

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

REVIEWED FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT ACCOUNTANTS' REVIEW REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6-12

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Synod Trustees and the Synod Assembly
The Synod of the Covenant, Presbyterian Church (U.S.A.)
Bloomfield Hills, MI

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, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years 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.

We are required to be independent of The Synod of the Covenant, Presbyterian Church (U.S.A.) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our reviews, 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

May 3, 2023

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 213,926	\$ 633,039
Contributions receivable	49,046	60,830
Investments, without donor restrictions	5,561,412	6,174,376
Property and equipment, net of accumulated depreciation	2,497	3,019
Deposits	1,000	1,000
Investments, with donor restrictions	<u>648,090</u>	<u>810,398</u>
 Total assets	 <u>\$ 6,475,971</u>	 <u>\$ 7,682,662</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 8,352	\$ 2,836
Accrued and withheld amounts	3,804	11,498
Amounts held for others	<u>-</u>	<u>5,821</u>
Total liabilities	12,156	20,155
 Net assets		
Net assets without donor restrictions		
Undesignated	86,555	509,965
Designated	<u>5,611,437</u>	<u>6,224,411</u>
Total net assets without donor restrictions	5,697,992	6,734,376
 Net assets with donor restrictions	 <u>765,823</u>	 <u>928,131</u>
Total net assets	<u>6,463,815</u>	<u>7,662,507</u>
 Total liabilities and net assets	 <u>\$ 6,475,971</u>	 <u>\$ 7,682,662</u>

See accompanying notes and independent accountants' review report.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
STATEMENTS OF ACTIVITIES
Years Ended December 31, 2022 and 2021

	2022		Totals
	Without Donor Restrictions	With Donor Restrictions	
Revenue and other support			
Per capita apportionment	\$ 270,849	\$ -	\$ 270,849
Basic mission	50,686	-	50,686
Presbyterian women	-	-	-
Peacemaking	-	8,362	8,362
Investment income (loss)	(872,523)	(135,079)	(1,007,602)
Miscellaneous income	1,240	-	1,240
Net assets released from restrictions	35,591	(35,591)	-
Total revenue and other support	<u>(514,157)</u>	<u>(162,308)</u>	<u>(676,465)</u>
Expenses			
Mission and program expenses	329,138	-	329,138
Administrative expenses	193,089	-	193,089
Total expenses	<u>522,227</u>	<u>-</u>	<u>522,227</u>
Change in net assets	(1,036,384)	(162,308)	(1,198,692)
Net assets at beginning of year	<u>6,734,376</u>	<u>928,131</u>	<u>7,662,507</u>
Net assets at end of year	<u>\$ 5,697,992</u>	<u>\$ 765,823</u>	<u>\$ 6,463,815</u>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue and other support			
Per capita apportionment	\$ 312,462	\$ -	\$ 312,462
Basic mission	131,104	-	131,104
Presbyterian women	2,666	-	2,666
Peacemaking	-	14,366	14,366
Investment income	677,903	113,364	791,267
Miscellaneous income	2,172	-	2,172
Net assets released from restrictions	40,234	(40,234)	-
Total revenue and other support	<u>1,166,541</u>	<u>87,496</u>	<u>1,254,037</u>
Expenses			
Mission and program expenses	304,792	-	304,792
Administrative expenses	<u>176,736</u>	<u>-</u>	<u>176,736</u>
Total expenses	<u>481,528</u>	<u>-</u>	<u>481,528</u>
Change in net assets	685,013	87,496	772,509
Net assets at beginning of year	<u>6,049,363</u>	<u>840,635</u>	<u>6,889,998</u>
Net assets at end of year	<u>\$ 6,734,376</u>	<u>\$ 928,131</u>	<u>\$ 7,662,507</u>

See accompanying notes and independent accountants' review report.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2022 and 2021

	<u>Program</u>	<u>Administrative</u>	<u>2022 Total</u>
Expenses			
Personnel services and related expenses	\$ 131,452	\$ 124,046	\$ 255,498
Office operations and meeting expenses	73,165	69,043	142,208
Grants and scholarships	92,328	-	92,328
Leadership committee	32,193	-	32,193
Total expenses	<u>\$ 329,138</u>	<u>\$ 193,089</u>	<u>\$ 522,227</u>

	<u>Program</u>	<u>Administrative</u>	<u>2021 Total</u>
Expenses			
Personnel services and related expenses	\$ 121,395	\$ 120,551	\$ 241,946
Office operations and meeting expenses	56,578	56,185	112,763
Grants and scholarships	88,100	-	88,100
Leadership committee	38,719	-	38,719
Total expenses	<u>\$ 304,792</u>	<u>\$ 176,736</u>	<u>\$ 481,528</u>

See accompanying notes and independent accountants' review report.

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

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (1,198,692)	\$ 772,509
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Unrealized (gain) loss on investments	1,107,586	(528,751)
Depreciation expense	522	522
Write offs of note receivables	-	8,637
Changes in operating assets and liabilities:		
(Increase) in:		
Contributions receivable	11,784	45,170
Employee receivable	-	3,879
Deposits	-	233
Increase in:		
Accounts payable	5,516	(7,243)
Accrued and withheld amounts	(7,694)	11,498
Funds held for others	(5,821)	2,397
Net cash provided by (used in) operating activities	<u>(86,799)</u>	<u>308,851</u>
 Cash flows from investing activities		
Proceeds from sales/maturities of investments	52,112	114,562
Purchases of investment securities	<u>(384,426)</u>	<u>(252,887)</u>
Net cash used in investing activities	<u>(332,314)</u>	<u>(138,325)</u>
 Net change in cash	(419,113)	170,526
 Cash at beginning of year	<u>633,039</u>	<u>462,513</u>
 Cash at end of year	<u>\$ 213,926</u>	<u>\$ 633,039</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, 2022 and 2021

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 82,000 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 may differ from those estimates.

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.

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.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note A – Significant accounting policies (continued)

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, 2019 and later are subject to examination by tax authorities.

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.

Leases

The Company determines if an agreement includes a lease at inception. Leases are included in the balance sheet as Right-of-use (ROU) assets and the corresponding Lease liability. ROU assets and lease liabilities are recognized based upon the present value of the future lease payments over the term. The Company does not recognize ROU assets and corresponding lease liabilities for short term leases, or those with a term less than 12 months. Instead, those payments are reflected in the income statement as expense, on a straight line basis, over the term of the lease.

Adoption of a new accounting pronouncement

The Company adopted Accounting Standards Update (ASU) 2016-02 (as amended) *Leases*, Topic 842 as of January 1, 2022. Topic 842 requires lessees to recognize a right of use asset and a corresponding lease liability for leases with terms greater than 12 months.

The Company elected the transition method and applied the following transition practical expedients upon adoption of the new standard:

- To apply the provisions of Topic 842 at the adoption date, instead of applying them to the earliest period presented in the financial statements.
- The package of practical expedients permitting the Company to not reassess (1) the lease classification of existing leases; (2) whether existing and expired contracts are or contain leases; (3) initial direct costs for existing leases.

The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended December 31, 2022.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note A – Significant accounting policies (continued)

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 the contribution 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.

Reclassifications

Certain 2021 amounts have been reclassified to conform to the 2022 presentation.

Subsequent events

Subsequent events were evaluated through May 3, 2023, 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:

	2022	2021
Cash and cash equivalents	\$ 213,926	\$ 633,039
Contributions receivable	49,046	60,830
Total	\$ <u>262,972</u>	\$ <u>693,869</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, 2022 and 2021

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, 2022 and 2021 measured at quoted prices in active markets for identical assets (level 1):

	<u>2022</u>	<u>2021</u>
Mutual funds	\$ 4,876,629	\$ 5,982,128
Depository/money market accounts	1,332,873	1,002,646
Total	<u>\$ 6,209,502</u>	<u>\$ 6,984,774</u>

Investment income for 2022 and 2021, is made up of the following:

	<u>2022</u>	<u>2021</u>
Dividends and interest, net of fees	\$ 72,170	\$ 63,594
Realized gains on investments	27,814	198,562
Unrealized gains (losses) on investments	(1,107,586)	528,751
Total	<u>\$ (1,007,602)</u>	<u>\$ 791,267</u>

Note D – Property and equipment

Property and equipment consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 3,256	\$ 3,256
Furniture	15,969	15,969
Total costs	19,225	19,225
Less accumulated depreciation	16,728	16,206
Net property and equipment	<u>\$ 2,497</u>	<u>\$ 3,019</u>

Depreciation expense for both years ending December 31, 2022 and 2021 was \$522.

Note E – Irrevocable split interest agreements

The Synod has recorded income from 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 both 2022 and 2021. 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.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note F – Benefit plans

The Synod contributes to a multiple 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 \$42,840 and \$59,930 for the years ended December 31, 2022 and 2021, respectively.

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 its office facility from an unrelated party and is accounted for as a short term lease. The Synod also leases certain office equipment over various terms, that began prior to 2022.

Future minimum lease payments under these leases are as follows:

2023	\$	5,016
2024		3,420
2025		3,420
2026		3,420
2027		-
Total	\$	<u>15,276</u>

Rent expense for the years ended December 31, 2022 and 2021 was \$18,216 and \$17,380, respectively.

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.

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

Note I – Net assets

Net assets without donor restrictions consist of the following at December 31, 2022 and 2021:

Board designated funds for:	2022	2021
Support of the established mission and ministry of the Synod	\$ 3,724,333	\$ 4,528,739
Support presbyteries and congregations for acquisitions of funds necessary for church development	1,332,873	1,002,656
Support for Synod Campus Ministry	554,231	693,016
Total designated	5,611,437	6,224,411
Total undesignated	86,555	509,965
Total net assets without donor restrictions	\$ 5,697,992	\$ 6,734,376

Net assets with donor restrictions were available for the following purposes as of December 31, 2022 and 2021:

	2022	2021
Mobile health fair	\$ 5,330	\$ 5,330
Self-development of people	3,501	3,501
Heiserman	35,000	35,000
Miller Ohio campus ministry	100	100
Covenant mission exchange	4	4
Peace offering from churches	33,766	33,766
Disaster relief	1,732	1,732
Campus ministries	648,090	810,398
Perpetual continuation of the Synod tradition	38,300	38,300
Total	\$ 765,823	\$ 928,131

THE SYNOD OF THE COVENANT, PRESBYTERIAN CHURCH (U.S.A.)
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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.