

**FINANCE COMMITTEE
REPORT TO THE PRESBYTERY OF MIDDLE TENNESSEE
OCTOBER 21, 2021**

ADMIT TO RECORD

1. Financial reports and investment results as of September 30, 2021, are attached (Ex. A1-4).
2. The Independent Accountants' Review Report for the year ending December 31, 2020, prepared by Mullins Clemmons & Mayes, PLLC, is attached (Ex. B). Presbytery's financial statements were determined to be in accordance with generally accepted accounting principles, with only one long-standing exception involving our decision not to book pledges as income until they are paid rather than at the time of receipt.
3. At its July meeting, Presbytery approved the transfer of six church properties still owned by the Presbytery to the individual churches. Five of those transfers have been completed – Emmanuel, Priest Lake, Southminster, St. Andrews, and East Brentwood. The sixth – Double Springs in Cookeville – has been delayed while a church corporation is formed. We expect that transfer to be completed shortly.
4. In July we reported that Presbytery's application for tax exemption for property adjacent to East Brentwood PC was partially denied, and that the denial was being appealed to the State Board of Equalization. Although the appeal was successful, the property has since been transferred to East Brentwood PC. Because of the change of ownership, the church must now reapply to have the property classified as tax exempt. However, in light of the decision obtained by Presbytery on appeal, we anticipate that the church will have no difficulty in establishing the property's tax exempt status.
5. In July, Presbytery approved revisions to the Investment Policy that authorized the Finance Committee to consolidate our investments in a Vanguard balanced fund. As a result, our prior investment advisor at Baird was no longer able to handle the account, and the Finance Committee has approved the recommendation of its Investment Task Force to move the investment portfolio from Baird to Vanguard.

6. Following an extensive review of Presbytery's designated funds, which have accumulated in relatively haphazard fashion over the years, the Finance Committee is proposing a substantial reorganization of the existing funds to better align with Presbytery's mission and long term goals. A list of the designated funds showing the proposed revisions and the post-revision balance for each fund is attached (Ex. C), along with a pro forma balance sheet showing the balances as of September 30 if the changes had been in effect at that time (Ex. D). Among the major changes:
 - a. A reduction in the Allowance for Church Defaults from the existing balance of \$630,000 to \$200,000. The current balance is far in excess of Presbytery's likely exposure in the event a church defaults on a loan that Presbytery has guaranteed, taking into account the value of the collateral (church property) securing these loans. We believe that maintaining a \$200,000 default reserve is more than adequate to protect Presbytery in the event of a deficiency judgment on one of its guaranteed loans.
 - b. Redeployment of a portion of the \$430,000 being removed from the Allowance for Church Defaults into six new funds that address long-term funding needs:
 - i. Matthew 25 Initiatives (\$100,000)
 - ii. Youth and Young Adult Fund (\$10,000)
 - iii. Connectional Development Fund (\$10,000)
 - iv. Social Media and Technology Fund (\$30,000)
 - v. Leadership Development and Education Fund (\$20,000)
 - vi. Mediation Fund (\$20,000)
 - c. Transfer of \$100,000 from the Allowance for Church Defaults into the fund for New Church Development and Church Transformation.
 - d. Transfer of the remaining \$140,000 being removed from the Allowance for Church Defaults into unrestricted reserves, which would become a functional endowment pursuant to amendments being proposed to Presbytery's Financial Policies and Procedures.
 - e. Creation of a Disaster Assistance Fund to replace the separate funds previously created for each individual event, thus allowing excess or unused funds to be applied to future needs. This is sometimes referred to as the Red Cross model, which is used by most disaster relief organizations.
 - f. Elimination or merger of several obsolete, unfunded, duplicative, or overly narrow funds.
 - g. Recharacterization of the Joe Hutton Endowment Fund as a functional rather than a legal endowment.

Each fund would be administered by one of Presbytery's standing committees, which are identified in the description of each fund. Each committee would be responsible for recommending additions to and disbursements from its assigned funds, subject to the guidelines contained in the proposed revisions to Presbytery's Financial Policies and Procedures that accompany this report and are among the Finance Committee's recommendations.

7. As originally drafted, the Finance Committee's proposed revisions to Presbytery's designated funds included a recommendation that Fund 3002-05, which is used to collect and disburse funds for Guatemala mission trips, be phased out and the funds transferred to a separate entity—either the Outreach Foundation or the Presbyterian Mission Agency, or a separate 501(c)(3) tax exempt organization formed for that purpose. This entity would then assume responsibility for PMT mission activities in Guatemala, including organizing and administering mission trips and providing financial support for churches in the Peten Q'eqchi Presbytery. This recommendation is reflected in the language appearing in Exhibit C relating to Fund 3002-05.

This recommendation was prompted in part by concerns about financial oversight and accountability and even more by concerns about the safety of the Guatemala mission field and Presbytery's responsibility (and potential liability) for the missionaries who travel abroad under its auspices.

Guatemala is on the U.S. State Department's Do Not Travel list because Covid 19 and crime are rampant. Anyone who signs up for such a trip is entitled to know that the sponsoring organization has good local intelligence about the situation on the ground, has the expertise to know if a trip is safe or not, can provide security and insurance, and is prepared to handle emergencies such as a kidnapping or a case of Covid that requires medical evacuation.

If Presbytery sponsors the trip, we must be prepared to provide that kind of support. But because we do not have that kind of expertise and infrastructure, it is in the best interests of all concerned, especially all those who would be traveling to Guatemala with Presbytery's imprimatur, that we partner with one of the established foreign mission organizations or spin off the Guatemala Task Force into a separate organization that would then assume all responsibility for these activities.

Before presenting this recommendation, representatives of the Finance Committee and the Guatemala Task Force discussed the committee's concerns and options for addressing them. Based on these discussions, the Finance Committee has agreed to hold this recommendation in abeyance

while efforts are made to establish a partnership with one of the Presbyterian mission organizations that would provide financial accountability and oversight of mission activities sufficient to resolve the Finance Committee's concerns. Based on the outcome of these efforts, the Finance Committee will submit a proposed revision to the terms of Fund 3002-05 at the February meeting. In the meantime, our recommendation is to continue the fund in its current format, with efforts by all concerned to increase the level of financial accountability and transparency.

8. In conjunction with the recommended changes in Presbytery's designated funds, the Finance Committee is proposing amendments to Presbytery's Financial Policies and Procedures that (a) address how funds subject to donor restrictions are to be handled when the restriction can no longer be complied with; (b) authorize the Finance Committee to add, eliminate, or modify designated funds; (c) distinguish between donor-prescribed and functional endowments; (d) reclassify Presbytery's unrestricted reserves as a functional endowment; and (e) establish spending limits, guidelines, and procedures for withdrawing funds from Presbytery's investments. The changes are shown in the attached redlined copy of the Financial Policies and Procedures (Ex. E).
9. A proposed operating budget for 2022 is attached (Ex. F). Based on the giving patterns exhibited by the churches thus far in 2021, it projects the same amount of income from pledged giving as in 2021. Projected investment income is the same as in the 2021 budget, but the expected composition is quite different. As we move away from CDs and increase the percentage of equities in our portfolio, there will be less income thrown off by our investments that can be used for operating expenses. The Finance Committee therefore proposes as part of its budget recommendation that more of the unrealized gains from investments be made available to replace the income previously generated by CDs. The net result is that the revenue from investments will be greater than what we expect to receive in 2021.

Projected expenses reflect input received from staff and committees about their priorities and expectations for the coming year. We have included a 2% cost of living raise for staff. Office expenses are lower because of the move from a physical to a virtual office. Some committee expenses have been removed from the operating budget because, under the proposed realignment of designated funds, those committees will have access to additional monies from those funds. The net result is a balanced budget, with the potential for some additional spending from designated funds.

10. Some months ago the Finance Committee was approached by a potential buyer for two undeveloped parcels of land, totaling three acres, in Rockwood, Tennessee. The property had been owned by the St. Andrew Presbytery of the United Presbyterian Church in the United States of America (UPC) prior to that denomination's 1983 merger with the Presbyterian Church in the United States to form the Presbyterian Church (U.S.A.). It is located near Camp Ozone, a property once owned by the UPC. After researching presbytery and denominational records with the assistance of the Stated Clerk, the committee concluded that even though there was apparently no formal transfer of title following Reunion, title to the property did pass from the St. Andrew Presbytery to the Presbytery of Middle Tennessee. PMT received all of the churches in St. Andrew Presbytery located in the Central Time Zone, which is where the Rockwood property is located.

The buyer has offered \$2,500 per acre, or a total of \$7,500, for the property and is willing to take a quitclaim deed rather than a warranty deed, provided we furnish him with a formal explanation of how title passed to PMT. Based on its research into prevailing property values, the unlikelihood that Presbytery could make effective use of the property, and the buyer's willingness to accept a quitclaim deed, the Finance Committee has voted to recommend that we sell the property to the prospective buyer on such terms as the Finance Committee is able to negotiate and deems reasonable under the circumstances.

RECOMMENDATIONS

1. The Finance Committee recommends approval of the proposed revisions to Presbytery's designated funds as shown in the revised listing of funds attached to this report, including the phasing out of the Guatemala Support Fund, with responsibility for oversight of Presbytery's Guatemala mission activities and disbursement of funds transferred to a separate entity.
2. The Finance Committee recommends approval of the attached amendments to Presbytery's Financial Policies and Procedures.
3. The Finance Committee recommends approval of the proposed budget for 2022.
4. The Finance Committee recommends that the Presbytery approve the sale of two parcels of land in Rockwood Tennessee and authorize the Finance Committee to negotiate the sale to a buyer for such price and on such terms as the committee deems reasonable.

Presbytery of Middle Tennessee
Restricted and Designated Funds

Exhibit A1

Temporarily Restricted Funds (Designated by Donor)

3002-01 Centsability - \$4,123.40

3002-02 Peace & Global Witness -

's 25%

3002-06 - Pastoral Care - \$1,949.81

3002-10 - Youth and Young Adult Fund - \$3,062.82

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Note
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3002-12 - Women in Ministry - \$1,290.00

Note

3002-18 - Leadership Development and Education - \$4,230.60

"LEAD Event"

Note

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Note

3002-26 - Sabbatical Assistance - \$4,625.82

This fund was started with the Presbytery meeting offering in July 2011 and will need to be replenished from special offerings at Presbytery meetings. It is to be used for assistance to smaller churches with membership of less than 100 people for pastor's sabbatical expenses. A maximum of \$600 can be applied for at any one time for any one sabbatical. This fund is administered by the Committee on Ministry.

3002-27 - Latinx Ministries - \$28,726.15

This fund consists of special offerings, gifts, and grants to support Latinx ministries within the Presbytery, in particular, Iglesia Presbiteriana Nueva Vida. This fund is administered by the Committee on Church Transformation.

(Note: The previous Hispanic Fellowship Fund 3002-15 - \$549.26, the Small Church Fund – 3002-60 - \$7,926.89, the GA Small Church Fund – 3002-11 - \$250.00 and a \$20,000 grant previously in the Nueva Vida checking account were consolidated into this fund.)

3002-32 - CPM Scholarships - \$4,387.83

This fund started with an offering at an installation in 2014 and is replenished by designated offerings at installations. It is used to provide assistance to inquirers and candidates as they pursue their theological education. This fund is administered by the Committee on Preparation for Ministry.

3002-33 - Matthew 25 Food Project - \$1,147.80

This fund consists of special offerings, gifts, and grants to support the Presbytery's Matthew 25 Food Project. It is used to pay salaries, provide supplies, and pay incidental costs. This fund is administered by the Food Project Team of the Committee on Mutual Support.

(Note: If the Matthew 25 Food Project is terminated, any money left in this fund will be transferred to another fund used to alleviate hunger, such as 3002-01 – Centsability.)

3002-34 – Mburu Family Fund - \$11,441.23

This temporary fund was established to receive and distribute money contributed to the Presbytery for the purpose of assisting Rev. Lucas Mburu and family during his five-year doctoral study program at Vanderbilt Divinity School. This fund was established by the Finance Committee in May 2021 and Ann Waddle, RE, Clarksville FPC and the Co-Executive Presbyters administer this fund.

(Note: This fund's end date will be the earlier of the completion of that study program, anticipated as summer 2026, or when Rev. Mburu ceases his Vanderbilt Divinity School studies.)

3002-50 - St. Andrews Fund - \$56,541.16

This fund is to be used for loans for repairs to small churches of less than 100 members. The church must complete Presbytery's loan application including the required financial and organizational documentation. A repayment plan will be agreed upon with the interest rate being the same as loans from the Presbyterian Loan and Investment Program (PILP). Each year the Finance Committee will recommend to the Administrative Committee the maximum amount that can be loaned to a church at one time. This fund is administered by both Administrative and Finance Committees after consultation with the Committee on Ministry.

3002-52 – Meeting scholar/preacher - \$5,000.00

This fund originated from a donor restricted gift to be used to "bring noted scholars or preachers to Presbytery or other meetings for enrichment and inspiration of excellence from an outside voice." This fund is administered by the Committee on Leadership Development.

(Note: When monies in this fund have been exhausted, it will be deleted and requests will be directed to 3001-13.)

3002-62 - Pastor to Pastor - \$2,736.78

This fund is funded through grants and is to be used to reimburse expenses such as mileage and meals that volunteer pastors incur as they meet with other pastors through the Pastor to Pastor program. This fund's

donor requires a report each year listing recipients and how funds were spent. This fund is administered by the Committee on Ministry.

Pass-Through Funds shown as Temporarily Restricted Funds (Designated by Donor)

3002-05 - Guatemalan Support Fund - \$12,510.59

This fund consists of donations for various Guatemala activities including mission trips, pastor support and women's project support. Documentation supporting requested disbursements must be approved by the Finance Committee before funds are advanced. This fund is currently administered by a task force of the Committee on Mutual Support, but once responsibility for this group's support activity is transferred to a separate entity as recommended by the Finance Committee, Presbytery will no longer receive and disburse funds for Guatemalan support, at which time the balance in this fund will be transferred to the appropriate entity.

(Note: After transfer of fund's balance to the appropriate entity, this fund will be deleted.)

3002-63 – Disaster Assistance Fund - \$38,319.00

This fund receives contributions and grants when natural disasters such as floods and tornadoes impact Middle Tennessee. The money received will be granted to Presbyterian churches and/or other relief organizations located in the area where recovery work is being undertaken. This fund is administered by the Executive Presbyters and the Presbytery's Treasurer.

(Note: The balance shown above was transferred from Middle TN Flood Relief – 3002-09)

Designated by Presbytery – Unrestricted Net Assets

3001-01 – Allowance for Church Defaults - \$200,000

This fund was established to offset Presbytery's deficiency exposure on any member church's defaulted loan or mortgage on which Presbytery is contractually liable. This was funded by investment income and is administered by the Administrative and Finance Committees.

3001-04 – New Church Development and Church Transformation - \$327,942.48

Previously called "NCD (Properties)", this fund consists of money received from the sale of church properties or from the closure and dissolution of churches within the Presbytery. It is to be used to establish and develop new worshipping communities or to revitalize and redevelop existing churches with a comprehensive plan. This fund is administered by the Committee on Church Transformation.

This fund can also be used by Administrative Commissions tasked with dissolving a church to pay the necessary expenses associated with closing and selling the church. Such disbursements are to be reimbursed from the sale of church assets once the Administrative Commission's final report is received by the Presbytery. In order to ensure that adequate funds are available for Administrative Commission work, this fund is to maintain a balance of at least \$20,000.

(Note: Former New Church Development Fund – 3002-23 – \$800.00, former Small Church Fund – 3001-06 - \$111,490.93, and former Small Church Dissolution Fund – 3002-80 [including the New Hope, Franklin and Mattie Smith, Silver Point sub-accounts] – (\$1,248.33) were consolidated into this fund. Additionally, \$100,000 was transferred from the Allowance for Church Defaults – 3001-01.)

3001-08 – New Church Development and Church Transformation - Upper Cumberland Counties - \$25,091.56

Previously called "Sparta Dissolution", this fund was created from the dissolution of First Presbyterian Church of Sparta, Tennessee, and is set aside for ten years in a designated fund to be used in the Upper Cumberland counties of the Presbytery of Middle Tennessee to establish and develop new worshipping communities or to revitalize and redevelop existing churches with a comprehensive plan. This fund is administered by the Committee on Church Transformation.

(Note: If this fund has not been exhausted by the end of 2031, the remaining balance will be available for other purposes approved by the Presbytery.)

3001-10 - Youth and Young Adult Support Fund - \$10,000

This fund consists of money set aside by the Presbytery to be used after 3002-10 has been exhausted and is to provide funds to pay the expenses of youth who need financial assistance to attend Triennium, General Assembly, or other denominational events. This fund is administered by the Committee on Mutual Support. This fund originated by transferring \$10,000 from the Allowance for Church Defaults.

3001-11 – Connectional Development Fund - \$10,000

This fund consists of money set aside by the Presbytery to be used to build community and relationships within the Neighborhoods of the Presbytery. This fund is administered by the Committee on Mutual Support. This fund originated by transferring \$10,000 from the Allowance for Church Defaults.

3001-12 – Social Media and Technology Fund - \$30,000

This fund consists of money set aside by the Presbytery to be used to help small churches of under 150 members to develop a social media presence or to buy the necessary expertise and/or equipment to advance their ministry and worship in the 21st century. Grants must be matched by the applying church and cannot exceed \$1,000. This fund is administered by the Committee on Mutual Support. This fund originated by transferring \$30,000 from the Allowance for Church Defaults.

3001-13 Leadership Development and Education Fund - \$20,000

This fund consists of money set aside by the Presbytery to be used for educational events within the Presbytery and will be utilized after the three funds (3002-12, 3002-18 & 3002-52) restricted by the donors for this purpose have been exhausted. This fund is administered by the Committee on Leadership Excellence. This fund originated by transferring \$20,000 from the Allowance for Church Defaults.

3001-14 – Mediation Fund - \$20,000

This fund consists of money set aside by the Presbytery to help churches address situations of serious conflict, by covering the expense of utilizing trained mediators within the Presbytery or by hiring outside mediators or consultants, with the Committee on Ministry's approval. The churches involved will be asked to match moneys used from this fund. This fund is administered by the Committee on Ministry. This fund originated by transferring \$20,000 from the Allowance for Church Defaults.

3001-15 – Matthew 25 Fund - \$100,000

This fund was initiated by transferring \$100,000 from the Allowance for Church Defaults – 3001-01- and will be funded in the future from grants and gifts. Up to \$5,000 will be awarded to churches of the Presbytery for mission initiatives that are new, imaginative and potentially risky, and are defined by one of the foci in the Presbytery's commitment to be a Matthew 25 mid-council, as follows: building congregational vitality, dismantling structural racism, or eradicating systemic poverty. This Fund is administered by the Committee on Church Transformation. The application for Presbytery grants is available on the Presbytery's website.

Endowment Funds

3003 - Joe Hutton Endowment Fund - \$10,749.80

Previously called "Permanently Restricted Funds", this fund originated from a gift by Joe Hutton, a ruling elder at First Presbyterian Church Nashville, to support the mission and operations of Presbytery. It is treated as a functional endowment from which annual disbursements of distributable earnings, up to 7% of the average annual value of the fund over the preceding three years, can be made to help fund the annual operating budget.

Committee Fund Administration

Administrative Committee

- 3002-50 St. Andrews Fund
- 3001-01 Allowance for Church Defaults

Finance Committee

- 3002-50 St. Andrews Fund
- 3001-01 Allowance for Church Defaults

Committee on Ministry

- 3002-06 Pastoral Care
- 3002-26 Sabbatical Assistance
- 3002-62 Pastor to Pastor
- 3001 - 14 Mediation Fund

Committee on Preparation of Ministry

- 3002-32 CPM Scholarships

Committee on Church Transformation

- 3002-27 Latinx Ministries
- 3001-04 Development and Church Transformation
- 3001-08 Development and Church Transformation-Upper Cumberland
- 3001-09 Matthew 25 Fund

Committee on Leadership Excellence

- 3002-12 Women in Ministry
- 3002-18 Leadership Development and Education
- 3002-52 Meeting Scholar/preacher
- 3001-13 Leadership Development and Education Fund

Committee on Mutual Support:

- 3002-01 Centsability
- 3002-02 Peace and Global Witness
- 3002-10 Youth and Young Adult Fund
- 3002-33 Matthew 25 Food Project
- 3002-05 Guatemalan Support Funds
- 3001-10 Youth and Young Adult Fund
- 3001-11 Connectional Development Fund
- 3001-12 Social Media and Technology Fund

The Presbytery of Middle Tennessee
Balance Sheet
As of September 30, 2021

Exhibit A2

Presbytery of Middle Tennessee
Pro-Forma Balance Sheet - September 30, 2021
Assumption: Recommended changes made

Sep 30, 2021

ASSETS

Current Assets

Checking/Savings

1005 · Pinnacle Bank 106,969.95

Total Checking/Savings 106,969.95

Other Current Assets

1300 · Baird Investments

1300-01 · Baird Invest. - Pooled 376,956.00

1300-02 · Baird Invest. - Default reserve 629,766.84

1300-03 · Baird Invest. - Endowment 10,749.80

1300-04 · Baird Invest. - Cash Equiv. 848,082.04

Total 1300 · Baird Investments 1,865,554.68

Total Other Current Assets 1,865,554.68

Total Current Assets 1,972,524.63

Fixed Assets

1500 · Fixed Assets

1500-01 · Leasehold Improvements 31,500.00

1500-02 · Furniture and Equipment 16,960.37

1500-10 · Accumulated Depreciation -48,460.37

Total 1500 · Fixed Assets 0.00

Total Fixed Assets 0.00

TOTAL ASSETS 1,972,524.63

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Other Current Liabilities

2500 · Designated gifts

2500-30 · Other designated gifts 55.00

Total 2500 · Designated gifts 55.00

Total Other Current Liabilities 55.00

Total Current Liabilities 55.00

Total Liabilities 55.00

Equity

3001 · Unrestricted Net Assets

3001-01 · Allowance for church defaults 200,000.00

3001-04 · New Church Development & Church Transformation 327,942.48

3001-041 · Designation - NCD Silver Point -2,118.00

3001-042 · Designation - NCD New Hope 869.67

3001-08 · NCD & Church Transformation - Upper Cumberland Counties 25,091.56

3001-10 · Youth & Young Adult Support Fund 10,000.00

3001-11 · Connectional Development Fund 10,000.00

3001-12 · Social Media & Technology Fund 30,000.00

The Presbytery of Middle Tennessee
Balance Sheet
As of September 30, 2021

3001-13 · Leadership Development & Education Fund	20,000.00
3001-14 · Mediation Fund	20,000.00
3001-15 · Matthew 25 Fund	100,000.00
3001 · Unrestricted Net Assets - Other	<u>961,853.64</u>
Total 3001 · Unrestricted Net Assets	1,703,639.35
3002 · Temporarily restricted funds	
3002-01 · Centsability	4,123.40
3002-02 · Peace & Global Witness	0.00
3002-05 · Guatemalan Support Fund	12,510.59
3002-06 · Pastoral Care	1,949.81
3002-10 · Youth & Young Adult Fund	3,062.82
3002-12 · Women in Ministry	1,290.00
3002-18 · Leadership Development & Education	4,230.60
3002-26 · Sabbatical Assistance	4,625.82
3002-27 · Latinx Ministries	28,726.15
3002-32 · CPM - Scholarships	4,387.83
3002-33 · Matthew 25 Food Project	1,147.80
3002-34 · Mburu Family Fund	11,441.23
3002-50 · St. Andrews Fund	56,541.16
3002-52 · Meeting scholar/preacher	5,000.00
3002-62 · Pastor to Pastor	2,736.78
3002-63 · Disaster Assistance Fund	<u>38,319.00</u>
Total 3002 · Temporarily restricted funds	180,092.99
3003 · Joe Hutton Endowment Fund	10,749.80
3100 · Restricted/Designated income	-50,574.77
32000 · Retained Earnings	7,014.56
Net Income	<u>121,547.70</u>
Total Equity	<u>1,972,469.63</u>
TOTAL LIABILITIES & EQUITY	<u><u>1,972,524.63</u></u>

PRESBYTERY OF MIDDLE TENNESSEE
Financial Policies and Procedures

Purpose: These policies and procedures have been adopted by the Presbytery of Middle Tennessee to guide those charged with overseeing its financial affairs. Our goal is to be good stewards of all that has been entrusted to us, and, in so doing, to maximize the resources that can be used to support the work of the Presbytery. We seek to ensure that Presbytery's finances are handled honestly, competently, prudently, and transparently. The organizational framework and financial directives set out in this document are designed to further those objectives.

Best Practices: This document contains language that is often descriptive rather than expressly prescriptive. Descriptive language reflects current practices. These have been developed and proved successful over time; they incorporate accounting and financial best practices and should be followed unless there are strong, articulable reasons to depart from them (i.e., they are similar to a Book of Order provision couched in terms of "should" rather than "must"). If changed circumstances require regular departures from the practices described in this document, the descriptions should be revised and the new procedures approved by Presbytery.

Resources: Presbytery's main source of income is the money contributed by its member churches. Although these gifts are voluntary, Presbytery has historically paid denominational per capita assessments to Synod and General Assembly, and it requests that congregations use the current per capita assessment for their church as a starting point when deciding how much to contribute. Presbytery also receives investment income and gifts and grants from other sources, including Synod and denominational agencies. On occasion Presbytery may take possession of and sell the property of dissolved, departed, or extinct congregations, although such non-recurring revenue is typically not included in operating income.

In addition to its current income, Presbytery holds significant reserves that can be drawn on as needed for capital investments and expenditures and to pay certain types of operating expenses, including deficits in the current operating budget. Our goal in managing these reserves is to maximize Presbytery's ability to support the ministry and mission of its churches over time. This requires careful balancing of current and projected future needs. Overspending from reserves now would leave us financially unprepared to cope with future crises or to take advantage of future opportunities—both important reasons to maintain a rainy day fund. But accumulating more than is necessary to prepare for those future needs would be equally improvident, as it sacrifices real benefits that could be achieved today in favor of future uses for those funds that will never materialize. Decisions about whether to draw on or add to reserve funds are the province, in the first instance, of the Finance Committee, in consultation with the Administrative Committee. In the case of the annual budget or major revenues or expenses, their decisions require approval by Presbytery.

Insofar as possible, Presbytery operates on a balanced budget, matching revenues and expenses on a calendar year basis. Within the confines of its annual budget, Presbytery seeks to manage its cash flow so that current income is always sufficient to cover current expenses. In this way we avoid having to withdraw money from reserves to pay operating expenses (unless the withdrawals have been previously approved as part of the annual budget). Cash flow is monitored on a weekly basis through a report prepared by Presbytery's accountant showing receipts, expenditures, and the resulting cash balance. This report is distributed weekly to the Treasurer and Executive Presbyters and monthly to the other members of the Finance Committee.

If a donor requests that a gift be used for a specified purpose, and if Presbytery accepts the gift subject to that limitation, Presbytery will honor the donor's request and use the gift in the manner intended by the donor. Many such gifts are of a routine or recurring nature and do not require special scrutiny. However, to ensure that Presbytery does not undertake obligations that it cannot or perhaps even should not fulfill, the Executive Presbyters and the Accountant are charged with monitoring gifts with donor restrictions and bringing any that may impose difficult or unusual obligations to the attention of the Finance Committee. The Finance Committee may reject any gifts that come with unacceptable conditions by returning the money to the donor within 60 days of receipt.

If compliance with a donor-imposed restriction becomes impossible or impracticable, the Finance Committee may choose to return the donation or may redirect it to another use that adheres as closely as possible to the donor's original intent.

Some of the money Presbytery receives is intended for third-party recipients—such as special offerings for designated agencies or purposes—and Presbytery is merely a conduit through which the funds are channeled. These pass-through funds are held in temporary accounts and promptly distributed to the intended beneficiaries. Special offerings and similar gifts held in temporarily restricted funds are normally forwarded no later than 30 days after they are received, unless they are specifically designed to accumulate for use at a later date. Presbytery has the capability to receive funds through online giving, and many of the donations made in this way go into one of Presbytery's temporarily restricted funds.

Presbytery also receives money for its own account that is designated for specific purposes, such as new church development. If not included in the current operating budget, such funds are placed in special reserve accounts that are drawn on as needed to support the specified uses. These accounts are also funded internally through other sources, such as proceeds from the sale of property of closed churches and allocations from reserves, that are not subject to donor restrictions. A list of the currently active designated funds is in *Appendix A*.

Designated funds are intended to allow for capital accumulation to fund long term objectives. Like the annual operating budget, these accounts speak to Presbytery's values and priorities. The Finance Committee is charged with regularly reviewing the designated funds to be sure that the purposes for which money from each fund can be used are clearly

defined and consistent with Presbytery's current priorities and needs, and that each fund is being drawn on when appropriate to further the ministry or mission for which it was created. The Finance Committee may add, eliminate, or modify designated fund accounts or redeploy non-donor-restricted funds in the accounts in order to better reflect current needs and priorities. No new designated funds may be created without Finance Committee approval. The Finance Committee shall report changes in the designated funds to Presbytery at least annually.

- ~~Deleted:~~ recommend that
- ~~Deleted:~~ be added, eliminated, or modified,
- ~~Deleted:~~ that
- ~~Deleted:~~ be redeployed

Money from designated funds is accessed either as a line item expense in the annual budget or as authorized by the Finance Committee pursuant to the normal procedures for approval of unbudgeted expenses. When money from designated funds is used to cover operating expenses as part of the annual budget, it is identified and accounted for separately from expenses that are expected to be paid out of current revenues.

One of the designated funds—allowance for church defaults—was created to cover any foreseeable obligation arising out of a default by one or more of Presbytery's member churches. The Finance Committee, in conjunction with the Stated Clerk, is responsible for maintaining records sufficient to show all guarantees or similar obligations expressly assumed by Presbytery in connection with loans made to member churches. Presbytery may only guarantee a loan if the Finance Committee concludes that there is sufficient collateral to protect Presbytery from being exposed to a deficiency if the church defaults. As a failsafe, Presbytery also maintains a balance in this account equal to the amount of guaranteed loans outstanding, adjusting the total from year to year in accordance with changing loan balances. The account balance need not include loans for which Presbytery has approved a church's request to encumber its property but has not guaranteed the loan. In such cases the Finance Committee might recommend, in the event of a default, that Presbytery negotiate with the lender to pay off the loan balance in order to retain the property. However, Presbytery would not be obligated to do so and would have no liability for a deficiency judgment if it allows the lender to foreclose and the collateral proves insufficient to pay off the balance of the loan.

Donor Prescribed Endowments: Presbytery may accept contributions from donors who require that the corpus be maintained in perpetuity. Such funds are held in a separate account and managed in compliance with the requirements of the Tennessee Uniform Prudent Management of Institutional Funds Act, Tenn. Code Ann. § 35-10-204. Endowment funds should be invested in accordance with the long time horizon suitable for a permanently restricted corpus. The Finance Committee is responsible for seeing that the distributable earnings, calculated in a manner consistent with the statute, are accumulated or used in accordance with the donor's intent. It should also consider whether to undertake a campaign to increase Presbytery's endowments as a way of providing long term financial stability.

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Functional Endowments: In addition to receiving endowment funds restricted by the donor, Presbytery may establish one or more functional endowment funds that are invested and disbursed in the same manner as a UPMIFA endowment but differ in that the monies are transferred into the fund by Presbytery and can be withdrawn without restriction. The purpose of a functional endowment is to impose, on a voluntary basis,

the same kind of spending discipline and long-term perspective on Presbytery's use of its financial reserves as a true endowment, while preserving the flexibility to withdraw funds from the corpus if changed circumstances require that the funds be put to a different use. As with donor-prescribed endowments, the Finance Committee is charged with determining how much of the endowment's distributable earnings should be spent or accumulated annually. Distributable earnings are calculated in the manner specified by the UPMIFA, up to a maximum of 7% of the fund's average fair market value over the preceding three year period. Absent a donor or Presbytery limitation on the use of endowment funds, the distributable earnings from these funds can be drawn on to fund Presbytery's annual operating budget, either as part of the budget or at year end to make up any revenue shortfall.

Unrestricted Funds: The largest portion of Presbytery's reserves is undesignated and unrestricted. This account is treated as a functional endowment from which a maximum of 5% of the fair market value over the preceding three-year period can be drawn on to fund the operating budget or to cover budget deficits and unbudgeted expenses that have been approved but cannot easily be paid out of operating revenues or designated funds.

Stewardship: Presbytery pays per capita assessments, based on the reported membership of each church, to the Synod of Living Waters and the PCUSA General Assembly. Although Presbytery could mandate payment of these assessments by its member churches, it has chosen instead to rely on their voluntary contributions to fund both the per capita payments and other parts of the budget. This reliance on voluntary giving means that Presbytery cannot take the financial support of its churches for granted but must actively solicit contributions. The Finance Committee, through its stewardship working group, is responsible for organizing and overseeing annual stewardship appeals to each congregation, supplemented as needed by additional targeted appeals or educational programs that highlight how Presbytery uses the money it receives and why it is important to continue supporting the work of Presbytery and, through it, the higher councils of the church.

In August of each year the stewardship working group drafts a letter to all the churches on behalf of the Finance and Administrative Committees thanking them for their past support, explaining the per capita assessment for each church, highlighting some of the important ministries supported by Presbytery, and requesting their support for the next year as they consider their budgets. Once approved by the Finance and Administrative Committees, the letter, accompanied by a pledge card, is distributed to all pastors and clerks of session. The Executive Presbyters and the Finance Committee's stewardship working group, along with the beneficiaries of designated gifts, are encouraged to find appropriate ways of thanking those who contribute to Presbytery or, through Presbytery, to one of its ministries.

In October, members of the stewardship working group arrange for someone to reach out on behalf of Presbytery to any of the churches that have not responded to see if they can answer questions and solicit a response. A letter is prepared to thank churches when they respond.

Church rolls that have been inflated by the failure to remove inactive and departed members cause Presbytery to incur greater than necessary per capita costs. It is therefore a matter of good financial stewardship for each church to clean its rolls regularly. Stewardship appeals to the churches should remind them of their Book of Order obligation to update their membership rolls, as well as the extra financial burden we all bear if this is not done

Budget: Like other church-related, nonprofit organizations, Presbytery hires staff and contractors, maintains an office (which is currently virtual rather than physical), and conducts the business that it is charged to do. Much of that business involves providing grants and other financial support for churches and church-related entities. These operations are financed and conducted pursuant to an annual budget, in which Presbytery gives concrete expression to its vision, its priorities, and its goals. Presbytery's budget, like all of its accounting, is on a calendar-year basis.

Each year the Executive Presbyters, the Treasurer, and the Administrative and Finance Committees are jointly responsible for projecting income for the coming year; gathering information and recommendations from Presbytery's committees and other sources about what activities should be funded from that revenue stream; weighing, where necessary, the competing claims and requests for funding; considering whether any of the needs identified during this process could and should be funded out of designated funds; and at the end of that process proposing a reasonably accomplishable balanced budget (expenses +/- 2% of projected revenues plus amounts to be withdrawn from designated funds) for adoption by the full Presbytery. Extraordinary circumstances, such as the recent pandemic, may necessitate a temporary departure from the goal of presenting a balanced budget, but the finance and administrative committees must provide an explanation and justification to Presbytery when presenting a deficit budget and must work toward bringing expenses into line with current revenues. The budget for the following year should ordinarily be proposed at the last Presbytery meeting of the year, normally in October.

Budget Process and Timeline: Various committees have responsibility for overseeing the missional aspects of Presbytery's work. Each year the Finance Committee, as it begins drafting a proposed budget, appoints several of its members to a working group, typically led by the Finance Committee's vice-moderator, to solicit the input and recommendations of the other committees concerning spending priorities for the coming year.

This budget working group uses the grant application form (*Appendix B*) to gather information about entities and activities for which Presbytery may be asked to provide financial support. All individuals, organizations, or activities that receive money from Presbytery must complete an application, and all requests for funding must be endorsed by a Presbytery committee. The budget working group has discretion to interpret and adjust the requirements of the form to fit the circumstances of each applicant, as long as it obtains all the information needed to make an informed decision about the funding request. The working group is authorized to follow up with applicants and request whatever additional information is needed to vet any request for funding, including not

just financial data but anything that bears on the suitability of both the recipient and the activity being funded. A similar form (*Appendix C*) must be filled out by applicants for Hunger Action grants, although these grants are approved by the Committee on Mutual Support and do not appear in the regular budget.

The working group then compiles the information it has gathered, drafts a recommended budget that matches the projected revenues for the following year, and presents it to the Finance Committee for discussion, along with whatever backup information and options it believes would be helpful for the full committee. Once the Finance Committee has settled on a final draft of the proposed budget, it presents the draft budget to the Administrative Committee for approval, after which they jointly recommend it for adoption at the next presbytery meeting.

The work of preparing a budget should begin no later than June, with the goal of having a proposed budget, approved by both the Finance and Administrative Committees, to present at the October presbytery meeting. A typical schedule for accomplishing this would be:

- **June**

- The Treasurer, the Executive Presbyters, and Presbytery's Accountant present their best projection of revenues for the following year to the Finance Committee. In formulating their recommendation, they should confer with the head of the Investment Task Force to get an estimate of investment income, which should include any unrealized capital gains that have been reclassified as current revenues and may be used to fund operating expenses pursuant to Presbytery's Investment Policy. They should also contact the large churches that provide a substantial share of presbytery's income to discuss those churches' projected giving during the coming year. This projection can be modified as pledges are received, but it should begin with current and prior year giving as a baseline and make adjustments as needed to account for expected changes in circumstances. Once adopted by the Finance Committee, this figure represents the total amount of expenses that the working group may include in the proposed budget, except for expenses that will be paid out of designated funds, unless the Finance Committee agrees to a modification.
- The budget working group consults with staff to get their thoughts about the budget and begins gathering input and recommendations from the committees and potentially others who have a stake in the budget, including, where appropriate, past recipients of funding. These contacts would typically be by telephone or email, at least initially, but in-person or electronic meetings may be needed if there are unusual circumstances, such as an entirely new request or one that is substantially higher than in previous years.

- **July**

- The working group continues to gather information and begins assembling a draft budget.
- **August**
 - The working group presents its preliminary budget to the Finance Committee. If there are questions that require further consultation or research, those issues should be addressed in time to complete the Finance Committee's part of the process by its September meeting.
- **September**
 - The budget is finalized and adopted by the Finance and Administrative Committees.
- **October**
 - The Administrative and Finance Committees present their proposed budget to Presbytery for a vote.

If Presbytery fails to adopt a budget for the following year at the October meeting, it must provide for the payment of necessary expenses once the current budget expires through a continuing resolution, which will govern spending until there is a formally approved budget. The resolution should specify the level and type of spending allowed and the persons who may approve expenditures pursuant to this temporary spending authority. A typical continuing resolution would authorize the Executive Presbyters and the Treasurer to pay all necessary expenses at the same level as the current budget (subject only to unavoidable cost increases), vesting in them the discretion to determine what qualifies as a necessary expense and what is an unavoidable cost increase.

Off-Budget Fundraising: Presbytery collects and disburses money raised by persons affiliated with Presbytery for missions, such as Hunger Action, that are authorized by Presbytery and overseen by its committees but are not funded out of normal operating revenues. These funds are outside of the budget and the budgeting process. Fundraising appeals and disbursements from these funds must be approved by the committee(s) of Presbytery under which they operate (currently the Committee on Mutual Support).

Deleted: Currently, there are two such funds: Guatemalan Partnership and Hunger Action programs.

Unbudgeted Expenses: Unbudgeted expenses up to \$5,000 must be approved by the Finance Committee. Unbudgeted expenses greater than \$5,000 must be approved by the Finance Committee and Presbytery. The Finance Committee may require submission of a grant application form in connection with a request to fund an unbudgeted expense. The Finance Committee is expected to consult with the Administrative Committee concerning all significant unbudgeted expenses. If exigent circumstances do not allow time to present a proposed expense to Presbytery for approval, the Finance and Administrative Committees may authorize the expenditure on an emergency basis, which requires both (1) a finding by the committees that there is an urgent need to act on the

request before Presbytery would be able to meet and (2) approval by a two-thirds majority of each committee.

Accountant/Bookkeeper: Presbytery contracts with a bookkeeping firm to handle its books, pay its bills, prepare financial statements, and perform all other accounting functions. These functions should be spelled out in detail in Presbytery's contract with the bookkeeping firm. The person assigned by that firm to perform these functions ("the Accountant") is supervised by the Executive Presbyters, who review and approve the firm's invoices, and by the Treasurer. The Accountant is charged not only with handling Presbytery's books and day-to-day financial transactions, but also with providing advice and assistance to the Executive Presbyters and the Finance Committee on all aspects of financial management and planning. The Executive Presbyters should regularly review the performance of both the bookkeeping firm and the Accountant.

Financial Information and Authorizations: The Treasurer and the other members of the Finance Committee, as well as the Accountant and the Executive Presbyters, are authorized to access all of Presbytery's books and financial records. In addition, the members of the Investment Task Force are authorized to access Presbytery's investment accounts and obtain any information needed to perform their functions; however, only the Treasurer and the Chair of the Investment Task Force may give instructions to Presbytery's financial advisors and direct the investment and redemption of funds in Presbytery's portfolio. The Treasurer, who is also a Trustee, is authorized to act on behalf of Presbytery and its corporate entity (The Trustees of the Presbytery of Middle Tennessee, Presbyterian Church (U.S.A.)) in all financial matters. If requested, the Stated Clerk shall certify to Presbytery's banks, lenders, investment advisors, and other interested parties the persons who are authorized to access information, direct investments, sign checks, or take other financial actions on behalf of Presbytery.

Approval and Payment of Expenses: The Accountant is responsible for payment of expenses. All invoices and other requests for payment of previously authorized expenses must be reviewed and approved for payment by one of the Executive Presbyters, or if they are unavailable the Treasurer, before payment may be issued; provided, however, that budgeted expenses of a routine and recurring nature, such as Board of Pensions payments, need not be reviewed and individually approved as long as the schedule of such payments has been approved in advance; and provided further that neither the Executive Presbyters nor the Treasurer may approve their own or their spouse's expenses.

To the extent possible, all funds transfers, whether incoming or outgoing, shall be made electronically. The Finance Committee and the Accountant shall seek to minimize the use of cash and physical checks, both by encouraging churches and individuals to make contributions to Presbytery in electronic form and by paying expenses by ACH, direct deposit, wire transfer, or other form of direct funds transfer whenever that is allowed and is cost effective.

Payment by Check: The Executive Presbyters and the Treasurer, plus the Vice-Moderator and the Clerk of the Finance Committee, are authorized to sign checks. One signature is required for amounts less than \$2,500, and two signatures are required for

amounts of \$2,500 or more. The Executive Presbyters are the preferred first choice for signatures; but under no circumstances, when two signatures are required, may both Executive Presbyters sign a check.

Cash Receipts: When a cash offering is received (particularly at Presbytery meetings), a Presbytery representative (either staff or a member of the Finance Committee) and a representative from the hosting church count the money together and fill out a cash offering form (*Appendix D*) and a bank deposit slip. The Presbytery representative then delivers the cash and the deposit slip to one of the Executive Presbyters, who deposits the cash into the Presbytery bank account and sends a copy of the receipt to the Accountant. The Presbytery representative also provides the accountant with the completed cash offering form.

Check Receipts: One of the Executive Presbyters retrieves and opens the mail, stamps the back of the check “For Deposit Only,” copies checks, completes the deposit slip and the other Executive Presbyter takes the checks to the bank for deposit. The copied checks are scanned, along with the deposit slip, and emailed to the Accountant. Alternatively, the Executive Presbyters may deposit checks online in the Presbytery account, if that option is available on a cost-free or cost-effective basis, and if the bank provides a record of the transactions with all of the information needed by the Accountant to track and verify the deposits.

Financial Reports: Among the financial reports prepared by the Accountant are a weekly cash flow report; a cumulative monthly income statement, balance sheet, and pledged giving report; and a final year-end version of each monthly statement. These reports are initially provided by the Accountant to the Treasurer and Executive Presbyters and subsequently by them to the Finance and Administrative Committees. The Accountant, Executive Presbyters, Treasurer, and members of the Finance Committee and the Investment Task Force also receive a monthly statement from Presbytery’s financial advisor showing its investment results. The Finance Committee provides the most current financial reports each quarter to Presbytery as part of its committee report. The Treasurer will normally review the financial results and highlight items of interest at each stated Presbytery meeting.

Presbytery keeps its books on an accrual basis, except that pledges from its member churches are not recorded as income at the time the pledges are received. Presbytery does accrue unpaid pledges at year end and counts money received the following year in payment of prior-year pledges as prior-year income. Although this practice departs slightly from generally accepted accounting principles, which would require booking an unconditional promise to give as income upon receipt, the Finance Committee believes recognizing contributions only when received or at year end provides a more accurate picture of Presbytery’s financial condition and makes the financial reports more useful management tools.

Internal Review: The Treasurer shall appoint a member of the Finance Committee—preferably someone with an auditing background—to conduct a monthly internal review

of Presbytery's books and financial transactions using the form attached as *Appendix E*. The internal audit results are provided to the Treasurer and the Executive Presbyters.

External Review: Presbytery's books are reviewed every year and audited every five years by a qualified CPA. The Executive Presbyters and the Accountant shall take the lead in screening and selecting an auditing firm to perform these tasks. They shall recommend their choice to the Finance Committee, which is authorized to retain an auditor/reviewer based on these recommendations. Presbytery approval is not required.

Investments: In conjunction with the Finance Committee, to which it answers, the Investment Task Force is responsible for managing Presbytery's invested reserve funds pursuant to Presbytery's Investment Policy (*Appendix F*). This includes selecting and overseeing the professional advisors who execute the investments and hold the funds. The Investment Task Force should regularly evaluate the quality of advice and service received from its financial professionals and recommend changes as needed. It is also responsible for recommending changes in the Investment Policy whenever it deems them advisable (or as requested by the Finance Committee), including asset allocations and the degree of active management authorized by the policy.

Each year in connection with the budgeting process, the Investment Task Force shall confer with the Finance Committee about Presbytery's potential need to withdraw funds from its reserves within the next two calendar years. Such withdrawals may be (1) from designated funds in order to cover planned, budgeted expenses or to address the specific needs for which the fund was established, (2) from the default reserve to cover defaults by member churches, or (3) from endowments and undesignated reserves to fund the operating budget or to cover unbudgeted expenses and revenue shortfalls. This projection of reasonably foreseeable short term needs should cover all likely exigencies but should be no larger than necessary to protect against having to liquidate long term investments in unfavorable market conditions. The amount of reserves thus calculated should be invested in a manner that would allow ready access to the funds if needed within the succeeding two years. The remainder of Presbytery's reserves, including the corpus of its endowments, should be invested with a longer time horizon—five to ten years—so as to maximize the return on those funds. The percentage of Presbytery's reserves that fall within each of these categories, and the amount of each, will thus vary from year to year, which will require the Investment Task Force to review its asset allocations and adjust them as needed to maintain the correct balance based on current projections.

Presbytery's investment portfolio should be of benefit both now and in the future on a generationally neutral basis. The rate of spending available from the investment portfolio to support the operating budget is to be set annually by the Investment Committee based on market performance and trends, the inflation rate, and portfolio allocations. To minimize year-to-year swings in annual spending amounts, the average of the prior three years' ending balances of the portfolio is to be used as the base in the available spending amount calculation.

After spending from the investment portfolio has been properly approved, distributions are to be placed in a reserve fund that is invested in cash and cash equivalents. Transfers

from the reserve fund to the appropriate operating account are to be approved by the Finance Committee and are subject to review on an annual basis.

Presbytery's reserve accounts are invested on a pooled basis and are not segregated according to designated uses. This allocation between short and long term investments is therefore unrelated to the amounts in any designated account. The designations, in other words, are only for accounting purposes, not investment purposes.

Property: The Finance Committee's property working group, in conjunction with the Stated Clerk, maintains a list of all property held by the churches within its bounds, current debt obligations of each church, whether church property has been encumbered as collateral for loans, the approximate value of the property, and whether Presbytery is a co-signer or guarantor of the loan and thus contingently liable in case of a default. Unless exempted pursuant to G-4.0208, all churches must obtain Presbytery approval before buying, selling, or encumbering real property. The process to be followed is set out in Presbytery's Church Property Sale Policy (*Appendix G*). The policy contains a list of churches that were eligible and took advantage of the G-4.0208 exemption. Initial screening and investigation of a church's request to buy, sell, or encumber property are conducted by the property working group, which then makes a recommendation to the Finance and Administrative Committees. Presbytery approval is required if the value of the transaction exceeds \$25,000.

Funds from Closed Churches: The Church Property Sale Policy also addresses the procedure to be followed by an administrative commission charged with receiving and disposing of property from a dissolved or dismissed congregation. Normally all real and personal property of a closed church is sold and the proceeds added to the designated fund for new church development and church revitalization. The rationale is that recycling these assets is the best way of honoring the ministry of the closed church—by using them to share the gospel message with new disciples, who are essential to the future health of the church. The death of one congregation, in other words, should be the occasion for giving life to others. Just as each particular church must replace members who die if it is to maintain its vitality in the future, so must Presbytery replace its departed members if it hopes to continue offering a Reformed presence in the communities it serves and to avoid declining into irrelevance. Administrative commissions may propose different uses for some of the funds, subject to approval by Presbytery, but the majority of such funds should go to serve Presbytery's long term strategic goal of promoting the formation of new worshipping communities and the revitalization and growth of existing congregations.

Adoption: This policy was adopted by the Presbytery of Middle Tennessee at its meeting of _____ and supersedes all previous financial policies.

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1

**THE TRUSTEES OF THE PRESBYTERY OF
MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A.)**

**FINANCIAL STATEMENTS
& INDEPENDENT ACCOUNTANTS' REVIEW
REPORT**

DECEMBER 31, 2020

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

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MULLINS CLEMMONS & MAYES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Trustees of the Presbytery of Middle Tennessee,
Presbyterian Church (U.S.A):

We have reviewed the accompanying financial statements of The Trustees of the Presbytery of Middle Tennessee, Presbyterian Church (U.S.A.) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the combined financial statements taken as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

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

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, except for the issue noted in the Known Departure From Accounting Principles Generally Accepted in the United States of America paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the accounting principles generally accepted in the United States of America.

Known Departure from Accounting Principles Generally Accepted in the United States of America

As disclosed in Note 12 to the financial statements, unconditional promises to give for future years are not recorded in the financial statements. Accounting principles generally accepted in the United States of America require unconditional promises to give to be recorded as contribution revenue in the year the promise is made. Management has not determined the effects of these departures from accounting principles generally accepted in the United States of America on the accompanying financial statements.

Mullins Lemmons + Magee, PLLC

Brentwood, Tennessee
August 12, 2021

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A.)**

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2020**

ASSETS

Cash and cash equivalents	\$ 463,278
Promises to give	20,053
Investments	1,352,087
Property and equipment, net	<u>-</u>
TOTAL ASSETS	<u>\$ 1,835,418</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 7,016
Total liabilities	<u>7,016</u>
NET ASSETS:	
Without donor restrictions	1,706,580
With donor restrictions	<u>121,822</u>
Total net assets	<u>1,828,402</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,835,418</u>

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

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

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A.)**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE, SUPPORT AND GAINS:			
Church mission giving	\$ 554,670	\$ -	\$ 554,670
Special offerings, gifts and grants	31,697	77,390	109,087
Synod campus ministry support	25,159	-	25,159
Paycheck Protection Program	63,200	-	63,200
Manse rental	1,500	-	1,500
Interest income	34,468	-	34,468
Investment gains, net	89,634	-	89,634
Total	<u>800,328</u>	<u>77,390</u>	<u>877,718</u>
Net assets released due to satisfaction of restrictions	<u>172,371</u>	<u>(172,371)</u>	<u>-</u>
Total revenue, support and gains	<u>972,699</u>	<u>(94,981)</u>	<u>877,718</u>
EXPENSES:			
Program services	684,953	-	684,953
Management and general	171,556	-	171,556
Total expenses	<u>856,509</u>	<u>-</u>	<u>856,509</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	116,190	(94,981)	21,209
OTHER CHANGES IN NET ASSETS:			
Transfer from First United Presbyterian Church, Sparta	<u>28,000</u>	<u>-</u>	<u>28,000</u>
Net other changes	<u>28,000</u>	<u>-</u>	<u>28,000</u>
CHANGE IN NET ASSETS	144,190	(94,981)	49,209
NET ASSETS:			
Beginning	<u>1,562,390</u>	<u>216,803</u>	<u>1,779,193</u>
Ending	<u>\$ 1,706,580</u>	<u>\$ 121,822</u>	<u>\$ 1,828,402</u>

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

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

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A.)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 49,209
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	8,843
Net realized and unrealized investment gains	(89,635)
Net changes in other operating assets and liabilities:	
Promises to give	(2,575)
Promises to give, in-kind	28,303
Accounts payable	2,382
Net cash used in operating activities	<u>(3,473)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of investments	(501,255)
Proceeds from sales of investments	817,000
Net cash provided by investing activities	<u>315,745</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on loan payable	(7,875)
Net cash used in financing activities	<u>(7,875)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 304,397

CASH AND CASH EQUIVALENTS, BEGINNING 158,881

CASH AND CASH EQUIVALENTS, ENDING \$ 463,278

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

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

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A.)**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Program Services	Management and General	Total
Salaries and employee benefits	\$ 145,627	\$ 96,843	\$ 242,470
General assembly missions and per capita	142,072	-	142,072
Synod missions and per capita	63,179	-	63,179
Hispanic ministry	34,336	-	34,336
Committee on church transformation	44,176	-	44,176
Committee on mutual support	79,960	-	79,960
Other committee mission expenses	1,018	-	1,018
Restricted mission expenses	140,833	-	140,833
Occupancy	17,938	33,313	51,251
Equipment rental and maintenance	5,259	2,832	8,091
Insurance	1,290	2,396	3,686
Office expense	1,202	816	2,018
Postage	17	12	29
Telephone	3,038	2,062	5,100
Professional fees	-	23,389	23,389
Miscellaneous	1,913	4,145	6,058
Total expenses before depreciation expense	<u>681,858</u>	<u>165,808</u>	<u>847,666</u>
Depreciation expense	<u>3,095</u>	<u>5,748</u>	<u>8,843</u>
Total expenses	<u><u>\$ 684,953</u></u>	<u><u>\$ 171,556</u></u>	<u><u>\$ 856,509</u></u>

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

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

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1 – THE ENTITY

The Trustees of the Presbytery of Middle Tennessee, Presbyterian Church (U.S.A.) (the "Presbytery") is a non-profit organization representing the Presbyterian Churches (U.S.A.) in the Middle Tennessee region. The Presbytery is funded by contributions from member churches, affiliated Presbyterian organizations and private contributions located in Middle Tennessee. Revenues are used to meet the Presbytery's per capita obligation to the Synod of Living Waters, to the General Assembly of the Presbyterian Church (U.S.A.) and to provide support to various missions and programs dictated by the Presbytery.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Periods

All references to 2020 in these financial statements refer to the year ended December 31, 2020 unless otherwise noted.

Basis of Accounting

In accordance with accounting principles generally accepted in the United States of America, the Presbytery uses the accrual basis of accounting; therefore, revenue is recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Presbytery is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – This class includes net assets that are not subject to any donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Presbytery. These net assets may be used at the discretion of the Presbytery's management and Board.

Net assets with donor restrictions – This class includes net assets whose use by the Presbytery is subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be fulfilled by actions of the Presbytery pursuant to those restrictions or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash held in bank accounts, money market funds and bank certificates of deposit with original maturities of ninety days or less, which are neither held for nor restricted by donors for long-term purposes. The Presbytery may, at times, maintain bank account balances in excess of federally insured limits. However, the Presbytery has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Contributions and Promises to Give

Contributions are recognized when cash, securities or other assets, an unconditional promise to give or notification of a beneficial interest is received. Contributions restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the calendar year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Promises to give are recorded at fair value. Promises to give are recorded only for the year ended December 31, 2020 that had not been collected for the year then ended. The fair value of promises to give, which are payable within one year, is generally considered to be the same as the net realizable value of the promises.

The Presbytery uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on historical experience, an assessment of economic conditions and management's analysis of specific promises made. Promises to give are written off when deemed uncollectible. At December 31, 2020, management deemed all promises to give to be fully collectible, and, therefore, no allowance has been recorded.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Presbytery's investments at December 31, 2020 consisted entirely of marketable FDIC insured certificates of deposit (CDs) and stock funds. The CDs, with face values ranging from \$50,000 to \$150,000, are typically marketable and callable by the issuing financial institution. Market is calculated based on the instrument's interest rate compared with the Treasury bill interest rate at a given time. Unrealized gain or loss is recognized based on the calculated market price from past to current measurement dates.

Under generally accepted accounting principles, investments are valued at fair value using various inputs. Level 1 inputs consist of unadjusted quoted market prices within active markets. Level 2 inputs consist primarily of quoted prices for similar assets in active or inactive markets. Level 3 inputs consist of significant unobservable inputs. The Presbytery's investments are reported at fair value based on Level 1 inputs. Gains and losses, whether realized or unrealized, are included in the statement of activities and changes in net assets.

See Note 4 for further details related to investments.

Property and Equipment

Expenditures for additions, major renewals and betterment of property and equipment with a cost in excess of \$1,000 are capitalized. The fair value of donated property and equipment is similarly capitalized. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are charged to expense as incurred. Depreciation is computed by using the straight-line method over the estimated useful lives of the individual assets. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities.

See Note 5 for further details.

Property Held for Sale

In accordance with the Constitution of the Presbyterian Church (U.S.A.), the Presbytery is granted reversionary rights with respect to the physical properties of its members' churches in the event of a terminal event. Upon the terminal event and approval by the Presbytery, these properties are recognized at their net realizable value and are classified as property held for sale on the Statement of Financial Position. The Presbytery was not holding any property for sale at December 31, 2020.

See Note 13 for further details.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Real Estate Acquired for New Church Development

The Presbytery periodically acquires real property for new church development. Although the property is deeded to the Presbytery, the property is acquired for the benefit of a new church in the future. Since the Presbytery anticipates no benefit from the acquired property, it is the Presbytery's policy to expense such acquisitions. The Presbytery was not holding any uncanceled property at December 31, 2020.

Compensated Absences

Employees of the Presbytery earn paid vacation, sick days and personal days off, depending on job classification, length of service and other factors. Management has elected not to accrue compensated absences since the amounts do not materially affect the financial statements. The Presbytery's policy is to recognize the cost of compensated absences when actually paid to employees.

Income Taxes

The Presbytery is exempt from federal and state income taxes, accordingly, no provision for income taxes is made in the financial statements. In addition, certain nonprofit corporations are subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Management has determined that the Presbytery is not subject to unrelated business income tax. Accordingly, no provision for income taxes is included in the accompanying financial statements.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. See Note 10 for further details.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates, and those differences could be material.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring after Reporting Date

The Presbytery has evaluated events and transactions that occurred between December 31, 2020 and August 12, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 – LIQUIDITY

Financial assets available for general expenditures within one year of December 31, 2020, consist of the following:

Cash and cash equivalents	\$ 463,278
Promises to give	20,053
Investments	<u>1,352,087</u>
Total financial assets	<u>\$ 1,835,418</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>(121,822)</u>
Financial assets not available to be used within one year	<u>(121,822)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 1,713,596</u></u>

The Administrative and Finance Committees of the Presbytery of Middle Tennessee monitor financial assets to ensure funds are available to meet operating, per capita obligations (see Note 1) and other financial commitments. Expenses are funded primarily by donations (reported as Church mission giving in the Statement of Activities) from Presbytery of Middle Tennessee congregations. In addition, Presbytery is the reversionary beneficiary of proceeds derived from the sale of property and other assets of closed churches, most of which is invested. Investment assets are available to augment operational needs, if necessary. Invested assets are monitored by an Investment Task Force, a sub-committee of the Finance Committee.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 4 – INVESTMENTS

Investments are recorded at fair value using Level 1 inputs based on the quoted market prices. The Presbytery had no investments that required the use of Level 2 or Level 3 inputs. The fair value and cost of investments consist of the following at December 31, 2020:

	<u>Fair Value</u>	<u>Cost</u>
Certificates of deposits	\$ 660,348	650,106
Stock funds	691,739	530,377
Total	<u>\$ 1,352,087</u>	<u>\$ 1,180,483</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Furniture and equipment	\$ 16,960
Leasehold improvements	<u>31,500</u>
Total cost	48,460
Less accumulated depreciation	<u>(48,460)</u>
Property and equipment, net	<u>\$ -</u>

The Presbytery's office is located in the Westminster Presbyterian Church. A facility use agreement ("agreement") was entered into in 2017. Rental expense is recognized and amortized ratably over the course of the agreement at net present value. The agreement expired on September 30, 2020 and was not renewed. Accordingly, in-kind contributions and rent expense were recognized for the remaining months after the agreement expired, totaling \$9,500. Total rent expense recognized in 2020 was \$38,000.

The agreement also includes reimbursement of allocated utility expenses, measured based on expected incurred costs at the commencement of the agreement and the beginning of the second and third year agreement anniversaries to account for increasing costs. Utility expenses were paid on a month-to-month basis after the agreement expired.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 6 – LEASES

The Presbytery entered into an operating lease agreement for a copier in July 2018. The lease agreement requires monthly lease payments of \$253 for a term of forty-eight months.

The Presbytery entered into an operating lease agreement for a postage machine in July 2016. The lease agreement requires monthly lease payments of \$157 for a term of sixty-three months. Rent expense totaled \$4,918 for both leases for 2020.

Future minimum lease payments under the terms of these operating leases as of December 31, 2020 are as follows:

<u>Year Ending December 31,</u>	<u>Future Payments</u>
2021	\$ 4,918
2022	1,674
Total	<u>\$ 6,592</u>

NOTE 7 – LOAN PAYABLE

Westminster Presbyterian Church performed significant renovations to its facilities in 2017. The Presbytery's share of renovation costs of \$31,500 were recorded as a fixed asset, depreciable over the term of the facility use agreement, and a loan payable. Payments are due in three installments at initiation of the agreement and the beginning of the second and third year anniversaries of the agreement. Interest is not being charged on the loan and it is not considered a material amount to record on the financial statements. The loan payable was paid off in 2020 with a final payment in the amount of \$7,875.

NOTE 8 – BENEFITS DATA

Substantially all Presbytery employees participate in the Benefits Plan of the PCUSA (the "Benefits Plan") which administered by the Board of Pensions of the PCUSA (the "Board of Pensions"). The Benefits Plan is a comprehensive benefits program, which provides a defined benefit plan, a long-term disability plan, a death benefit plan, and a medical plan. The assets of the Benefits Plan are commingled for investment purposes, however, accounting for each plan is separately maintained.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 8 – BENEFITS DATA (CONTINUED)

The defined benefit pension plan's total assets available for benefits, as reported by the Board of Pensions, were \$9,821,618 at December 31, 2020. The defined benefit pension plan's total Accumulated Plan Benefit Obligations, as reported by the Board of Pensions, were \$7,876,139 at December 31, 2020.

Since the Benefits Plan is a Church Plan under the Internal Revenue Code, the Presbytery has no financial interest in the Benefits Plan assets nor does it have any liability for benefits payable, contingent or otherwise, under the Benefits Plan or its components.

The Presbytery pays the entire cost for employee participation in the defined benefit pension plan, long-term disability plan, death benefit plan and employee-only coverage associated with the medical plan. There is employee cost sharing for employee elected levels of coverage related to spouse and/or dependents. Employees have the option to purchase additional benefits on a voluntary basis such as dental, long-term disability and life insurance.

The Presbytery contributed 37.00% of eligible employees' annual salary to the Board of Pensions of the Presbyterian Church (U.S.A.) on behalf of eligible employees for the year ended December 31, 2020. Contributions provide for participants' retirement, death and disability and medical insurance benefits. The contribution percentage may be increased at the discretion of the Board of Pensions. Total related expenses were \$46,505 for the years ended December 31, 2020.

The Presbytery also allows employees the option to participate in the Retirement Savings Plan of the Presbyterian Church (U.S.A.) (the "Savings Plan"), a church retirement plan income account plan described in section 403(b)(9) of the Internal Revenue Code. The Savings Plan provides that all employees of the Presbytery are eligible to make salary deferral contributions to the Savings Plan. Total contributions made by the Presbytery during 2020 totaled \$4,000.

NOTE 9 – NET ASSETS

The State of Tennessee has passed the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Presbytery has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit restrictions to the contrary. The Presbytery classifies as permanently restricted net assets the sum of (a) the original value of gifts donated to the permanent endowments (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. At the current time, none of the endowment funds have donor-imposed instructions that specify accumulations, as noted in item (c) of the preceding sentence.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 9 – NET ASSETS (CONTINUED)

Donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Presbytery in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Presbytery considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) General economic conditions;
- (2) The possible effect of inflation and deflation;
- (3) The expected tax consequences, if any, of investment decisions or strategies;
- (4) The role that each investment or course of action plays within the overall investment portfolio;
- (5) The expected total return from income and appreciation of investments;
- (6) Other resources of the Presbytery;
- (7) The needs of the Presbytery and the endowment funds to make distributions and to preserve capital; and
- (8) An asset's special relationship or special value, if any, to the charitable purposes of the Presbytery.

The Presbytery has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Presbytery must hold in perpetuity or for a donor-specified period as well as any entity-designated funds.

To satisfy its long-term return objectives, the Presbytery relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Original donor-restricted gift amount required to be maintained in perpetuity by the donor were \$10,750 at December 31, 2020.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 9 – NET ASSETS (CONTINUED)

Net assets with donor restrictions have been restricted for the following purposes at December 31, 2020:

Subject to expenditure for a specified purpose:	
St. Andrews fund (small church repairs)	56,541
Salary support for small church pastors	7,927
Hunger (including Centsability)	2,818
Guatemalan missions	9,492
Pastoral care	2,450
Triennium	1,969
Women in ministry	1,290
Hispanic fellowship	549
LEAD event	2,153
COYAM event	1,094
New church development	800
Sabbatical assistance	4,626
Hispanic new church development	393
Church support and training	2,073
CPM scholarships	5,038
Pastor to Pastor	2,782
Matthew 25 food project	4,072
Miscellaneous restricted funds	5,005
Perpetual net assets:	
Joe E. Hutton fund	10,750
Total net assets with donor restrictions	<u>\$ 121,822</u>

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 9 – NET ASSETS (CONTINUED)

Net assets with donor restrictions were released from restrictions by incurring expenses satisfying the restrictions during 2020 as follows:

Subject to passage of time	\$ 28,303
Subject to expenditure for specified purpose:	
Hunger (including Centsability)	32,000
Guatemalan missions	39,880
Peacemaking	3,441
Pastor to Pastors	729
Matthew 25 food project	422
Small church fund	34,936
Hispanic new church development	32,110
CPM scholarships	550
Total net assets released from restrictions	<u>\$ 172,371</u>

Board designated net assets consist of the following at December 31, 2020:

Without donor restrictions:	
Designated by the Trustees for:	
Allowance for defaults on church obligations	\$ 629,767
Small church fund	111,491
New church development from sale of properties	115,652
Sparta Presbyterian Church fund	27,587
Undesignated	822,083
Total net assets without donor restrictions	<u>\$1,706,580</u>

The allowance for defaults on church obligations was established and funded to incrementally - over a period of years - provide designated financial resources to accommodate defaults on obligations of churches to lenders. The Administrative and Finance Committees elected to cease funding but retain the designation based on their evaluation of its sufficiency to address its original purpose. Proceeds from sales of reverted properties were designated by Presbytery to fund new church development and revitalization efforts. Losses attributable to these activities are applied to reduce these designated fund balances.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 10 – FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Such expenses are allocated using three overall methods. Salaries and employee benefits are allocated on the basis of estimates of time and effort; office, postage and telephone are allocated based on review of individual cost items, with any costs that were not specifically identifiable allocated based on estimates of time and effort; occupancy is allocated on the basis of square footage.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Presbytery to concentrations of credit risk principally consist of cash and cash equivalents, certificates of deposit and promises to give. Promises to give were collected in full subsequent to December 31, 2020, so there is no risk of loss.

During 2020, two churches individually accounted for at least 10% of total church mission giving. Together, both churches represented 42% of total church mission giving.

NOTE 12 – DEPARTURE FROM ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The Trustees of the Presbytery of Middle Tennessee, Presbyterian Church (U.S.A.), have determined that the financial statements are more meaningful to their users if unconditional promises to give for future years are omitted. Accounting principles generally accepted in the United States of America require that unconditional promises to give be recorded as contribution revenue in the year the promise is made. The effect on the financial statements is unknown since the pledge cards are not dated.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Loan Guarantees

The Presbytery has guaranteed loans of certain PCUSA Churches in Middle Tennessee. The Trustees believe that such loans are fully collateralized by underlying assets, protecting the Presbytery from significant loss if called upon to fulfill their obligation as guarantor and/or cosigner. The total amount of loans guaranteed by Presbytery at December 31, 2020 is \$295,698. Presbytery maintains a reserve fund for defaults that is sufficient to cover the amount of the guaranteed loans.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.

**THE TRUSTEES OF THE PRESBYTERY OF MIDDLE TENNESSEE,
PRESBYTERIAN CHURCH (U.S.A)**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Church Loans

Although many of its member churches must obtain Presbytery approval before encumbering their property to obtain a loan, Presbytery does not believe it assumes any liability as a result of such approval unless it cosigns or expressly guarantees the loan. Likewise, even though Presbytery has certain rights in the property of its member churches, particularly in the event a church is dissolved or becomes extinct or leaves the denomination, exercising these rights would not cause Presbytery to assume any liabilities other than those it has expressly agreed to.

Church Property Reversionary Rights

As disclosed in Note 2, the Presbytery is granted reversionary rights with respect to the physical properties of its member churches in the event of a terminal event. Upon exercising its reversionary rights with respect to a specific property, the Presbytery appoints an Administrative Commission consisting of representatives from the Presbytery and a member of the closing church.

The Administrative Commission retains control of books and records and all properties including bank and investment accounts and physical properties and facilities. Commission may also make recommendations to Presbytery respecting use of properties or proceeds from dispositions of properties. Such recommendations or amendments thereto, upon approval by Presbytery, are considered designations or unrestricted net assets. Presbytery may accept, modify or reject the recommendations of an Administrative Commission. Upon termination of respective Administration Commission and related Presbytery action, the Finance Committee of Presbytery assumes control, on behalf of Presbytery, relating to property disposition.

In October 2020, the Presbytery created an administrative commission for the dissolution of the congregation of First United Presbyterian Church, Sparta. The funds in the Sparta Church bank account were transferred to the Presbytery and are reported on the Statement of Activities as other changes in net assets. The real and personal property of the First United Presbyterian Church, Sparta will be held in trust by the Presbytery until the final disposition.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT.