; 1 fund has quarterly redemption with 100 days' notice | None |
| Total | | $ 167,016 | 4 | | $ - | | |

2020

| Type | Strategy | NAV in Funds | # of Funds | Remaining Life | $ Amount of Unfunded Commitments | Redemption Terms | Redemption Restrictions |
|---|---|---|---|---|---|---|---|
| Commingled funds | Commodities, equity, and interest rate-driven focused commingled funds. | $ 165,651 | 4 | N/A | $ - | 1 fund has daily redemption with 15 days' notice; 1 fund has semimonthly redemption with 30 days' notice; 1 fund has quarterly redemption with 90 days' notice; 1 fund has quarterly redemption with 100 days' notice | None |
| Total | | $ 165,651 | 4 | | $ - | | |

The Society follows the "Total Return Approach" to investments whereby it applies a prudent portion of the realized and unrealized returns on investments to meet current designated and undesignated expenditures. Total return consists of two elements: yield and appreciation. Based on the Society's long-term investment strategy, the Executive Council sets the payout rate on the DFMS trust funds at a percentage (5% in 2021 and 2020) of a five-year moving average of the fair value of the portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation.

**(Dollar amounts in thousands)**

## NOTE 4 - CONTRIBUTIONS AND OTHER RECEIVABLES, NET

Contributions and other receivables, net, consist of the following at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Contributions receivable, net | $ 826 | $ 1,403 |
| Other receivables | 7,914 | 5,012 |
| Total other receivables | $ 8,740 | $ 6,415 |

Contributions receivable, net, which are recorded at the present value of their expected future cash flows, consist of the following at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Amounts expected to be collected: | | |
| Within one year | $ 696 | $ 808 |
| In one to four years | 134 | 599 |
| Total contributions receivable | 830 | 1,407 |
| Less: Present value discount (rates ranging from 1.50% to 6.00%) | (4) | (4) |
| Total contributions receivables, net | $ 826 | $ 1,403 |

## NOTE 5 - LOANS RECEIVABLE, NET

Loans receivable, net, consist of the following at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Construction loans to dioceses and missionary districts | $ 566 | $ 525 |
| Economic justice and community investment loans | 6,100 | 5,500 |
| Loans to reorganizing Dioceses | 2,160 | 2,003 |
| | 8,826 | 8,028 |
| Less: Allowance for uncollectible accounts | (233) | (300) |
| Total loans receivable, net | $ 8,593 | $ 7,728 |

Such loans bear interest at varying rates ranging from 2.0% to 4.75% and are payable in installments or on demand. These loans are typically unsecured with maturities of between three and five years. No new residential loans have been extended to employees since 1998.

(Dollar amounts in thousands)

## NOTE 6 - PROPERTY AND EQUIPMENT, NET

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

| | 2021 | 2020 |
|---|---|---|
| Land | $ 7,995 | $ 7,995 |
| Buildings and improvements | 69,914 | 69,700 |
| Other equipment and furnishings | 4,712 | 4,464 |
| | 82,621 | 82,159 |
| Less: Accumulated depreciation | (53,918) | (52,404) |
| Property and equipment, net | $ 28,703 | $ 29,755 |

Depreciation expense amounted to $1,797 and $2,129 for the years ended December 31, 2021 and 2020, respectively.

## NOTE 7 - MORTGAGE AND NOTES PAYABLE

***Mortgage***

A mortgage payable on the St. John's School property, located in Guam, amounted to $2,301 and $2,864 as of December 31, 2021 and 2020, respectively. The interest rate of 4.5% is adjusted every three years on March 11 to 1% over the Federal Home Loan rate. The note is collateralized by a third-party mortgage on real and leasehold property and matures in October 15, 2025. The effective interest rate was 1% at December 31, 2021 and 2020.

Interest expense pertaining to this mortgage amounted to $113 and $119 for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, scheduled annual principal payments are as follows:

| | Amount |
|---|---|
| 2022 | $ 129 |
| 2023 | 134 |
| 2024 | 141 |
| 2025 | 1,897 |
| | $ 2,301 |

(Dollar amounts in thousands)

### *Term Loan*

On January 11, 2011, DFMS obtained a $37 million term loan, secured by DFMS's investment in unrestricted marketable securities, from U.S. Bank, to be used primarily for working capital and other business purposes. The facility was structured as a five-year loan with a fixed annual interest rate of 3.69% and annual repayments on a 25-year schedule. Interest was payable monthly; annual principal of $1,480 was payable on each anniversary date through 2016.

On April 8, 2014, DFMS amended and restated the credit agreement with U.S. Bank. On that date, the then outstanding $31,163 under the existing term loan was continued as an unsecured term loan. The facility continues as a five-year loan with a fixed annual interest rate of 3.69% and annual repayments on a 25-year schedule. Interest is payable monthly; annual principal of $1,480 is payable on each January 1st through 2021. If not extended or renegotiated, unpaid principal will be due in 2021.

On July 23, 2014, DFMS completed Amendment No. 1 to the amended and restated credit agreement dated April 8, 2014, with U.S. Bank. Amendment No. 1 extended the Loan Termination Date to January 23, 2021 and adjusted the interest rate on the unpaid principal balance of the Term Loan to an annual rate of 1.19% plus the one-month LIBOR rate. Amendment No. 1 was required because DFMS entered into an interest rate swap transaction with U.S. Bank.

On January 19, 2021, DFMS completed Amendment No. 10 to the amended and restated credit agreement dated April 8, 2014, with U.S. Bank. Amendment No. 10 extended the Loan Termination Date to January 23, 2026 and adjusted the interest rate on the unpaid principal balance of the Term Loan to an annual rate of 1.15% plus the one-month LIBOR rate. Concurrent with Amendment No. 10, DFMS entered into an interest rate swap transaction with U.S. Bank whereby, effective January 25, 2021, DFMS will pay an annual fixed interest rate of 1.656% through January 23, 2026. Terms and covenants of the renewed credit agreement were unchanged. At January 25, 2021 total principal outstanding equaled $20,803.

At December 31, 2021 and 2020, $20,803 and $22,283, respectively, was outstanding under this loan and is reflected on the accompanying consolidated statements of financial position as notes payable and line of credit. Interest expense amounted to $736 and $720 for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, scheduled annual principal payments are as follows:

| | Amount |
|---|---|
| 2022 | $ 1,480 |
| 2023 | 1,480 |
| 2024 | 1,480 |
| 2025 | 1,480 |
| 2026 | 14,883 |
| | $ 20,803 |

The credit agreement includes standard affirmative and negative covenants usual and customary for similar facilities, including remaining an ongoing business, semi-annual financial reporting, and limitations on additional indebtedness. DFMS was compliant with all such covenants (including financial covenants) at December 31, 2021.

(Dollar amounts in thousands)

### *Revolving Lines of Credit*

On January 11, 2011, the Society obtained a $5 million revolving credit facility from U.S. Bank, which was then expanded to $15 million as of April 8, 2014. The facility, which is unsecured, bears interest based on the Eurodollar rate plus 75 basis points and matures on November 29, 2021. The facility is renewed annually. Interest only is payable monthly. At December 31, 2021 and 2020, no amounts were outstanding under this revolving credit facility. Maintenance fees amounted to $38 for the years ended December 31, 2021 and 2020.

### *Interest Rate Swap*

The Society uses an interest rate swap agreement as a strategy for managing interest rate risk associated with its variable rate term loan, by converting it to a synthetic fixed rate. To manage credit risk, the Society considered the credit rating and reputation of the counterparty (U.S. Bank) before entering into the transaction and continues to monitor the credit standing of its counterparty.

The reported fair value of the swap represents the estimated cost to terminate the swap agreement at the measurement date, taking into account current and projected market interest rates. The fair value of the interest rate swap is reported on the Society's consolidated statements of financial position as an asset.

As of and for the years ended December 31, 2021 and 2020, amounts included within the accompanying consolidated financial statements relating to the interest rate swap agreement are as follows:

| Fair Value at December 31, 2021 | Fair Value at December 31, 2020 | Consolidated Statements of Financial Position Location | Change in Value of Interest Rate Swap Agreement for Year Ended December 31, 2021 | Change in Value of Interest Rate Swap Agreement for Year Ended December 31, 2020 | Consolidated Statements of Activities Location |
|---|---|---|---|---|---|
| $ 423 | $ (60) | Interest rate swap | $ 483 | $ 34 | Change in value of interest rate swap |

Fair value for LIBOR based swaps is determined using a relative price approach, by discounting the future expected cash flows at the market discount rate (the 100% LIBOR swap rate matching the average life of the notional reduction, if any, of the swap). For the variable leg of a swap, the expected cash flows are based on implied market forward rates for the appropriate underlying index.

The transactions in April and July of 2014 resulted in a five-year extension of DFMS's term loan maturity and secured an effective annual interest rate of 3.20%, reducing the annual service cost on the debt.

## NOTE 8 - COVID-19 AND PAYROLL PROTECTION PROGRAM LOAN

During the year ended December 31, 2020, DFMS, ERD, and SJS received loans of $3,025, $1,207, and $867, respectively, under the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Based on the terms of the loans and the program, the loan balances may be forgiven and converted into grants to the Society if certain conditions are met. If a portion of the loan must be repaid, however, the terms are 1% per annum, repayable over a maximum of five years with a six-month deferral period. Forgiveness for the full amount of the SJS loan was approved during the year ended December 31, 2020. Forgiveness for the full amount of ERD's loan was approved by the Small Business Association on May 23, 2021. Forgiveness of the full amount of the DFMS was approved by the SBA on July 31, 2021. Forgiveness of the PPP loans is reflected in fees and other income on the consolidated statements of activities.

## NOTE 9 - PENSION PLANS

DFMS maintains a defined contribution pension plan (the "Plan") for all eligible lay employees and employees of ERD. Under the Plan, the employer contributes 8% for DFMS and 5% for ERD of eligible salaries and matches employee contributions to the Plan up to 4%. It is the opinion of counsel to the Plan that, as a Church Plan, this plan is exempt from the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). Pension expense for this plan recognized on the accompanying consolidated financial statements amounted to $1,686 and $1,610 for the years ended December 31, 2021 and 2020, respectively.

DFMS is a participant in a separate pension plan administered by the Church Pension Fund (an independent organization) that provides pension benefits to all ordained clergy of the Episcopal Church, including those who hold positions within DFMS. Pension expense for this plan recognized on the accompanying consolidated financial statements amounted to $795 and $826 for the years ended December 31, 2021 and 2020, respectively.

The Executive Council of DFMS has voluntarily paid pension supplements to employees who retired prior to 1971 and had 20 years of service with DFMS. These benefits are accounted for on a "pay-as-you-go basis." Pension expense for this "plan," recognized on the accompanying consolidated financial statements, amounted to $425 and $416 for the years ended December 31, 2021 and 2020, respectively.

The St. John's School maintains a defined contribution pension plan. This plan covers all eligible employees of the St. John's School. Benefits under this plan are provided by fixed-dollar annuities issued by the Teachers Insurance and Annuity Association and by variable annuities offered by its companion organization, the College Retirement Equities Fund. The St. John's School contributes 5% of the gross base pay of its employees to each participant's account. After 10 years of employment, the St. John's School will increase its contribution by a graduated percentage rate (7% - 17%) depending on the number of years of employment. Pension expense for this plan recognized on the accompanying consolidated financial statements amounted to $149 and $148 for the years ended December 31, 2021 and 2020, respectively.

(Dollar amounts in thousands)

## NOTE 10 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

DFMS and ERD sponsor postretirement benefit plans which provide both health care (fully contributory until the retiree reaches age 65) and life insurance (non-contributory) benefits to both lay personnel and clergy.

The following tables set forth the funded status of the plans and the components of net periodic benefit cost at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Change in benefit obligation: | | |
| Benefit obligation, beginning of year | $ 18,472 | $ 16,857 |
| Service cost | 879 | 668 |
| Interest cost | 479 | 501 |
| Amendment | (6,237) | - |
| Actuarial loss | 87 | 902 |
| Benefits paid | (424) | (456) |
| Benefit obligation, end of year | $ 13,256 | $ 18,472 |
| Fair value of plan assets at December 31 | $ - | $ - |
| Funded status at December 31 | $ (13,256) | $ (18,472) |
| Fair value of plan assets at beginning of year | $ - | $ - |
| Employer contributions | 424 | 456 |
| Benefits paid | (424) | (456) |
| Fair value of plan assets at end of year | $ - | $ - |
| Components of accrued benefit cost: | | |
| Funded status | $ 13,256 | $ 18,472 |
| Unrecognized actuarial net gain | 4,447 | (1,929) |
| Accrued benefit cost | $ 17,703 | $ 16,543 |
| Amounts not yet reflected in net periodic benefit cost and included in net assets without donor restrictions: | | |
| Net actuarial (gain)/loss | $ (4,447) | $ 1,929 |
| Components of net periodic benefit cost: | | |
| Service cost | $ 879 | $ 668 |
| Interest cost | 479 | 500 |
| Amortization of unrecognized prior service costs | 225 | 226 |
| Net periodic benefit cost for fiscal year | $ 1,583 | $ 1,394 |

(Dollar amounts in thousands)**

| | 2021 | 2020 |
|---|---|---|
| Changes in assets and benefit obligations recognized in net assets without donor restrictions: | | |
| Net actuarial loss | $ 87 | $ 902 |
| Amortization of unrecognized prior service cost | (6,463) | (226) |
| Total change recognized in net assets without donor restrictions | $ (6,376) | $ 676 |

The amount of contributions and benefit payments from the Plan for the years ended December 31, 2021 and 2020 were:

| | 2021 | 2020 |
|---|---|---|
| Employer contributions | $ 424 | $ 456 |
| Benefit payments | $ 424 | $ 456 |

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | MedSup Plan | Self-Insured Plan | MedSup Plan | Self-Insured Plan |
| Assumed health care trend rates at December 31: | | | | |
| Discount rate | 2.8% | 2.8% | 2.5% | 2.5% |
| Health care cost trend rate assumed for next year | 5.6% | 5.6% | 3.8% | 4.0% |
| Rate to which the cost trend rate assumed to decline (ultimate trend rate) | 3.7% | 3.7% | 3.8% | 3.8% |
| Year that the rate reaches the ultimate trend | 2074 | 2074 | 2074 | 2074 |

Total net expenses incurred for both plans for 2021 and 2020 totaled $(5,216) and $1,615, respectively.

For the year ended December 31, 2021, the effect of a 1% change in the health care cost trend rate was as follows:

| | 1% Increase | 1% Decrease |
|---|---|---|
| Effect on net periodic benefit cost | $ 328 | $ 251 |
| Effect on postretirement benefit obligation | 2,485 | 1,974 |

***Amendment***

For the year ended December 31, 2021, there was an amendment to the Plan which reflects the change from a Medicare Supplement Plan to a Medicare Advantage Plan. The Society elected to treat the amendment as a plan change and set up a prior service cost base, recognized in level payments based on expected future service.

(Dollar amounts in thousands)

### *Contributions*

Annual contributions are determined by the Society based upon calculations prepared by the Society's actuary. Projected contributions for 2021 are expected to be $456.

### *Benefit Payments*

The following benefit payments are expected to be paid as follows:

| | | |
|---|---|---|
| 2022 | $ | 411 |
| 2023 | | 422 |
| 2024 | | 430 |
| 2025 | | 439 |
| 2026 | | 454 |
| 2027 – 2031 | | 2,654 |

## NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are held for the following purposes at December 31, 2021 and 2020:

| | 2021 | 2020 |
|---|---|---|
| Other program related funds | $ 719 | $ 497 |
| Episcopal Relief and Development - Disaster relief and recovery | 5,189 | 6,115 |
| Guam - School Scholarships | 9,205 | 3,184 |
| United Thank Offering and Episcopal Church Women Fund | 1,264 | 950 |
| Beneficial Interest in outside trust | 9,585 | 8,800 |
| Donor-restricted endowment funds: | | |
| Corpus | 25,119 | 25,087 |
| Accumulated unspent earnings | 217,748 | 198,416 |
| Total net assets with donor restrictions | $ 268,829 | $ 243,049 |

## NOTE 12 - ENDOWMENT FUND

The Society has adopted the provisions of *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* of the ASC. This standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), passed by the State of New York in September 2010, and also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

Under New York State UPMIFA ("NYPMIFA"), the Society classifies as donor-restricted endowment net assets: (a) the original value of gifts donated to its donor-restricted endowment; (b) the original value of subsequent gifts to its donor-restricted endowment; and (c) the accumulations to its donor-restricted endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund includes the accumulated unspent earnings on the donor-restricted endowment funds that remains within net assets with donor restrictions until such amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purpose of the fund, general economic conditions, the possible effect of inflation or deflation, the expected total return from income and appreciation of investments, other resources of the Society, the investment policies of the Society and, where appropriate, alternatives to spending from donor-restricted endowment funds and the possible effects on the Society.

The Society has a policy of appropriating for distribution each year an Executive Council approved spending rate of its endowment fund's average fair value over five years. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long-term, the Society expects the current spending policy to grow at a pace at least equal to inflation. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Society has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without putting the assets at imprudent risk. To satisfy its long-term objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(Dollar amounts in thousands)

The following tables summarize endowment net asset composition, by type of fund as of December 31, 2021 and 2020:

| | 2021 | | |
|---|---|---|---|
| Composition of Endowment Net Assets by Type of Fund | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | $ - | $ 242,867 | $ 242,867 |
| Board-designated endowment funds | 167,502 | - | 167,502 |
| Total | $ 167,502 | $ 242,867 | $ 410,369 |
| Changes in Endowment Net Assets | | | |
| Endowment net assets, beginning of year | $ 166,206 | $ 223,503 | $ 389,709 |
| Investment return: | | | |
| Investment income | 214 | - | 214 |
| Net appreciation (realized and unrealized) | 7,075 | 33,373 | 40,448 |
| Contributions | 43 | 37 | 80 |
| Appropriation of endowment assets for expenditure | (6,036) | (14,046) | (20,082) |
| Endowment net assets, end of year | $ 167,502 | $ 242,867 | $ 410,369 |

| | 2020 | | |
|---|---|---|---|
| Composition of Endowment Net Assets by Type of Fund | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment funds | $ - | $ 223,503 | $ 223,503 |
| Board-designated endowment funds | 166,206 | - | 166,206 |
| Total | $ 166,206 | $ 223,503 | $ 389,709 |
| Changes in Endowment Net Assets | | | |
| Endowment net assets, beginning of year | $ 148,505 | $ 191,415 | $ 339,920 |
| Investment return: | | | |
| Investment income | 210 | - | 210 |
| Net appreciation (realized and unrealized) | 21,227 | 44,583 | 65,810 |
| Contributions | 106 | 5 | 111 |
| Appropriation of endowment assets for expenditure | (3,842) | (12,500) | (16,342) |
| Endowment net assets, end of year | $ 166,206 | $ 223,503 | $ 389,709 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor-restricted endowment contributions and from the continued appropriation of earnings on other endowment funds that were deemed prudent by the Society's Board of Trustees. There were no such deficiencies at December 31, 2021 and 2020.

## NOTE 13 - RELATED PARTIES

The Episcopal Church is an unincorporated association governed by the General Convention. It carries out its administrative, finance and other program activities through DFMS, a New York corporation. DFMS is governed by the Executive Council whose members are elected by the General Convention and the Provinces. The Executive Council acts as the board of directors between meetings of General Convention. DFMS engages in financial transactions with both foreign and domestic entities affiliated with the Episcopal Church and the worldwide Anglican Communion. DFMS receives its principal financial support in the form of Diocesan commitments, which totaled $30,104 and $29,679 for the years ended December 31, 2021 and 2020, respectively. In addition, DFMS receives non-governmental fees from related parties, including lease payments and fees for events. These receipts are not material and are offset by the costs of services provided. DFMS expended $62 for each of the years ended December 31, 2021 and 2020, respectively, in either direct payments/grants to affiliated entities or expenses incurred on behalf of these related parties. Of the total loans receivable reported on the accompanying consolidated statements of financial position at December 31, 2021 and 2020, $1,869 and $1,994 for each of the years ended December 31, 2021 and 2020 represent loans to related entities which bear interest at rates ranging from 3.0% to 8.0% per annum.

## NOTE 14 - CONTINGENCIES

### *Government Funding*

The Society enters into contracts with agencies of the U.S. government under which the government provides funding for various refugee resettlement activities carried on by the Society in the United States and in other countries. The expenditures of these funds by the Society and its affiliated organizations are subject to audit by the federal government. In the opinion of management, audit adjustments, if any, are not expected to have a material effect on the consolidated financial statements of the Society.

### *Refugee Loans Receivable and Collections*

In connection with its cooperative agreements with the U.S. government for refugee resettlement, the Society acts as the collection agent for travel loans made to refugees by the International Organization for Migration. In return for these services, the Society retains 25% of all loan collections as a recovery of its administrative costs incurred. As of December 31, 2021 and 2020, there were $4,089 and $7,180, respectively, of refugee loans outstanding. Such amounts are not reflected on the accompanying consolidated financial statements, and the Society does not guarantee the loans.

### *Litigation*

The Society is subject to various claims and legal proceedings that have arisen in the ordinary course of its business activities. The Society is not aware of any pending litigation, the resolution of which will have a material adverse effect on its consolidated financial statements.

(Dollar amounts in thousands)

## NOTE 15 - FUNCTIONAL EXPENSES

The following table summarizes the Society's functional expense classification presented below for the year ended December 31, 2021.

| | Program Services | | | | | | | Supporting Services | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | DFMS | | | ERD | | | | DFMS | | ERD | | | | |
| | Canonical & Missional Expenses | General Convention | Grant-related activities and other | Sustainable | Disaster | Guam | Total Program | General & Administration | Fundraising | General & Administration | Fundraising | Total Supporting Services | Total 2021 | Total 2020 |
| Direct support | $ 20,575 | $ - | $ 2,421 | $ 7,452 | $ 3,041 | $ 58 | $ 33,457 | $ - | $ - | $ - | $ - | $ - | $ 33,456 | $ 25,256 |
| Contributed services | - | - | - | - | - | - | - | 38 | - | - | - | 38 | 38 | 160 |
| Salary | 9,079 | 1,136 | - | 3,363 | 656 | 4,818 | 19,052 | 3,579 | 219 | 757 | 938 | 5,493 | 24,545 | 25,467 |
| Employee benefits | 4,292 | 451 | 33 | 1,197 | 247 | 30 | 6,250 | 1,384 | 83 | 68 | 295 | 1,830 | 8,079 | 8,207 |
| Insurance | 53 | 27 | - | 45 | 13 | 94 | 232 | 430 | - | 2 | 6 | 439 | 670 | 683 |
| Printing and mailing cost | 270 | 2 | - | 160 | 31 | - | 463 | 27 | 64 | 9 | 482 | 582 | 1,046 | 1,022 |
| Advertising and promotion | 32 | - | 11 | 10 | 1 | - | 54 | - | - | - | 100 | 100 | 153 | 202 |
| Telephone/telecommunication | 97 | 9 | - | 20 | 57 | 4 | 187 | 63 | - | 3 | 4 | 69 | 257 | 224 |
| Rent and utilities | 303 | - | - | 275 | 5 | 399 | 982 | 1,087 | - | 35 | 52 | 1,174 | 1,809 | 1,697 |
| Equipment and depreciation | 1,437 | 254 | 46 | 263 | 37 | 562 | 2,599 | 431 | 9 | 11 | 43 | 494 | 3,094 | 3,266 |
| Bank charges, legal and accounting fees | 175 | - | - | 241 | 50 | 115 | 581 | 748 | - | 23 | 25 | 796 | 1,376 | 1,934 |
| Office supplies | 145 | 33 | 5 | 5 | 1 | 139 | 328 | 171 | - | 6 | 2 | 179 | 507 | 980 |
| Resources & reference materials | 456 | - | 19 | - | - | - | 475 | 26 | - | 1 | - | 27 | 503 | 645 |
| Consultants | 2,021 | 646 | 90 | 576 | 33 | 87 | 3,453 | 1,199 | - | 39 | 655 | 1,894 | 5,347 | 3,734 |
| Travel | 676 | 190 | 52 | 6 | 3 | 2 | 929 | 15 | - | 14 | 1 | 30 | 959 | 1,558 |
| Conference/workshop/ memberships/meeting exp | 147 | 486 | - | 161 | 12 | 12 | 818 | 7 | - | 6 | 11 | 24 | 844 | 909 |
| Scholarship and financial aid | - | - | - | - | - | 501 | 501 | - | - | - | - | - | 501 | 642 |
| Total | $ 39,758 | $ 3,234 | $ 2,677 | $ 13,774 | $ 4,187 | $ 6,821 | $ 70,451 | $ 9,205 | $ 375 | $ 974 | $ 2,614 | $ 13,168 | $ 83,619 | $ 76,586 |

**December 31, 2021 and 2020 (Dollar amounts in thousands)**

The following table summarizes the Society's functional expense classification presented below for the year ended December 31, 2020.

| | Program Services | | | | | | | Supporting Services | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | DFMS | | | ERD | | | | DFMS | | ERD | | | |
| | Canonical & Missional Expenses | General Convention | Grant-related activities and other | Sustainable | Disaster | Guam | Total Program | General & Administration | Fundraising | General & Administration | Fundraising | Total Supporting Services | Total 2020 |
| Direct support | $ 13,844 | $ - | $ 2,938 | $ 5,578 | $ 2,840 | $ 56 | $ 25,256 | $ - | $ - | $ - | $ - | $ - | $ 25,256 |
| Contributed services | - | - | - | - | - | - | - | 160 | - | - | - | 160 | 160 |
| Salary | 9,071 | 1,274 | - | 3,369 | 728 | 5,150 | 19,592 | 3,598 | 202 | 878 | 1,197 | 5,875 | 25,467 |
| Employee benefits | 4,130 | 464 | 23 | 1,330 | 292 | 48 | 6,287 | 1,169 | 73 | 209 | 469 | 1,920 | 8,207 |
| Insurance | 47 | 23 | - | 40 | 9 | 99 | 218 | 448 | - | 7 | 10 | 465 | 683 |
| Printing and mailing cost | 203 | 4 | - | 142 | 3 | - | 352 | 25 | 107 | 93 | 445 | 670 | 1,022 |
| Advertising and promotion | 18 | - | 22 | 14 | - | - | 54 | - | - | - | 148 | 148 | 202 |
| Telephone/telecommunication | 89 | 11 | - | 16 | 21 | 2 | 139 | 77 | - | 4 | 4 | 85 | 224 |
| Rent and utilities | 229 | - | - | 31 | - | 503 | 763 | 934 | - | - | - | 934 | 1,697 |
| Equipment and depreciation | 1,509 | 216 | 77 | 180 | 44 | 675 | 2,701 | 455 | 13 | 33 | 64 | 565 | 3,266 |
| Bank charges, legal and accounting fees | 382 | 1 | - | 200 | 29 | 207 | 819 | 1,038 | - | 42 | 35 | 1,115 | 1,934 |
| Office supplies | 615 | 20 | 2 | 15 | 3 | 177 | 832 | 141 | - | 4 | 3 | 148 | 980 |
| Resources & reference materials | 537 | - | 43 | - | - | - | 580 | 58 | - | 3 | 4 | 65 | 645 |
| Consultants | 788 | 426 | 71 | 787 | 50 | 88 | 2,210 | 986 | - | 32 | 506 | 1,524 | 3,734 |
| Travel | 1,093 | 238 | 37 | 105 | 18 | 2 | 1,493 | 18 | - | 27 | 20 | 65 | 1,558 |
| Conference/workshop/ memberships/meeting exp | 129 | 459 | - | 274 | 9 | 3 | 874 | - | - | 11 | 24 | 35 | 909 |
| Scholarship and financial aid | - | - | - | - | - | 642 | 642 | - | - | - | - | - | 642 |
| Total | $ 32,684 | $ 3,136 | $ 3,213 | $ 12,081 | $ 4,046 | $ 7,652 | $ 62,812 | $ 9,107 | $ 395 | $ 1,343 | $ 2,929 | $ 13,774 | $ 76,586 |

(Dollar amounts in thousands)

## NOTE 16 - LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Society's liquidity management, the Society structures its financial assets to be available as its general operations, liabilities, and other obligations require.

The Society receives approximately $30 million, or 63%, of its annual cash requirements from contributions without donor restrictions mandated from its 109 dioceses and other Episcopal entities. The Society receives an additional $5.4 million, or 11%, of its cash requirements from sources without donor restrictions, including tenant leases, refugee loan repayments and fees for sponsored events and programs.

The balance of usual support to the Society - approximately $10.5 million or 24% of the annual cash requirement - is provided from a Board-approved appropriation of (currently 5%) assets from the trust funds designated as support to the budget. The DFMS has approximately $197 million of unrestricted trust funds (after deducting funds specified for Episcopal Relief & Development) that support the budget each year with a 5% dividend draw. The DFMS could draw (with approval from Executive Council) additional principal from about $84 million of those trust funds.

The Society's financial assets available within one-year of the consolidated statement of financial position date for general expenditures are as follows:

| Financial Assets as of December 31, 2021 and 2020 | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 19,856 | $ 20,078 |
| Receivables: | | |
| Diocesan commitments receivable, net | - | 453 |
| Loans receivable, net | 8,593 | 7,728 |
| Government grants | 2,196 | 1,454 |
| Contributions and other receivables, net | 4,635 | 3,016 |
| Appropriation from the Society's endowment for subsequent year's spending | 11,054 | 10,841 |
| Total financial assets available within one year | $ 46,334 | $ 43,570 |

To help manage unanticipated liquidity needs, the Society maintains short-term investments equal to one quarter of its annual operating budget. As an additional source of liquidity, the Society may draw upon its $15 million line of credit (as further discussed in Note 7), in the event of financial distress or immediate liquidity needs.

SUPPLEMENTAL INFORMATION

**The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

**As of December 31, 2021**
**(Dollars amounts in thousands)**

| | DFMS | ERD | GUAM | Consolidating Entries | Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 19,856 | $ 8,091 | $ 4,882 | $ - | $ 32,829 |
| Receivables: | | | | | |
| Loans receivable, net | 8,593 | - | - | - | 8,593 |
| Government grants | 2,196 | - | - | - | 2,196 |
| Contributions and other receivables, net | 4,636 | 4,062 | 42 | - | 8,740 |
| Prepaid expenses and other assets | 2,701 | 228 | 151 | (187) | 2,893 |
| Investments: | | | | | |
| DFMS-controlled funds | 413,281 | 20,834 | 4,624 | - | 438,739 |
| Funds held for the benefit of others | 251,322 | - | - | - | 251,322 |
| Interest rate swap agreement | 423 | - | - | - | 423 |
| Property and equipment, net | 23,487 | 31 | 4,998 | 187 | 28,703 |
| Beneficial interests in outside trusts | 9,111 | 474 | - | - | 9,585 |
| Total assets | $ 735,606 | $ 33,720 | $ 14,697 | $ - | $ 784,023 |
| **LIABILITIES AND NET ASSETS** | | | | | |
| **Liabilities** | | | | | |
| Accounts and accrued expenses | $ 683 | $ 1,969 | $ 3,191 | $ - | $ 5,843 |
| Notes payable | 20,803 | - | - | - | 20,803 |
| Mortgage payable | - | - | 2,301 | - | 2,301 |
| Accrued postretirement benefits other than pensions | 10,695 | 2,561 | - | - | 13,256 |
| Funds held for the benefit of others | 213,943 | - | - | - | 213,943 |
| Funds held in a trustee relationship | 37,379 | - | - | - | 37,379 |
| Total liabilities | 283,503 | 4,530 | 5,492 | - | 293,525 |
| **Contingencies** | | | | | |
| **Net assets** | | | | | |
| Net assets without donor restrictions | 221,638 | 31 | - | - | 221,669 |
| Net assets with donor restrictions | 230,465 | 29,159 | 9,205 | - | 268,829 |
| Total net assets | 452,103 | 29,190 | 9,205 | - | 490,498 |
| Total liabilities and net assets | $ 735,606 | $ 33,720 | $ 14,697 | $ - | $ 784,023 |

The accompanying consolidated financial statements and notes thereto are an integral part of this consolidating schedule.

**The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates**

**CONSOLIDATING SCHEDULE OF ACTIVITIES**

**As of December 31, 2021**
**(Dollars amounts in thousands)**

| | DFMS | ERD | GUAM | Consolidating Entries | Total |
|---|---|---|---|---|---|
| **Revenues and other support** | | | | | |
| Diocesan commitments | $ 30,104 | $ - | $ - | $ - | $ 30,104 |
| Contributions and bequests | 1,446 | - | - | - | 1,446 |
| Contributions and other income - Episcopal Relief and Development | - | 23,261 | - | - | 23,261 |
| Contributed services | 38 | 1,212 | - | (1,212) | 38 |
| Investment return designated for current operations | 12,928 | - | - | - | 12,928 |
| Other investment income | 43 | - | - | - | 43 |
| Government revenue | 10,171 | - | - | - | 10,171 |
| Fees and other income | 8,544 | 1,211 | - | - | 9,755 |
| Revenues from the Episcopal Church in Micronesia | - | - | 9,193 | (50) | 9,143 |
| Total revenues and other support | 63,274 | 25,684 | 9,193 | (1,262) | 96,889 |
| **Expenses** | | | | | |
| Program services: | | | | | |
| Canonical and missional programs | 39,758 | - | - | - | 39,758 |
| General convention | 3,234 | - | - | - | 3,234 |
| Grant-related activities and other | 2,677 | - | - | - | 2,677 |
| Episcopal Relief and Development | | | | | |
| Sustainable Development | - | 14,683 | - | (909) | 13,774 |
| Disaster relief and recovery | - | 4,187 | - | - | 4,187 |
| Episcopal Church in Micronesia | - | - | 6,871 | (50) | 6,821 |
| Total program services | 45,669 | 18,870 | 6,871 | (959) | 70,451 |
| Supporting services: | | | | | |
| General and administrative | 9,205 | - | - | - | 9,205 |
| Fundraising | 375 | - | - | - | 375 |
| General and administrative - Episcopal Relief and Development | - | 1,095 | - | (121) | 974 |
| Fundraising - Episcopal Relief and Development | - | 2,796 | - | (182) | 2,614 |
| Total supporting services | 9,580 | 3,891 | - | (303) | 13,168 |
| Total expenses | 55,249 | 22,761 | 6,871 | (1,262) | 83,619 |
| Changes in net assets from operations | 8,025 | 2,923 | 2,322 | - | 13,270 |
| **Non-operating activities** | | | | | |
| Investment return | 40,295 | 1,700 | - | - | 41,995 |
| Less: other investment loss | (742) | - | - | - | (742) |
| Net investment loss - trust fund | 39,553 | 1,700 | - | - | 41,253 |
| Less: investment return designated for current operations | (12,928) | - | - | - | (12,928) |
| Change in value of interest rate swap | 483 | - | - | - | 483 |
| Postretirement related activities other than net periodic pension cost | 4,982 | - | - | - | 4,982 |
| Total non-operating activities | 32,090 | 1,700 | - | - | 33,790 |
| **CHANGES IN NET ASSETS** | 40,115 | 4,623 | 2,322 | - | 47,060 |
| Net assets, beginning of year | 411,988 | 24,567 | 6,883 | - | 443,438 |
| Net assets, end of year | $ 452,103 | $ 29,190 | $ 9,205 | $ - | $ 490,498 |

The accompanying consolidated financial statements and notes thereto are an integral part of this consolidating schedule.

**The Domestic and Foreign Missionary Society**
**of the Protestant Episcopal Church in the**
**United States of America and Affiliates**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the year ended December 31, 2021**

| Federal Grantor/Program Title | Federal Assistance Listing Number | Pass-Through Number | Federal Expenditures | Amounts Passed Through to Subrecipients |
|---|---|---|---|---|
| United States Department of State/Bureau for Population, Refugees, and Migration: | | | | |
| U.S. Refugee Admissions Program | 19.510 | N/A - Direct | $ 7,579,251 | $ 6,756,748 |
| United States Department of Health and Human Services: | | | | |
| Refugee and Entrant Assistance - Voluntary Agency Programs | 93.567 | N/A - Direct | 1,332,095 | 1,080,149 |
| Refugee and Entrant Assistance - Discretionary Grants | 93.576 | N/A - Direct | 1,260,142 | 897,223 |
| Total United States Department of Health and Human Services | | | 2,592,237 | 1,977,372 |
| Total expenditures of federal awards | | | $ 10,171,488 | $ 8,734,120 |

**The Domestic and Foreign Missionary Society
of the Protestant Episcopal Church in the
United States of America and Affiliates**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the year ended December 31, 2021**

## NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") under programs of the federal government for the year ended December 31, 2021 and is prepared on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Society, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Society.

## NOTE 2 - INDIRECT COST RATE

The Society has elected not to use the 10-percent de minimis indirect cost rate as provided by §200.414 Indirect (F&A) Costs of the Uniform Guidance.

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# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

To the Executive Council of
The Domestic and Foreign Missionary Society
of the Protestant Episcopal Church in the
United States of America and Affiliates:

We have audited, 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 (*Government Auditing Standards*), the consolidated financial statements of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (collectively, the "Society"), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 30, 2022.

**Report on internal control over financial reporting**
In planning and performing our audit of the consolidated financial statements, we considered the Society'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 Society's internal control. Accordingly, we do not express an opinion on the effectiveness of the Society'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 Society'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

**Report on compliance and other matters**

As part of obtaining reasonable assurance about whether the Society's consolidated 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*.

**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 Society'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 Society's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

New York, New York
June 30, 2022

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Executive Council of
The Domestic and Foreign Missionary Society
of the Protestant Episcopal Church in the
United States of America and Affiliates:

## Report on compliance for each major federal program

**Opinion on each major federal program**

We have audited the compliance of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on the Society's major federal program for the year ended December 31, 2021. The Society's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Society complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

**Basis for opinion on each major federal program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (US GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Society 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Society's compliance with the compliance requirements referred to above.

**Responsibilities of management for compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Society's federal programs.

**Auditor's responsibilities for the audit of compliance**
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Society's compliance based on our audit. 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 US GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Society's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Society's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on internal control over compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in the Society's internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

New York, New York
August 11, 2022

**The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the year ended December 31, 2021**

## SECTION I - SUMMARY OF AUDITOR'S RESULTS

### Financial Statements

| | | | | |
|---|---|---|---|---|
| Type of auditors' report issued: | | Unmodified | | |
| Internal control over financial reporting: | | | | |
| Material weakness(es) identified? | ______ | yes | X | no |
| Significant deficiency(ies) identified? | ______ | yes | X | none reported |
| Noncompliance material to financial statements noted? | ______ | yes | X | no |

### Federal Awards

| | | | | |
|---|---|---|---|---|
| Internal control over the major program: | | | | |
| Material weakness(es) identified? | ______ | yes | X | no |
| Significant deficiency(ies) identified? | ______ | yes | X | none reported |
| Type of auditors' report issued on compliance for the major program: | | Unmodified | | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance? | ______ | yes | X | no |

### Identification of the major programs:

| Federal Grantor/Program or Cluster Title | Federal Assistance Listing Number |
|---|---|
| **United States Department of State/Bureau of Population: U.S. Refugee Admissions Program** | 19.510 |

| | | | | |
|---|---|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | | $750,000 | | |
| Auditee qualified as low-risk auditee? | X | yes | ______ | no |

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED**

**For the year ended December 31, 2021**

## SECTION II - FINANCIAL STATEMENT FINDINGS

None noted.

## SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.