

**THE SYNOD OF THE COVENANT,
PRESBYTERIAN CHURCH (U.S.A.)**

REVIEWED FINANCIAL STATEMENTS

Year Ended December 31, 2020

DRAFT

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Synod Trustees and the Synod Assembly
The Synod of the Covenant, Presbyterian Church (U.S.A.)
Maumee, Ohio

We have reviewed the accompanying financial statements of The Synod of the Covenant, Presbyterian Church (U.S.A.) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020, and the related statement of activities, statement of functional expenses and cash flows 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 financial statements 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 the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. 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, 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 accounting principles generally accepted in the United States of America.

October xx, 2021

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
STATEMENT OF FINANCIAL POSITION
December 31, 2020

ASSETS

| | | |
|---|--------|-----------------------------|
| Cash and cash equivalents | \$ | 462,513 |
| Contributions receivable | | 106,000 |
| Related party receivable | | 3,879 |
| Notes receivable: | | |
| Church loans | | 5,000 |
| Other notes | | 53,787 |
| Allowance for doubtful receivables | | (50,150) |
| | | 8,637 |
| Property and equipment, net of accumulated depreciation | | 5,784 |
| Deposits and construction in progress | | 1,233 |
| Investments | | 6,317,698 |
| Total assets | \$ | <u><u>6,905,744</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|---|--------|-----------------------------|
| Accounts payable | \$ | 10,079 |
| Amounts held for others | | 3,424 |
| Total liabilities | | 13,503 |
| Net assets | | |
| Net assets without donor restrictions | | |
| Undesignated | | 406,785 |
| Designated | | 5,644,821 |
| Total net assets without donor restrictions | | 6,051,606 |
| Net assets with donor restrictions | | 840,635 |
| Total net assets | | 6,892,241 |
| Total liabilities and net assets | \$ | <u><u>6,905,744</u></u> |

See accompanying notes and independent accountants' review report.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Totals |
|---------------------------------------|-------------------------------|----------------------------|--------------|
| Revenue and other support | | | |
| Per capita apportionment | \$ 295,139 | \$ - | \$ 295,139 |
| Basic mission | 27,438 | - | 27,438 |
| Presbyterian women | 3,769 | - | 3,769 |
| Peacemaking | - | 10,041 | 10,041 |
| Contributions - other | 150 | - | 150 |
| Investment income | 707,047 | 107,049 | 814,096 |
| Miscellaneous income | 19,036 | - | 19,036 |
| Net assets released from restrictions | 19,125 | (19,125) | - |
| Total revenue and other support | 1,071,704 | 97,965 | 1,169,669 |
| Expenses | | | |
| Mission and program expenses | 394,236 | - | 394,236 |
| Administrative expenses | 212,040 | - | 212,040 |
| Total expenses | 606,276 | - | 606,276 |
| Change in net assets | 465,428 | 97,965 | 563,393 |
| Net assets at beginning of year | 5,586,178 | 742,670 | 6,328,848 |
| Net assets at end of year | \$ 6,051,606 | \$ 840,635 | \$ 6,892,241 |

See accompanying notes and independent accountants' review report.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended December 31, 2020

| | <u>Program</u> | <u>Administrative</u> | <u>Total</u> |
|---|-------------------|-----------------------|-------------------|
| Expenses | | | |
| Personnel services and related expenses | \$ 145,604 | \$ 150,553 | \$ 296,157 |
| Office operations and meeting expenses | 55,969 | 61,487 | 117,456 |
| Grants and scholarships | 177,500 | - | 177,500 |
| Leadership committee | 15,163 | - | 15,163 |
| Total expenses | <u>\$ 394,236</u> | <u>\$ 212,040</u> | <u>\$ 606,276</u> |

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See accompanying notes and independent accountants' review report.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
STATEMENT OF CASH FLOWS
Year Ended December 31, 2020

| | |
|--|--------------------------|
| Cash flows from operating activities | |
| Change in net assets | \$ 563,393 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| (Gain) loss on investments - market value | (618,881) |
| (Gain) loss on disposal of property and equipment | 4,712 |
| Depreciation expense | 265 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in: | |
| Contributions receivable | (28,312) |
| Employee receivable | (3,879) |
| Deposits | (1,233) |
| Increase (decrease) in: | |
| Accounts payable | 7,444 |
| Funds held for others | 977 |
| Net cash used in operating activities | <u>(75,514)</u> |
| Cash flows from investing activities | |
| Proceeds from sales/maturities of investments | 115,267 |
| Purchases of investment securities | (210,554) |
| Purchases of property and equipment | (3,256) |
| Net cash used in investing activities | <u>(98,543)</u> |
| Net change in cash | (174,057) |
| Cash at beginning of year | <u>636,570</u> |
| Cash at end of year | <u><u>\$ 462,513</u></u> |

See accompanying notes and independent accountants' review report.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note A – Significant accounting policies

Nature of operations

The Synod of the Covenant (the Synod) is one of the administrative regions of the Presbyterian Church (U.S.A.). The Synod embraces 11 presbyteries, approximately 665 congregations, and in excess of 102,000 active members primarily in Michigan and Ohio. The Synod's responsibilities include recruitment and training of leaders, coordinating ministries in higher education, assisting racial ethnic groups, coordinating resources for the development of new churches and the redevelopment of older churches, promoting responsible stewardship, and working ecumenically on behalf of presbyteries and congregations.

Basis of accounting

The Synod's financial statements have been prepared on the accrual basis of accounting. Under this method of accounting, revenues and expenses are identified with a specific period of time and are recorded as incurred without regard to the date of receipt or the payment of cash.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Allowance for doubtful accounts

The Synod evaluates the collectability of its notes receivable based on certain factors, such as loan type, historical collection trends, management's judgment of the probability of collecting notes receivable and management's evaluation of risk. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Notes receivable are determined to be uncollectible when the amounts are deemed to be unrecoverable and are written off at the time through a charge against the allowance for doubtful accounts.

Cash and cash equivalents

The Synod considers all highly liquid debt instruments purchased with an original maturity of twenty-four months or less to be cash and/or equivalents and are deemed to approximate fair value. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. While the Synod's cash balances do at times exceed federally insured limits, the organization feels it is not exposed to any significant risk.

Investments

The organization's investments and certain cash equivalents are held by a national investment banking and financial services company and managed by an investment advisor in accordance with the terms of an investment advisory agreement and the Synod's investment policy.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note A – Significant accounting policies (continued)

Contributions

Contributions, including unconditional promises to give, are recorded as pledged. All contributions are available for use unless specifically restricted by the donor. Unconditional promises to give, which consist of presbytery contributions and irrevocable pooled life income funds, are deemed to be collected in future periods and are recorded at the present value of their net realizable value.

Endowment contributions within the pooled life income funds, are unconditional promises to give in which the principal is subject to donor-imposed restrictions to retain permanently. Earnings on these funds may or may not have donor-imposed restrictions, depending on the terms of the agreement.

Notes receivable

Notes receivable are created in the course of loans to individual churches and presbyteries. The schedule for repayment of the various notes receivable is subject to change. It has been the Synod's practice to defer, for periods of time, the repayment of principal and/or the related interest. Substantially all of the notes receivable are collateralized by property. These loans are also guaranteed by the regional presbytery. The Synod carries its notes receivable at cost less an allowance for doubtful receivables. On an annual basis, the Synod evaluates its notes receivable by examining individual balances and establishes an allowance for doubtful receivables. Receivables are written off as uncollectible on a case by case basis as determined by the Synod Trustees.

Property and equipment

Property and equipment purchased are carried at cost. Donated items are carried at the assets fair value at the date of donation. Upon retirement or disposal, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recorded as revenue or expense. Depreciation is provided using straight-line methods over the estimated useful life of the asset, ranging from 3 to 7 years. The Synod uses a capitalization policy of \$1,000.

Income and other taxes

The Internal Revenue Service has determined that the Synod is qualified as a charity exempt under Section 501(c)(3) of the Internal Revenue Code and has also determined that the Synod is publicly supported. As a result, no provision for federal or state income taxes has been made.

FASB ASC 740, *Income Taxes*, requires entities to disclose in their financial statements the nature of any uncertainties in their tax position. Tax years including the fiscal year ended December 31, 2017 and later are subject to examination by tax authorities.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note A – Significant accounting policies (continued)

Income and other taxes (continued)

Areas that IRS and state tax authorities consider when examining tax returns of a charity include, but may not be limited to, tax-exempt status and the existence and amount of unrelated business income. The Synod does not believe that it has any uncertain tax positions with respect to these or other matters and has not recorded any unrecognized tax benefits or liabilities for penalties or interest.

Net asset categories

Net assets, revenues, gains and losses are classified based upon the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions

Net assets that are available for use in general operations and not subject to donor or grantor imposed restrictions.

Net assets with donor restrictions

Net assets that are subject to donor or grantor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note A – Significant accounting policies (continued)

New accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This update requires that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right to use asset and a lease liability. Recognition and presentation of expenses will depend on the classification of the lease as either finance or operating. For lessors, the guidance requires the separation of lease and non-lease components for certain contracts and redefines the scope of non-lease components to include maintenance services. When separated, non-lease components will be accounted for in accordance with revenue recognition guidance (ASC 606). ASU 2016-02 will also require quantitative and qualitative disclosures to supplement the amounts recorded in the financial statements to enable a better understanding of the Company's leasing activities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and is to be applied retrospectively. As a result of the global pandemic, In May 2020, the FASB voted to defer the effective date for this ASU for private companies and non-profit organizations. The guidance will now be effective for fiscal years beginning after December 15, 2021. The Company is still evaluating the impact this update will have on its financial position and results of operations and related disclosures.

Subsequent events

Subsequent events were evaluated through **October xx, 2021**, the date the financial statements were available to be issued.

Note B – Liquidity and availability of financial assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the Statement of Financial Position, comprise the following:

| | |
|---------------------------|--------------------------|
| Cash and cash equivalents | \$ 462,513 |
| Contributions receivable | <u>106,000</u> |
| Total | <u><u>\$ 568,513</u></u> |

As part of the Synod's liquidity management, they retain a reserve of about \$100,000 in the checking account at all times. If operating cash shortfalls did occur, any board designated funds could be directed for use by the Trustees of the Synod. The Synod has not had any cash shortfalls in recent years, and as such, has no need for any additional cash resources.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note C – Investments

Investments consist of marketable securities managed by a third party brokerage firm. The change during the period in the aggregate market value of marketable securities held at the end of the period is reported as appreciation of investments. Investments consist of the following as of December 31, 2020 measured at quoted prices in active markets for identical assets (level 1):

| | |
|----------------------------------|---------------------|
| Mutual funds | \$ 5,323,822 |
| Depository/money market accounts | 993,876 |
| Total | <u>\$ 6,317,698</u> |

Investment income for 2020, is made up of the following:

| | |
|---|-------------------|
| Dividends and interest, net of fees of \$16,434 | \$ 75,252 |
| Realized gains on investments | 119,963 |
| Unrealized gains on investments | 618,881 |
| Total | <u>\$ 814,096</u> |

Note D – Property and equipment

Property and equipment consisted of the following at December 31, 2020:

| | |
|-------------------------------|-----------------|
| Leasehold improvements | \$ 3,256 |
| Furniture | 18,212 |
| Computer equipment | - |
| Total costs | <u>21,468</u> |
| Less accumulated depreciation | <u>15,684</u> |
| Net property and equipment | <u>\$ 5,784</u> |

Depreciation expense for the year ending December 31, 2020 was \$265.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note E – Irrevocable split interest agreements

The Synod has recorded contributions receivable for amounts due under pooled life income funds and gift annuities established through irrevocable split interest agreements with donors.

The basis for recognizing the asset in the Statement of Financial Position is the present value, which was determined by the actuaries of the Presbyterian Church (U.S.A.) Foundation. The discount rate used in the calculation to determine the amount necessary to invest to meet future obligations was 4% for 2020. The present value represents the current fair market value of the account, reduced by the estimated actuarial liability necessary to meet future payments to the life income beneficiaries.

The market value of the assets held under life income gifts represents the gross fund value that would be available if there were no future payment obligations to an income beneficiary. The market value changes due to income earned, payments to the life income beneficiaries and market fluctuations.

Note F – Benefit plans

The Synod contributes to a multi-employer benefit plan for its eligible clergy and lay employees that is administered by the Presbyterian Church (U.S.A.). The Synod contributes to a defined benefit pension plan and death and disability insurance plan at 11% of each eligible member's annual salary. This amounted to \$57,233 for the year ended December 31, 2020.

The Synod's employees are also eligible to participate in a multi-employer 403(b) plan administered by the Presbyterian Church (U.S.A.). This plan does not provide for employer contributions.

Note G – Operating leases

The Synod leases office space in Bloomfield Hills, Michigan and leases business office machines over various terms. Future minimum lease payments under these leases are as follows:

| | | |
|-------|----|---------------|
| 2021 | \$ | 10,512 |
| 2022 | | 1,512 |
| 2023 | | 1,512 |
| Total | \$ | <u>13,536</u> |

Rent expense for the year ended December 31, 2020 was \$28,500.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note H – Functionalized expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization which are allocated on a square footage basis, as well as salaries and wages, benefits payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

Note I – Net assets

Net assets without donor restrictions consist of the following at December 31, 2020:

| | |
|---|----------------------------|
| Board designated funds for: | |
| Support of the established mission and ministry of the Synod | \$ 4,032,767 |
| Support presbyteries and congregations for acquisitions of funds necessary for church development | 993,877 |
| Support for Synod Campus Ministry | 618,177 |
| Total designated | <u>5,644,821</u> |
| Total undesignated | 406,785 |
| Total net assets without donor restrictions | <u><u>\$ 6,051,606</u></u> |

Net assets with donor restrictions were available for the following purposes as of December 31, 2020:

| | |
|---|--------------------------|
| Mobile health fair | \$ 5,330 |
| Self-development of people | 3,501 |
| Heiserman | 35,000 |
| Miller Ohio campus ministry | 100 |
| Covenant mission exchange | 4 |
| Peace offering from churches | 33,766 |
| Disaster relief | 1,732 |
| Campus ministries | 722,902 |
| Perpetual continuation of the Synod tradition | <u>38,300</u> |
| Total | <u><u>\$ 840,635</u></u> |

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2020

Note J – Fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, (ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Synod has the ability to access.

Level 2: Inputs to the valuation methodology include

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Synod's investments are all considered classified as level 1.

Note K – Risks and uncertainties

The Synod holds various types of investments. Investments in mutual funds are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.