

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

**REVIEWED FINANCIAL STATEMENTS**

**Year Ended December 31, 2020**

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To Management and Administrative Committee of  
The Synod of the Covenant, Presbyterian Church (U.S.A.)  
Bloomfield Hills, Michigan

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.

*DeMarco & Associates CPAs, LLC*

October 18, 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		3,541
Deposits and construction in progress		1,233
Investments		6,317,698
 Total assets	 \$	 6,903,501

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		5,642,578
Total net assets without donor restrictions		6,049,363
 Net assets with donor restrictions		840,635
Total net assets		6,889,998
 Total liabilities and net assets	 \$	 6,903,501

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**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
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	<u>1,071,704</u>	<u>97,965</u>	<u>1,169,669</u>
Expenses			
Mission and program expenses	384,814	-	384,814
Administrative expenses	223,705	-	223,705
Total expenses	<u>608,519</u>	<u>-</u>	<u>608,519</u>
Change in net assets	463,185	97,965	561,150
Net assets at beginning of year	<u>5,586,178</u>	<u>742,670</u>	<u>6,328,848</u>
Net assets at end of year	<u>\$ 6,049,363</u>	<u>\$ 840,635</u>	<u>\$ 6,889,998</u>

See accompanying notes and independent accountants' review report.

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

	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Expenses			
Personnel services and related expenses	\$ 135,979	\$ 160,178	\$ 296,157
Office operations and meeting expenses	56,172	63,527	119,699
Grants and scholarships	177,500	-	177,500
Leadership committee	15,163	-	15,163
Total expenses	<u>\$ 384,814</u>	<u>\$ 223,705</u>	<u>\$ 608,519</u>

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	\$	561,150
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Gain) on investments - market value		(616,638)
Loss on disposal of property and equipment		4,712
Depreciation expense		265
Changes in operating assets and liabilities:		
(Increase) in:		
Contributions receivable		(28,312)
Employee receivable		(3,879)
Deposits		(1,233)
Increase 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 18, 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	15,969
Computer equipment	-
Total costs	<u>19,225</u>
Less accumulated depreciation	<u>15,684</u>
Net property and equipment	<u>\$ 3,541</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	<u>618,177</u>
Total designated	5,644,821
Total undesignated	<u>406,785</u>
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.