

**NJ SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

JANUARY 31, 2021 AND 2020

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

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INDEPENDENT AUDITORS' REPORT

To the Synod Assembly of the New Jersey Synod of the Evangelical Lutheran Church in America

We have audited the accompanying financial statements of New Jersey Synod of the Evangelical Lutheran Church in America ("Synod") (a nonprofit organization), which comprise the statements of financial position as of January 31, 2021 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Synod's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Synod's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Synod as of January 31, 2021, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Comparative Information

The financial statements of the Synod as of January 31, 2020, and for the year then ended, were audited by other auditors whose report dated April 17, 2020, expressed an unmodified opinion on those financial statements.

**NJ SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

STATEMENT OF FINANCIAL POSITION

January 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,114,161	\$ 1,486,561	\$ 3,600,722
Grant receivable	54,711	-	54,711
Loans receivable, current	44,099	-	44,099
Prepaid expenses	<u>2,550</u>	<u>-</u>	<u>2,550</u>
Total current assets	<u>2,215,521</u>	<u>1,486,561</u>	<u>3,702,082</u>
Noncurrent assets			
Restricted cash	107,349	-	107,349
Investments	5,881,028	1,446,609	7,327,637
Loans receivable, net of current portion	452,259	-	452,259
Mortgages receivable, net of current portion	55,568	-	55,568
Synod house property and equipment, net	411,678	-	411,678
Land and property held by the Synod	1,692,517	-	1,692,517
Equity in Cross Roads Outdoor Ministries	1,763,258	-	1,763,258
Other assets	<u>14,146</u>	<u>-</u>	<u>14,146</u>
Total noncurrent assets	<u>10,377,803</u>	<u>1,446,609</u>	<u>11,824,412</u>
Total assets	<u>\$ 12,593,324</u>	<u>\$ 2,933,170</u>	<u>\$ 15,526,494</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Grants payable	\$ 49,400	\$ -	\$ 49,400
Environmental remediation obligation	<u>246,250</u>	<u>-</u>	<u>246,250</u>
Total current liabilities	<u>295,650</u>	<u>-</u>	<u>295,650</u>
Net assets			
Without donor restrictions			
Undesignated	3,168,568	-	3,168,568
Synod Council designated - endowments	5,261,653	-	5,261,653
Cross Roads Outdoor Ministries	1,763,258	-	1,763,258
Net investment in property, plant and equipment	<u>2,104,195</u>	<u>-</u>	<u>2,104,195</u>
Total net assets without donor restrictions	<u>12,297,674</u>	<u>-</u>	<u>12,297,674</u>
With donor restrictions			
Purpose restricted	-	731,427	731,427
Purpose restricted - endowments	-	1,725,176	1,725,176
Perpetual in nature - endowments	<u>-</u>	<u>476,567</u>	<u>476,567</u>
Total net assets with donor restrictions	<u>-</u>	<u>2,933,170</u>	<u>2,933,170</u>
Total net assets	<u>12,297,674</u>	<u>2,933,170</u>	<u>15,230,844</u>
Total liabilities and net assets	<u>\$ 12,593,324</u>	<u>\$ 2,933,170</u>	<u>\$ 15,526,494</u>

**NJ SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

STATEMENT OF FINANCIAL POSITION

January 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,195,937	\$ 1,318,612	\$ 3,514,549
Grant receivable	80,460	-	80,460
Accounts receivable	13,062	-	13,062
Loans receivable, current	44,427	-	44,427
Prepaid expenses	<u>14,797</u>	<u>-</u>	<u>14,797</u>
Total current assets	<u>2,348,683</u>	<u>1,318,612</u>	<u>3,667,295</u>
Noncurrent assets			
Restricted cash	107,268	-	107,268
Investments	4,305,376	1,954,065	6,259,441
Loans receivable, net of current portion	315,005	-	315,005
Mortgages receivable, net of current portion	55,568	-	55,568
Synod house property and equipment, net	435,149	-	435,149
Land and property held by the Synod	2,051,998	-	2,051,998
Equity in Cross Roads Outdoor Ministries	1,773,705	-	1,773,705
Other assets	<u>12,827</u>	<u>-</u>	<u>12,827</u>
Total noncurrent assets	<u>9,056,896</u>	<u>1,954,065</u>	<u>11,010,961</u>
Total assets	<u>\$ 11,405,579</u>	<u>\$ 3,272,677</u>	<u>\$ 14,678,256</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accrued expenses and other liabilities	\$ 24,003	\$ -	\$ 24,003
Grants payable	54,442	-	54,442
Environmental remediation obligation	<u>246,250</u>	<u>-</u>	<u>246,250</u>
Total current liabilities	<u>324,695</u>	<u>-</u>	<u>324,695</u>
Net assets			
Without donor restrictions			
Undesignated	2,425,157	-	2,425,157
Synod Council designated - endowments	4,394,875	-	4,394,875
Cross Roads Outdoor Ministries	1,773,705	-	1,773,705
Net investment in property, plant and equipment	<u>2,487,147</u>	<u>-</u>	<u>2,487,147</u>
Total net assets without donor restrictions	<u>11,080,884</u>	<u>-</u>	<u>11,080,884</u>
With donor restrictions			
Purpose restricted	-	788,103	788,103
Purpose restricted - endowments	-	2,008,007	2,008,007
Perpetual in nature - endowments	<u>-</u>	<u>476,567</u>	<u>476,567</u>
Total net assets with donor restrictions	<u>-</u>	<u>3,272,677</u>	<u>3,272,677</u>
Total net assets	<u>11,080,884</u>	<u>3,272,677</u>	<u>14,353,561</u>
Total liabilities and net assets	<u>\$ 11,405,579</u>	<u>\$ 3,272,677</u>	<u>\$ 14,678,256</u>

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended January 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains and other support			
Support from congregations	\$ 1,751,453	\$ -	\$ 1,751,453
Other contributions and gifts	603,681	123,406	727,087
Grant revenue	229,532	-	229,532
Rental income	45,500	-	45,500
Investment income, net	59,454	23,126	82,580
Loss from sale of property	(22,321)	-	(22,321)
Assembly income	1,145	-	1,145
Donor restricted net assets released from restriction	<u>747,165</u>	<u>(747,165)</u>	<u>-</u>
Total revenues and other support	<u>3,415,609</u>	<u>(600,633)</u>	<u>2,814,976</u>
Expenses			
Program services Synod			
Churchwide and Ministry Partners	1,064,010	-	1,064,010
Strengthening Congregations	299,084	-	299,084
Outreach Supporting Congregations	107,971	-	107,971
Office of the Bishop	244,829	-	244,829
Program services Partners in Ministry			
Designated Support	856,198	-	856,198
Mission Ministries	<u>86,933</u>	<u>-</u>	<u>86,933</u>
Total program services	<u>2,659,025</u>	<u>-</u>	<u>2,659,025</u>
Supporting services			
Oversight of the Mission Plan	<u>270,680</u>	<u>-</u>	<u>270,680</u>
Total supporting services	<u>270,680</u>	<u>-</u>	<u>270,680</u>
Total expenses	<u>2,929,705</u>	<u>-</u>	<u>2,929,705</u>
Changes in net assets from operations	485,904	(600,633)	(114,729)
Non-operating changes			
Realized and unrealized gain on investments	722,297	261,126	983,423
Equity share of gains - Cross Roads Outdoor Ministries	<u>8,589</u>	<u>-</u>	<u>8,589</u>
Total non-operating changes	<u>730,886</u>	<u>261,126</u>	<u>992,012</u>
Changes in net assets	1,216,790	(339,507)	877,283
Net assets, beginning of year	<u>11,080,884</u>	<u>3,272,677</u>	<u>14,353,561</u>
Net assets, end of year	<u>\$ 12,297,674</u>	<u>\$ 2,933,170</u>	<u>\$ 15,230,844</u>

See notes to financial statements.

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended January 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains and other support			
Support from congregations	\$ 1,863,256	\$ -	\$ 1,863,256
Other contributions and gifts	1,928,165	44,480	1,972,645
Grant revenue	113,134	-	113,134
Rental income	42,000	-	42,000
Investment income, net	127,878	32,491	160,369
Gain from sale of distressed church properties	1,783,473	-	1,783,473
Assembly income	63,304	-	63,304
Donor restricted net assets released from restriction	<u>133,868</u>	<u>(133,868)</u>	<u>-</u>
Total revenues and other support	<u>6,055,078</u>	<u>(56,897)</u>	<u>5,998,181</u>
Expenses			
Program services Synod			
Churchwide and Ministry Partners	1,053,412	-	1,053,412
Strengthening Congregations	331,311	-	331,311
Outreach Supporting Congregations	30,310	-	30,310
Office of the Bishop	333,694	-	333,694
Program services Partners in Ministry			
Designated Support	1,336,977	-	1,336,977
Mission Ministries	<u>1,589,900</u>	<u>-</u>	<u>1,589,900</u>
Total program services	<u>4,675,604</u>	<u>-</u>	<u>4,675,604</u>
Supporting services			
Oversight of the Mission Plan	<u>424,865</u>	<u>-</u>	<u>424,865</u>
Total supporting services	<u>424,865</u>	<u>-</u>	<u>424,865</u>
Total expenses	<u>5,100,469</u>	<u>-</u>	<u>5,100,469</u>
Changes in net assets from operations	954,609	(56,897)	897,712
Non-operating changes			
Realized and unrealized gains on investments	432,322	172,323	604,645
Bad debt expense	(8,271)	-	(8,271)
Equity share of gains - Cross Roads Outdoor Ministries	<u>28,362</u>	<u>-</u>	<u>28,362</u>
Total non-operating changes	<u>452,413</u>	<u>172,323</u>	<u>624,736</u>
Changes in net assets	1,407,022	115,426	1,522,448
Net assets, beginning of year	<u>9,673,862</u>	<u>3,157,251</u>	<u>12,831,113</u>
Net assets, end of year	<u>\$ 11,080,884</u>	<u>\$ 3,272,677</u>	<u>\$ 14,353,561</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended January 31, 2021

	Program Services – Synod				Program Services - Partners in Ministry		Total Program Services	Supporting Services	Total Expenses
	Churchwide And Ministry Partners	Strengthening Congregations	Outreach Supporting Congregations	Office of the Bishop	Designated Support	Mission Ministries		Oversight of the Mission Plan	
Salaries and benefits	\$ -	\$ 270,750	\$ -	\$ 232,308	\$ -	\$ -	\$ 503,058	\$ 88,387	\$ 591,445
Contributions to ELCA	872,477	-	-	-	-	-	872,477	-	872,477
ULS expenses	90,000	-	-	-	-	-	90,000	-	90,000
Crossroads Ministry support contributions	95,033	-	-	-	-	-	95,033	-	95,033
Miscellaneous program expenses	6,500	21,908	-	12,418	-	-	40,826	-	40,826
Communication expense	-	6,426	-	-	-	-	6,426	-	6,426
Mission development	-	-	107,971	-	-	-	107,971	-	107,971
Current year Assembly expense	-	-	-	103	-	-	103	-	103
Fund Grants and disbursements	-	-	-	-	497,486	86,933	584,419	-	584,419
Congregational legacy distribution	-	-	-	-	52,977	-	52,977	-	52,977
EMU expenses	-	-	-	-	195,275	-	195,275	-	195,275
LEAMNJ expenses	-	-	-	-	110,460	-	110,460	-	110,460
Staff travel expenses	-	-	-	-	-	-	-	4,901	4,901
Volunteers meeting and travel	-	-	-	-	-	-	-	889	889
Audit, legal and insurance	-	-	-	-	-	-	-	51,497	51,497
Property management	-	-	-	-	-	-	-	29,052	29,052
Supplies and utilities	-	-	-	-	-	-	-	43,089	43,089
External Church property maintenance and support	-	-	-	-	-	-	-	10,358	10,358
Depreciation	-	-	-	-	-	-	-	42,507	42,507
Total expenses	<u>\$ 1,064,010</u>	<u>\$ 299,084</u>	<u>\$ 107,971</u>	<u>\$ 244,829</u>	<u>\$ 856,198</u>	<u>\$ 86,933</u>	<u>\$ 2,659,025</u>	<u>\$ 270,680</u>	<u>\$ 2,929,705</u>

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended January 31, 2020

	Program Services – Synod				Program Services - Partners in Ministry		Total Program Services	Supporting Services	Total Expenses
	Churchwide And Ministry Partners	Strengthening Congregations	Outreach Supporting Congregations	Office of the Bishop	Designated Support	Mission Ministries		Oversight of the Mission Plan	
Salaries and benefits	\$ -	\$ 305,383	\$ -	\$ 211,990	\$ -	\$ -	\$ 517,373	\$ 81,122	\$ 598,495
Contributions to ELCA	930,920	-	-	-	-	-	930,920	-	930,920
ULS expenses	90,000	-	-	-	-	-	90,000	-	90,000
LEAMNJ support contributions	19,992	-	-	-	-	144,823	164,815	-	164,815
Miscellaneous program expenses	12,500	17,350	-	20,485	-	-	50,335	-	50,335
Communication expense	-	8,578	-	-	-	-	8,578	-	8,578
Mission development	-	-	30,310	-	-	-	30,310	-	30,310
Current year Assembly expense	-	-	-	101,219	-	-	101,219	-	101,219
Fund Grants and disbursements	-	-	-	-	1,336,977	141,414	1,478,391	-	1,478,391
Congregational Legacy distribution	-	-	-	-	-	1,303,663	1,303,663	-	1,303,663
Staff travel expenses	-	-	-	-	-	-	-	6,248	6,248
Volunteers meeting and travel	-	-	-	-	-	-	-	22,551	22,551
Audit, legal and insurance	-	-	-	-	-	-	-	61,357	61,357
Property management	-	-	-	-	-	-	-	40,628	40,628
Supplies and utilities	-	-	-	-	-	-	-	35,240	35,240
Automobile	-	-	-	-	-	-	-	4,527	4,527
External Church property maintenance and support	-	-	-	-	-	-	-	134,797	134,797
Depreciation	-	-	-	-	-	-	-	38,395	38,395
Total expenses	<u>\$ 1,053,412</u>	<u>\$ 331,311</u>	<u>\$ 30,310</u>	<u>\$ 333,694</u>	<u>\$ 1,336,977</u>	<u>\$ 1,589,900</u>	<u>\$ 4,675,604</u>	<u>\$ 424,865</u>	<u>\$ 5,100,469</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Years Ended January 31, 2021 And 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Changes in net assets	\$ 877,283	\$ 1,522,448
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Depreciation		
Synod house property and equipment	23,471	19,359
Cross Roads Outdoor Ministries – camp property improvements	19,036	19,036
(Gain) loss from sale of properties	22,321	(1,783,473)
Realized and unrealized gains on investments	(983,423)	(604,645)
Equity share of gains - Cross Roads Outdoor Ministries	(8,589)	(28,362)
Bad debt expense	-	8,271
Accrued interest on mortgage receivable	-	(2,278)
(Increase) decrease in		
Grant receivable	25,749	(80,460)
Accounts receivable	13,062	(11,088)
Prepaid expenses	12,247	41,513
Other assets	(1,319)	(589)
Increase (decrease) in		
Accrued expenses and other liabilities	(24,003)	23,403
Grants payable	(5,042)	-
Environmental remediation obligation	-	(35,387)
Net cash used in operating activities	<u>(29,207)</u>	<u>(912,252)</u>
Cash flows from investing activities		
Costs incurred to secure property (acquisition cost)	-	(35,220)
Proceeds from sale of distressed church properties held by the Synod	362,679	1,950,149
Land and property held by the Synod - cost incurred for holding and improvement of property	(25,519)	(137,803)
Sale of investment	4,766,863	4,794,206
Purchase of investments	(4,851,636)	(4,549,799)
Purchase of vehicles	-	(20,949)
Loans issued to congregations	(144,555)	(63,633)
Collections of loans receivable	7,629	74,859
Collections of mortgage receivable	-	86,842
Net cash provided by investing activities	<u>115,461</u>	<u>2,098,652</u>
Net increase in cash, cash equivalents and restricted cash	86,254	1,186,400
Cash, cash equivalents and restricted cash, beginning of year	<u>3,621,817</u>	<u>2,435,417</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 3,708,071</u>	<u>\$ 3,621,817</u>
Supplemental cash flow disclosures		
Non-cash investing activity		
Write-off of fully/partially depreciated assets	<u>\$ -</u>	<u>\$ 39,422</u>
Schedule of cash, cash equivalents and restricted cash		
Without donor restrictions		
Cash and cash equivalents	\$ 2,114,161	\$ 2,195,937
Restricted cash	107,349	107,268
With donor restrictions		
Cash and cash equivalents	<u>1,486,561</u>	<u>1,318,612</u>
	<u>\$ 3,708,071</u>	<u>\$ 3,621,817</u>

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

January 31, 2021 And 2020

(1) NATURE OF ORGANIZATION

ORGANIZATION

The New Jersey Synod of the Evangelical Lutheran Church in America, (“Synod”), is one of sixty- five geographical synodical units of the Evangelical Lutheran Church in America (“ELCA”). The Synod lies within Region 7 of the ELCA and is comprised of 158 congregations. The Synod relies primarily on annual mission support gifts from these congregations. The Synod Assembly, whose voting members include ministers and lay representatives from New Jersey congregations, is the Synod’s highest legislative authority. The Synod Assembly elects the Synod Council, Bishop, Vice- President, Secretary, and voting members to the ELCA Church-wide Assembly. The Treasurer is elected by the Synod Council.

The Synod Council appoints Mission Teams and recommends program goals and budgets and carries out the resolutions of the Synod Assembly. It issues letters of call to Ministers of Word and Sacrament and to Ministers of Word and Service. The programs and supporting services of the Synod are included in the statement of activities.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Financial statement presentation follows the recommendation of accounting principles generally accepted in the United States of America (“GAAP”) to report information regarding the Synod’s financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

NET ASSETS

To ensure the observance of limitations and restrictions placed on the use of resources available to the Synod, resources for various purposes are classified for accounting purposes into classes established according to their nature and purpose.

The financial statements report amounts separately by the Synod’s two classes of net assets.

- a) Net assets without donor restrictions are those that are not subject to donor-imposed stipulations and are currently available at the discretion of management and the Synod Council for use in the Synod’s operations. These amounts also include Synod Council-designated funds that have been segregated by the Synod Council to be spent only for specific purposes.
- b) Net assets with donor restrictions are those that are subject to stipulations imposed by donors for specific purposes or for the acquisition of property and equipment, and either expire by passage of time or can be fulfilled and removed by action of the Synod, pursuant to the stipulations.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Synod, including gifts wherein donors stipulate that the corpus of the gift be held in perpetuity (primarily gifts for endowment) and that only the income be made available for operations or other purposes.

All contributions are considered available for use without donor restrictions, unless specifically restricted by the donor or subject to other legal restrictions.

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

REVENUE AND REVENUE RECOGNITION

In accordance with ASC-958 Not-For-Profit-entities, contributions received are recorded as net assets without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. These contributions are recognized when cash or ownership of donated assets is unconditionally received by the Synod. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities, as net assets released from restriction.

In accordance with ASU 2018-08, grants and contracts awarded by third party donors which are generally considered nonreciprocal transactions restricted by donor for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. The Organization has elected the simultaneous release policy available under ASU 2018-08, which allows a not-for-profit organization to recognize a restricted grant or contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized.

Endowment contributions and investments are reported based on donor restrictions. When investment earnings become available for distribution, they are reclassified, as applicable, to either net assets with donor restrictions or net assets without donor restrictions. If the net asset with donor restrictions is utilized for its donor restricted purpose, it is reported in the statement of activities as net assets released from restrictions.

The Synod recognizes the sale of property in accordance with ASC 606 when the following criteria are met: 1) contract with the customer has been identified; 2) performance obligations in the contract have been identified; 3) transaction price has been determined; 4) the transaction price has been allocated to the performance obligations; and 5) when performance obligations are satisfied. Revenue from sale of property is recognized at the point and time when the Synod and customer/buyer close on a final sales contract. The Synod recognized revenue (loss) from contracts on sale of property in the amount of \$(22,321) and \$1,783,473 for 2021 and 2020 respectively.

Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period during which the income gains are recognized.

USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues, support and expenses. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Synod considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents also include unrestricted money market accounts. Excluded from this definition of cash equivalents are investments in funds that have been designated as assets with donor restrictions to be held in perpetuity.

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

CONCENTRATIONS OF CREDIT RISK

The Synod maintains an operating cash balance which may exceed federal and other insurance limits. Historically, the Synod has not experienced any credit-related losses. The risk is managed by maintaining the majority of its deposits in high-quality financial institutions.

The Synod maintains investment balances that may exceed federally or other insured limits, although historically the Synod has not experienced any credit-related losses. The investments are primarily financial instruments which are monetary in nature. Accordingly, interest rates have a more significant impact on performance than do the effects of general levels of inflation. Interest rates generally do not move in the same direction or with the same magnitude as prices of goods and services as measured by the consumer price index. The investments are subject to risk conditions of the investments' objectives, stock market performance, interest rates, economic conditions and world affairs.

The Synod's investments include fixed income investments which are not insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. Historically, the Synod has not experienced any credit-related losses.

CERTIFICATES OF DEPOSIT

Certificates of deposit are carried at cost, which approximates their fair value. As of January 31 2021, certificates of deposit interest rates range from .10% to 1.75% and maturity dates range from February 7, 2021 through March 31, 2026. As of January 31, 2020, certificates of deposit interest rates ranged from 1.0% - 2.0% and maturity dates ranged from July 2, 2021 through March 31, 2026.

INVESTMENTS

Investments consist of a pooled income portfolio, which is stated at fair value based on quoted prices on a recognized securities exchange and which holds investments that are classified as both Level 1 and 2 investments, as explained below and further detailed in Note 5.

All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities and changes in net assets as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law.

In 2021 and 2020, expenses relating to investment income, including custodial fees and investment advisory fees, amounted to \$72,705 and \$56,002, respectively. These fees are netted against investment income in the accompanying statement of activities for each respective year.

FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing program and supporting services have been summarized on a functional basis in the accompanying Statement of Functional Expenses. The Synod incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Synod also conducts a number of activities which benefit both its program objectives as well as its supporting services. Costs common to multiple functions have been allocated among program services and supporting services based on time and effort measurement and other methods. Staff costs are allocated based on time and effort.

Oversight of the mission plan expenses include costs generally referred to as management and general expenses, which are not identifiable with any specific program, but which provide for the overall support and direction of the organization.

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

LOANS AND MORTGAGES RECEIVABLE

Loans and mortgages receivable represent funds advanced to congregations and affiliates within the Synod and are stated at unpaid principal balances, less an allowance for loan losses, as deemed necessary by management. Loans receivable are unsecured. Mortgages receivable are collateralized by a first mortgage on church property. A title policy is required showing the Synod as the valid first lien holder on all mortgaged properties.

Interest rates are set forth by terms established in the loan/mortgage agreements and currently range from 0.0% to 5.0%, per annum. Interest on loans/mortgages is recognized over the term of the loans and is calculated using the interest method on principal amounts outstanding.

Past due status is determined based on contractual terms. The Synod's practice is to charge off any loan/mortgage or portion of a loan/mortgage when the debt is determined by management to be uncollectible due to the church's failure to meet repayment terms, the church's deteriorating or deteriorated financial condition, or for other reasons. An allowance for loan losses is recorded based on a combination of historical experience and information on specific accounts. The allowance as of both January 31, 2021 and 2020 was \$8,271.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. The Synod capitalizes all asset purchases with an individual acquisition cost over \$5,000. Depreciation is computed using the straight-line method over the useful lives of the assets, generally three years for vehicles, twenty years for office furniture and equipment and forty years for buildings and improvements. Donations of assets are recorded at fair market value upon receipt. Maintenance, repairs and minor renewals are expensed as incurred.

LAND AND PROPERTY HELD BY THE SYNOD

Land and property held by the Synod is property that has been transferred from a congregation generally due to a disbanded congregation or a congregation experiencing financial difficulties. Properties are initially recorded at costs incurred to takeover property, which is generally the costs related to paying off the debt held on the property and costs to maintain the property. Properties are evaluated for impairment on an annual basis or as facts and circumstances arise. The Synod capitalizes costs incurred in connection with holding and improving the property and expects reimbursement of such costs when the property is either transferred back to another congregation or is sold.

IMPAIRMENT OF LONG-LIVED ASSETS

The Synod reviews the carrying values of its long-lived assets whenever events or changes in circumstances indicate that the carrying values may no longer be appropriate. Recoverability of carrying values is assessed by estimating future net cash flows from the assets. No impairment charge was deemed necessary at January 31, 2021 or January 31, 2020. Impairment assessments inherently involve judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact management's assumptions as to property value, costs, or other factors that may result in changes in the Synod's estimates of future cash flows. Although management believes the assumptions used in testing for impairment are reasonable, changes in any one of the assumptions could produce a significantly different result.

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

INVESTMENT IN UNCONSOLIDATED AFFILIATE

The Synod accounts for its investment in Cross Roads Outdoor Ministries under the equity method of accounting, which is appropriate in accordance with accounting guidance related to joint venture accounting. Under the equity method, the investment is initially recorded at cost and is subsequently adjusted for the Synod's share of earnings or losses of the affiliate.

INCOME TAXES

The Synod is a religious organization and is exempt from federal income taxes as a result of its affiliation with the ELCA, under the provisions of Section 501(c)(3) of the Internal Revenue Code.

The Synod has reviewed their tax positions and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. The Synod plans to adopt the new ASU at the required implementation date.

RECLASSIFICATIONS

Certain reclassifications were made to the 2020 financial statements to conform to the 2021 presentation.

(3) PROGRAM AND SUPPORTING SERVICES

The Synod financial statements reflect the following program and supporting services:

PROGRAM SERVICES - SYNOD

Churchwide and Ministry Partners support our partners in ministry in New Jersey, our region and the churchwide organization. Fifty percent of congregational mission support gifts are remitted to the ELCA churchwide organization to support relief efforts and mission work around the world.

Strengthening Congregations supports the Synod's work toward strengthening congregations within the New Jersey Synod, including funding for: Synod staff addressing congregational needs; Youth programs and program staff; the Discipleship and Witness Mission Team; the Justice and Peace Mission Team; stewardship resources; and other programs, events and grants.

Outreach Supporting Congregations supports mission development within New Jersey, enables new expressions of ministry in the Synod, assists the start-up of new churches and helps revitalize existing ministries.

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

PROGRAM SERVICES - SYNOD (CONTINUED)

Office of the Bishop provides guidance and assistance to Synod congregations and coordinates statewide church and legal processes, including: Congregational vacancy and call processes; Seminarian discernment and candidacy processes; coordination across the Synod; collaboration and ecumenical dialogue with other church organizations; Synod gatherings such as the Synod Assembly; the Synod Deans, who coordinate our mission districts and support our pastors; and strategic planning.

PROGRAM SERVICES - PARTNERS IN MINISTRY

Designated and Other Support includes grants and loans given to congregations, groups and individuals from restricted gifts and funds. Examples include the ELCA World Hunger programs; ELCA Mission programs; Fund for Mission grants; Wurffel education grants; loans for congregational transformation; EMU and LEAM program funds; and the International Servant Trip to Bosnia. This category also includes registrations and expenses for Youth Ministry programs such as RESET, Among the Wolves, Differently Able, and Confirmation Camp.

Mission Ministries includes support for the missions and developing congregations within the New Jersey Synod. Examples include Bridge of Peace Community Church in Camden; Christus Lutheran in Camden; Morning Star in Ridgefield; Santa Isabel in Elizabeth; St. Stephan Grace in Newark; and St. Bartholomew Lutheran in Trenton.

SUPPORTING SERVICES

Oversight of the Mission Plan includes those functions necessary to support the administrative, financial and legal aspects of running a church organization including: managing our resources and properties; communicating across the Synod; fulfilling ELCA, legal and regulatory requirements; and planning for our future.

(4) INVESTMENTS

The table below sets forth a summary of both the current and non-current investments held by the Synod as of January 31, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Certificates of deposit	\$ 686,000	\$ 686,163	\$ 1,131,959	\$ 1,136,221
Common stock	3,651,310	4,952,256	2,943,054	3,493,502
Bonds	435,000	396,442	440,000	420,015
Mutual funds - equity	29,645	54,741	27,463	47,748
Structured products				
Fixed income	824,999	814,410	788,000	782,430
Equity	<u>425,277</u>	<u>423,625</u>	<u>422,342</u>	<u>379,525</u>
Total investments	<u>\$6,052,231</u>	<u>\$7,327,637</u>	<u>\$ 5,752,818</u>	<u>\$ 6,259,441</u>

As of January 31, 2021 and 2020, accumulated net unrealized gains were \$1,275,406 and \$506,623, respectively.

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

The following summarizes the investment return for the years ended January 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Dividends and interest, net of investment expenses of \$72,705 and \$56,002	\$ 82,231	\$ 160,369
Realized gains	207,209	519,169
Unrealized gains (losses)	<u>768,783</u>	<u>85,476</u>
Total investment return	<u>\$ 1,058,223</u>	<u>\$ 765,014</u>

The Synod utilized various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Synod has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Synod's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value the Synod's investments as of January 31, 2021 and 2020 is as follows:

	<u>2021</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of deposit	\$ 686,163	\$ -	\$ 686,163	\$ -
Common stock	4,952,256	4,952,256	-	-
Bonds	396,442	-	396,442	-
Mutual funds – equity	54,741	54,741	-	-
Structured products				
Fixed income	814,410	-	814,410	-
Equity	<u>423,625</u>	<u>-</u>	<u>423,625</u>	<u>-</u>
Total	<u>\$ 7,327,637</u>	<u>\$ 5,006,997</u>	<u>\$ 2,320,640</u>	<u>\$ -</u>

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

	2020			
	Total	Level 1	Level 2	Level 3
Certificates of deposit	\$ 1,136,221	\$ -	\$ 1,136,221	\$ -
Common stock	3,493,502	3,493,502	-	-
Bonds	420,015	-	420,015	-
Mutual funds – equity	47,748	47,748	-	-
Structured products				
Fixed income	782,430	-	782,430	-
Equity	379,525	-	379,525	-
Total	<u>\$ 6,259,441</u>	<u>\$ 3,541,250</u>	<u>\$ 2,718,191</u>	<u>\$ -</u>

(5) LOANS RECEIVABLE

The Synod holds the following loans receivable:

	January 31, 2021	January 31, 2020
Cross Roads Camp and Retreat Center, Port Murray, NJ Principal of \$292,536 at 4.5% interest, due November 8, 2029	\$ 208,738	\$ 211,632
Transformational Ministry Loans Various principal amounts at 1.0% interest, with various final maturity dates through January 15, 2030	171,336	156,071
COVID-19 Financial Assistance Loans Various principal amounts at 0% interest, forgiven at 25% per year over four years if borrower continues their ministry, with various maturity dates through January 2025	124,555	-
	504,629	367,703
Less – allowance	(8,271)	(8,271)
Less – current portion	(44,099)	(44,427)
Non – current portion	<u>\$ 452,259</u>	<u>\$ 315,005</u>

Total maturities of loans receivable, not including the COVID-19 Financial Assistance Loans (as expected to be forgiven) for the years ending January 31, are as follows:

2022	\$ 44,099
2023	47,556
2024	44,694
2025	42,534
2026	38,406
2027 & thereafter	162,785
Total	380,074
COVID-19 Financial Assistance Loans	124,555
Total loans receivable	<u>\$ 504,629</u>

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

(6) MORTGAGES RECEIVABLE

The Synod holds the following mortgages receivable:

	January 31, 2021	January 31, 2020
Dunamis Life Church, Camden, NJ \$36,000 at 5.0% interest, due February 12, 2025 (1)	\$ 36,000	\$ 36,000
Trinity Lutheran Church, Jersey City, NJ Originally \$50,000 at 1.0% interest, due June 22, 2021, converted to a long-term lien in July 2017 (2)	19,568	19,568
	55,568	55,568
Less – current portion	-	-
Noncurrent portion	\$ 55,568	\$ 55,568

(1) The mortgage receivable was amended in August 2014. Under the amended agreement, the principal of the mortgage was reduced to \$36,000, and the maturity date was extended to February 12, 2025. Under the terms of the agreement, payments are interest only until the maturity date.

(2) In July 2017, the remaining balance of the Trinity Lutheran transformational ministry loan of \$19,568 was converted into a long-term lien on the property of Trinity Lutheran Church. In the event that the property is sold at a future date, the balance shall be paid to the New Jersey Synod, ELCA from the proceeds of the property sale. The loan balance has been included in the thereafter balance in the table below.

Total maturities of mortgages receivable for the years ending January 31 are as follows:

2022	\$ -
2023	-
2024	-
2025	36,000
2026	-
Thereafter	19,568
Total	\$ 55,568

(7) SYNOD HOUSE PROPERTY AND EQUIPMENT

The Synod house property and equipment consists of the following:

	January 31, 2021	January 31, 2020
Land	\$ 51,502	\$ 51,502
Building and improvements	551,792	551,792
Office furniture and equipment	53,870	53,870
Vehicles	42,749	42,749
	699,913	699,913
Less - Accumulated depreciation	(288,235)	(264,764)
	\$ 411,678	\$ 435,149

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

(8) LAND AND PROPERTY HELD BY THE SYNOD

Property held by the Synod consists of the following:

	<u>January 31, 2021</u>	<u>January 31, 2020</u>
Property held by Synod:		
St. John the Baptist, Hoboken, NJ (1)	\$ 589,571	\$ 584,611
Santa Isabel Lutheran Church, Elizabeth, NJ (2)	584,625	580,376
Santa Isabel Parsonage, Elizabeth, NJ (3)	128,887	128,335
Santa Isabel Parish Hall, Elizabeth, NJ (4)	151,396	142,863
Bridge of Peace, Camden, NJ (5)	238,038	230,813
Land, Jackson, NJ (6)	-	385,000
Townsend's Inlet, Sea Isle City, NJ (7)	<u>-</u>	<u>-</u>
	<u>\$1,692,517</u>	<u>\$2,051,998</u>

- (1) The Synod is currently leasing this property to the Hoboken Shelter (a housing mission agency). The current year increase in the balance represents additional costs of \$4,960 incurred and capitalized in connection with holding and improving the property.
- (2) Santa Isabel is a New Jersey Synod Mission Congregation. The current year increase in the balance represents additional costs of \$4,249 incurred and capitalized in connection with holding and improving the property.
- (3) The Santa Isabel Parsonage is used by the pastor of the Santa Isabel congregation. The current year increase in the balance represents additional costs of \$552 incurred and capitalized in connection with holding and improving the property.
- (4) The Santa Isabel Parish Hall is used by Santa Isabel congregation for community fellowship and community support groups. The current year increase in the balance represents additional costs of \$8,533 incurred and capitalized in connection with holding and improving the property.
- (5) Bridge of Peace is an organized New Jersey Synod congregation. The Synod continues to own the property and assist the congregation. The current year increase in the balance represents additional costs of \$7,225 incurred and capitalized in connection with holding and improving the property.
- (6) Land in Jackson, NJ was purchased in 2007 for development of a New Jersey Synod Mission Congregation. In January 2018, a sales contract was executed for \$385,000. The sale was completed on February 26, 2020. Net proceeds from the sale amounted to \$362,679, resulting in a loss on the sale of \$22,321.
- (7) The Synod became the Trustee to the Townsends Inlet property in 2014. Trinity Community Church congregation uses the property for summer worship and maintains the property and the church building. This property, valued at \$36,344, was written down to zero in value as of December 31, 2017, as the deed requires it to be indefinitely held in trust, never to be sold.

**NJ SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

(9) NET ASSETS WITH DONOR RESTRICTIONS

Donor restricted net assets are available to support activities for the following:

Purpose Restricted:	January 31, 2021	January 31, 2020
Partners in Ministry: Designated Support		
Danish Children’s Home- Endowment	\$ 4,873	\$ -
Franklin Fry Chair - Endowment	54,741	45,873
Brueckner Outdoor Ministries - Endowment	272,801	532,515
Cross Roads Rental - Endowment	2,222	2,121
Compensation Aid - Endowment	301,173	427,903
Candidacy - Endowment	285,472	251,687
Stewardship	4,294	3,294
Brauninger Travel	15,772	15,772
Namibia Special	22,402	21,216
Global Mission Team	4,822	4,822
Immediate Response Disaster Fund	3,897	4,597
Bishops Discretionary Fund	<u>29,326</u>	<u>-</u>
Total Partners in Ministry - Designated Support	<u>1,001,795</u>	<u>1,309,800</u>
Partners in Ministry - Mission Ministries:		
Transitional Ministries (Fund for Mission) - Endowment:		
North Plainfield Music	\$ 88,414	\$ 76,759
St. Luke Legacy	402,876	362,995
Handicap Access - Redeemer	34,015	29,545
Fund for Mission Legacy - Endowment	278,589	278,589
Fund for Mission, Advent Legacy	560,943	558,450
St. Mark Legacy	84,971	174,972
Hudson/Christ Ridgefield	<u>5,000</u>	<u>5,000</u>
Total Partners in Ministry - Mission Ministries	<u>1,454,808</u>	<u>1,486,310</u>
Total - purpose restricted	<u>2,456,603</u>	<u>2,796,110</u>
Endowment Funds - Perpetual in Nature:		
Danish Children’s Home	31,105	31,105
Transitional Ministries (Fund for Mission)	<u>445,462</u>	<u>445,462</u>
Total-perpetual in nature	<u>476,567</u>	<u>476,567</u>
Total net assets with donor restrictions	<u>\$ 2,933,170</u>	<u>\$ 3,272,677</u>

Investment income generated by the Danish Children’s Home and Transitional Ministries (Fund for Mission) may be used only for donor-specified purposes.

Net assets were released from donor restriction by incurring expenditures satisfying the restricted purpose as follows during the year ended January 31, 2021:

Total Partners in Ministry - Designated Support	\$ 642,165
Total Partners in Ministry - Mission Ministries	<u>105,000</u>
	<u>\$ 747,165</u>

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

(10) RETIREMENT PLAN

Substantially all full-time employees of the Synod are enrolled in an employee savings provision plan (403(b) retirement plan) made available and administered by Portico Benefit Services of the ELCA. The Synod contributes 12% based upon the plan agreement. The full current employer cost provided for under the plan was approximately \$62,100 and \$70,300 for the years ended January 31, 2021 and 2020, respectively.

(11) EQUITY IN CROSS ROADS OUTDOOR MINISTRIES

Camp Beisler was acquired by the Lutheran Church in 1953. In 1988, a merger of separate Lutheran denominations took place, forming the ELCA. At that time, Camp Beisler became part of the Synod.

In April 1999, the Synod and the Diocese of Newark of the Protestant Episcopal Church in the United States of America (the “Diocese”) filed a Certificate of Incorporation with the State of New Jersey to establish a non-profit corporation known as the Lutheran/Episcopal Camp and Conference Center, Inc. (the “Camp and Conference Center”), for the purpose of operating the newly established camp, formerly known as Camp Beisler.

In 2000, the Synod entered into a joint venture agreement (the “agreement”) with the Diocese whereby the Synod conveyed a 50% interest to the Diocese in the land improvements at Camp Beisler. The Synod received \$730,000 for this interest and recorded a gain of \$367,827, net of the cost basis. In connection with this agreement, the Synod executed a fifty-year ground lease for \$1 each year with the Camp and Conference Center. Also, the Synod and Diocese lease the land improvements to the Camp and Conference Center for \$1 a year for fifty years, concurrent with the ground lease.

The agreement further provides that in the event that the Synod causes the Camp and Conference Center to be dissolved or the ground lease is terminated by the Synod, the Synod will repurchase the Diocese’s 50% interest in the land improvements for the greater of fair market value or \$730,000. In the event that the Diocese causes the Camp and Conference Center to be dissolved or withdraws from the Camp and Conference Center, the Synod will repurchase the Diocese’s 50% interest in the land improvements for the lower of fair market value or \$730,000. During 2014, the Synod amended its agreement with the Camp and Conference Center, and made a \$250,000 equity contribution to the Camp and Conference Center, which reduced the balance of a fund that had been designated in the event the Camp and Conference Center is dissolved by either party.

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

The Synod accounts for its investment in the Camp and Conference Center on the equity method of accounting which is appropriate in accordance with accounting guidance related to joint venture accounting. At January 31, 2021 and 2020, the Synod's equity in Cross Roads Outdoor Ministries is comprised of the following (using information for Cross Roads as of December 31, 2020 and 2019):

	<u>January 31, 2021</u>	<u>January 31, 2020</u>
Camp property improvements, net of accumulated depreciation	\$ 374,436	\$ 393,472
Camp reserve	250,000	250,000
Camp land	1,030,262	1,030,262
Camp land improvements	<u>19,538</u>	<u>19,538</u>
	<u>1,674,236</u>	<u>1,693,272</u>
Cumulative equity, share of earnings, beginning of year	80,433	52,071
Equity share of gains - see table below	<u>8,589</u>	<u>28,362</u>
Cumulative equity, share of earnings, end of ear	<u>\$1,763,258</u>	<u>\$1,773,705</u>

Summary financial information related to the Synod's equity interest in Cross Roads Outdoor Ministries for the year ended January 31, 2021 and 2020 is presented as follows (using information for Cross Roads as of December 31, 2020 and 2019):

	<u>January 31, 2021</u> *	<u>January 31, 2020</u>
Total support and revenues	\$ 568,735	\$ 1,061,045
Total expenses	<u>551,557</u>	<u>1,004,321</u>
Change in net assets	17,178	56,724
Synod's percentage interest	<u>x 50%</u>	<u>x 50%</u>
Synod's share of gains in Cross Roads Outdoor Ministries	<u>8,589</u>	<u>\$ 28,362</u>

* -Unaudited

NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2021 And 2020

(12) ENDOWMENT POLICY

ENDOWMENT DESCRIPTION AND INTERPRETATION OF RELEVANT LAW

The Synod endowment consists of various funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Synod Council to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Synod Council to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Synod Council and the Synod Investment Committee have interpreted the Uniform Prudent Management of Institutional Funds Act to require standard care that is reasonable and prudent over its endowed funds. The Synod classifies as net assets with donor restrictions, the original value of (1) gifts donated to the perpetual endowment and (2) gifts donated to the endowment with purpose restrictions. The Synod classifies as net assets without donor restrictions those funds designated by the Synod Council to function as endowments.

ENDOWMENT SPENDING POLICY

The Synod Council has an approved Investment Policy with spending guidelines. The purpose of this Investment Policy is to establish a prudent and consistent approach to the distribution of endowment earnings that reflects an appropriate balance between the present and future needs. The policy is designed to provide a reasonable degree of stability and predictability in the amount of endowment earnings available for grants, scholarship and the other restricted purposes established by donors, as well as in the amount available for support of the Synod Spending Plan. The Synod Council has approved expenditures based on resolutions for Wurffel scholarships and grants, Fund for Mission grants and approval of the Spending Plan.

The Synod Council approves expenditures in the four to six percent range based on the previous three years' average investment balance. The Synod Council, periodically, as circumstances dictate, considers modifications to the Synod Investment Policy. All disbursements are expended according to donor restrictions and are classified as net assets released from restrictions in the accompanying statement of activities and changes in net assets.

ENDOWMENT INVESTMENT POLICIES

The Synod Council and the Synod Investment Committee have adopted investment policies that seek long-term capital growth, current income and growth of income, consistent with prudent, conservative and risk-averse investments for its endowment. The endowment investments may be invested in any combination of common stocks, securities convertible to common stock, preferred stocks, fixed income securities, mutual funds, managed funds and certificates of deposit, as long as the ratio of equities to fixed income does not exceed 70% equities. Ten percent of all investments are to be invested with organizations that follow a socially oriented investment policy. All investments are to comply with the ELCA's social responsibility guideline.

To satisfy its long-term objectives, the Synod relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Synod targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The target rate of return on investments ranges from four to six percent.

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ENDOWMENT INVESTMENT POLICIES (CONTINUED)

Under the provisions of the Uniform Prudent Management of Institutional Funds Act and GAAP, losses in the market value of donor-restricted endowment funds are required to be offset by reductions in net assets with donor restrictions or net assets without donor restrictions, or both.

The net assets with perpetual donor restrictions of such endowment funds should always equal their historic dollar value. A perpetual endowment fund that has become “underwater” will therefore result in decreases in net assets with purpose donor restrictions, or decreases in net assets without donor restrictions, despite the absence of any legal obligation to restore the endowment fund for such losses. Net assets without donor restrictions that have been reduced because of this requirement will be restored from future gains for that reduction. No endowments were “underwater” as of January 31, 2021 and 2020.

Changes in Endowment Net Assets for the Year Ended January 31, 2021:

	Synod Council Designated	Purpose Restricted	Perpetual In Nature	Total
Endowment net assets, beginning of year	\$ 4,394,875	\$ 2,008,007	\$ 476,567	\$ 6,879,449
Investment gain, net	766,846	284,252	-	1,051,098
Contributions and transfers	456,028	14,338	-	470,366
Endowment disbursements and transfers	<u>(356,096)</u>	<u>(581,421)</u>	<u>-</u>	<u>(937,517)</u>
Endowment net assets, end of year	<u>\$ 5,261,653</u>	<u>\$ 1,725,176</u>	<u>\$ 476,567</u>	<u>\$ 7,463,396</u>

Changes in Endowment Net Assets for the Year Ended January 31, 2020:

	Synod Council Designated	Purpose Restricted	Perpetual In Nature	Total
Endowment net assets, beginning of year	\$ 3,840,250	\$ 1,893,105	\$ 476,567	\$ 6,209,922
Investment gain, net	515,352	208,830	-	724,182
Contributions	234,670	30,301	-	264,971
Endowment disbursements	<u>(195,397)</u>	<u>(124,229)</u>	<u>-</u>	<u>(319,626)</u>
Endowment net assets, end of year	<u>\$ 4,394,875</u>	<u>\$ 2,008,007</u>	<u>\$ 476,567</u>	<u>\$ 6,879,449</u>

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January 31, 2021 And 2020

(13) CONTINGENT LIABILITIES AND RESTRICTED CASH

To assist non-related ELCA congregations with the purchase of properties, the Synod at times enters into tenant-in-common agreements. Under the terms of the agreements, the Synod agrees to jointly guarantee a mortgage held by a purchasing congregation and funds a debt service reserve account with the financial institution lender. The deed for the mortgaged property is held in escrow, and the Synod retains a 51% interest in the property as a tenant-in-common and a 49% interest is granted to the congregation. Under the terms of the agreements, the Synod is released of all liability for the mortgage loan if the congregation meets certain financial benchmarks as defined by the financial institution. If the congregation defaults on the loan payments, the Synod becomes liable and the deed for the property would be released to the Synod. As of January 31, 2021, there were no defaults under these arrangements.

As of January 31, 2021 and 2020, the Synod was party to four tenant-in-common agreements. At January 31, 2021 and 2020, total funds in reserve related to tenant-in-common agreements were \$107,349 and \$107,268 respectively and are reflected as restricted cash on the Statement of Financial Position.

Management believes its performance obligation on these guarantees will be immaterial, and, as such has not recorded any liability related to the guarantees. The Synod's payment/performance risk of the guarantee is managed by the following: (1) currently none of the loan arrangements are in default; (2) if default would occur the external lender would utilize those funds held in reserve first prior to seeking funds from the Synod; (3) the Synod has adequate cash flow reserves to cover any defaults; (4) should a congregation default on their loan, the property will revert to the Synod.

The future minimum payments due under the mortgage loans, guaranteed by the Synod, for the years ending January 31, are as follows:

	<u>Keys To Life Ministries</u>	<u>Holy Trinity Baptist Church</u>	<u>Muungano Seventh Day</u>	<u>Macedonia Baptist Church</u>	<u>Total</u>
2022	\$ 26,687	\$ 17,147	\$ 34,636	\$ 24,656	\$ 103,126
2023	27,905	18,070	36,818	25,852	108,645
2024	29,406	19,041	576,119	27,108	651,674
2025	30,987	20,065	-	28,424	79,476
2026	32,654	21,145	-	29,804	83,603
2027 and thereafter	<u>272,692</u>	<u>224,554</u>	<u>-</u>	<u>456,222</u>	<u>953,468</u>
Total	<u>\$ 420,331</u>	<u>\$ 320,022</u>	<u>\$ 647,573</u>	<u>\$ 592,066</u>	<u>\$ 1,979,992</u>

(14) ENVIRONMENTAL REMEDIATION OBLIGATION

During 2016, the Synod was informed by the New Jersey Department of Environmental Protection (“NJ DEP”) that there are safety issues involving the stability of an earthen dam located on the Cross Roads Camp property. As disclosed in Note 11, a portion of the Synod's equity in Cross Roads Outdoors Ministries (“Cross Roads”) represents the cost of land and land improvements. The Synod is the owner of the land and land improvements and therefore is responsible for the remediation. The NJ DEP required the Synod to develop and submit a plan of action. The Synod hired an engineering consultant to design alternatives and estimate remediation costs. The consultant presented three options ranging from \$780,000 to \$3.08 million in estimated cost.

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At December 31, 2016, the Synod accrued \$780,000, which was the best estimate of the obligation regarding this property and which was presented under the caption Environmental Remediation Obligation in the Statement of Financial Position.

In October 2017, the Synod contracted Trout Scapes River Restoration LLC for \$46,815 to remove the fish from the lake behind the dam, lower the water level and seed the exposed lakebed. This first step in remediating the safety issues removed the dam from the NJ DEP high priority list and the threat of state action. The same vendor performed preparation work needed to prepare the final remediation plan, and the Synod received an updated estimate of \$422,029 to complete the remediation work through removal of the dam and restoration of the stream bed.

In April of 2018, a final estimate of \$413,112 was received by the Synod resulting in an \$8,917 recovery of previously accrued costs for the year ended January 31, 2019. The Synod has paid \$166,862 for services related to the remediation restoration through January 31, 2020, resulting in a remediation liability of \$246,250 as of January 31, 2021 and 2020. The project was estimated to be completed in May of 2020, however, due to the COVID-19 pandemic, all work on the project ceased in the spring of 2020. Work on the dam is expected to resume in 2021. In February 2021 a payment of \$64,724 was made to Trout Scapes in connection with the completion of the remediation project.

(15) COVID-19 AND PAYCHECK PROTECTION PROGRAM

In December 2019, a novel strain of the coronavirus (“COVID-19”) was reported in China. The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern”. This outbreak has affected virtually every industry and has created volatility in the stock markets throughout the world. Many federal and state governments have implemented numerous restrictions, mandated various closures and quarantine requirements in connection with the COVID-19 outbreak. The extent of the impact of COVID-19 on the Synod’s operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact on the Synod’s congregations, donors, employees and vendors, all of which are uncertain and cannot be predicted.

In May 2020, the Synod received \$127,595 in funds from the federal Paycheck Protection Program (PPP). The PPP loan is designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Small Business Administration (SBA) will forgive loans if all employees are kept on the payroll for a specific period of time and the money is used for certain allowable costs. Any amounts not forgiven at the end of the program period convert into a loan with 1% interest, payable over 24 months. The AICPA released guidance on recording options and the Synod has decided to record these funds under the government grant model (FASB ASC 958-605). The cash received under the PPP is recorded as a liability until the conditions are substantially met. When the Synod has substantially met the conditions of the program and qualifying expenses are incurred, the cancellation of the liability is recorded as revenue. As the Synod had met conditions and incurred expense in the amount of \$127,595 as of January 31, 2021, the amount has been included in the statement of activities as grant revenue. On October 30, 2020, the Synod was notified that the loan was forgiven by the SBA.

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(16) LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table shows the Synod's total financial assets and the amounts that could be made readily available within one year of the year ended January 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 3,600,722	\$ 3,514,549
Restricted cash	107,349	107,268
Investments	7,327,637	6,259,441
Loans receivable, current	44,099	36,156
Accounts receivable	-	13,062
Grants receivable	<u>54,711</u>	<u>80,460</u>
Total financial assets available within one year	11,134,518	10,010,936
Less amounts unavailable for general expenditures within one year due to:		
Restricted cash	(107,349)	(107,268)
Restricted by donor with purpose restrictions	(731,427)	(788,103)
Endowments-restricted by donor with purpose restrictions	(1,725,176)	(2,008,007)
Endowments-restricted by donor in perpetuity	(476,567)	(476,567)
Less amounts unavailable to management without Synod Council approval:		
Endowments-Synod Council designated funds	<u>(5,261,653)</u>	<u>(4,394,875)</u>
Total financial assets available to management for general operating expenditures within one year	<u>\$ 2,832,346</u>	<u>\$ 2,236,116</u>

The Synod operates within a budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Additionally, the Synod can re-allocate Synod Council designated funds to cover expenditures as necessary.

The Synod has donor-restricted assets limited as to use which are not available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been excluded in the above qualitative information for financial assets to meet general expenditures within one year.

LIQUIDITY MANAGEMENT

The Synod has an investment policy authorized by the Synod Council that provides guidance and oversight for the management of cash and cash equivalents, and investments. The policy provides that the Synod maintain an adequate level of cash to meet on-going operational requirements. In addition, the policy sets forth the structure for investment of excess cash based on the financial needs of the Synod, the time horizon of those needs and the Synod Council's investment philosophy.

To help manage unanticipated liquidity needs, the Synod has Synod Council designated net assets without donor restrictions that, while the Synod does not intend to spend for purposes other than identified, the amounts could be made available for current operations, as necessary.

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The Synod's net assets without donor restrictions are comprised of designated amounts for the following purposes as of January 31:

<u>Synod Council Designated Funds:</u>	<u>2021</u>	<u>2020</u>
Fund for Mission	\$ 1,917,132	\$ 1,627,681
Cross Roads Unrestricted	480,000	182,187
Camden Lutheran Ministries	195,518	218,813
Mission Development	589,286	507,654
Synod Parsonage	234,127	203,191
Wurffel Fund	<u>1,845,590</u>	<u>1,655,349</u>
	<u>\$ 5,261,653</u>	<u>\$ 4,394,875</u>

(17) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, April 22, 2021, have been evaluated in the preparation of financial statements. There were no material subsequent events required to be disclosed.