

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JANUARY 31, 2020

**SOUTHEASTERN PENNSYLVANIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Synod Council of Southeastern Pennsylvania Synod of the Evangelical Lutheran Church in America Philadelphia, Pennsylvania

We have audited the accompanying statements of Southeastern Pennsylvania Synod of the Evangelical Lutheran Church in America (the “Synod”) which comprise the statement of financial position as of January 31, 2020, and the related statements of activities, changes in net assets, 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor’s 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 entity’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 entity’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, 2020, 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.

**Synod Council of Southeastern Pennsylvania Synod
of the Evangelical Lutheran Church in America
Philadelphia, Pennsylvania**

Report on Summarized Comparative Information

We have previously audited the Synod's January 31, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements, prior to the restatement disclosed in Note 9, in our report dated March 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended January 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying supplemental schedule of receipts and disbursements – operating, designated and donor restricted net assets and sale of church properties, on pages 18 and 19, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
May 7, 2020**

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF FINANCIAL POSITION

January 31, 2020 With Summarized Information For 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>	
			<u>2020</u>	<u>2019</u>
ASSETS				
Cash	\$1,207,976	\$ -	\$1,207,976	\$ 37,130
Investments, at market <i>(Note 2)</i>	-	445,352	445,352	394,227
Contributions receivable <i>(Note 3)</i>	-	38,470	38,470	112,488
Receivable for property sales <i>(Note 8)</i>	756,983	-	756,983	-
Prepaid expenses	<u>36,486</u>	<u>-</u>	<u>36,486</u>	<u>30,564</u>
Total current assets	<u>2,001,445</u>	<u>483,822</u>	<u>2,485,267</u>	<u>574,409</u>
OTHER ASSETS				
Investments, at market <i>(Note 2)</i>	4,680,440	1,073,561	5,754,001	3,202,975
Beneficial interest in perpetual trust <i>(Note 9)</i>	-	2,461,739	2,461,739	1,337,190
Contributions receivable <i>(Note 3)</i>	-	-	-	10,747
Real estate	110,350	-	110,350	110,350
Leasehold improvements and equipment (net of accumulated depreciation of \$515,261 in 2020 and \$514,100 in 2019)	-	-	-	1,161
Land, buildings and improvements – Bear Creek Camp	440,004	-	440,004	440,004
Equity in Chapel and Student Synod	<u>484,429</u>	<u>-</u>	<u>484,429</u>	<u>484,429</u>
Total other assets	<u>5,715,223</u>	<u>3,535,300</u>	<u>9,250,523</u>	<u>5,586,856</u>
Total assets	<u>\$7,717,668</u>	<u>\$4,019,122</u>	<u>\$11,735,790</u>	<u>\$6,161,265</u>
CURRENT LIABILITIES				
Payables				
Evangelical Lutheran Church in America	\$ 97,418	\$ -	\$ 97,418	\$ 86,721
Other accounts payable and accrued expenses	30,570	-	30,570	53,653
Deferred revenue	<u>2,700</u>	<u>-</u>	<u>2,700</u>	<u>15,123</u>
Total liabilities	<u>130,688</u>	<u>-</u>	<u>130,688</u>	<u>155,497</u>
NET ASSETS <i>(Note 1 and 9)</i>				
Without donor restrictions				
Operating	<u>585,698</u>	<u>-</u>	<u>585,698</u>	<u>(223,830)</u>
Designated				
Fund for Mission	4,997,841	-	4,997,841	1,997,922
Forward Together in Faith	488,819	-	488,819	394,287
St. Michael's Germantown Cemetery <i>(Note 8)</i>	258,931	-	258,931	-
St. John's Quakertown Cemetery Restoration Fund <i>(Note 8)</i>	200,000	-	200,000	-
Other	<u>19,908</u>	<u>-</u>	<u>19,908</u>	<u>19,908</u>
Total designated	<u>5,965,499</u>	<u>-</u>	<u>5,965,499</u>	<u>2,412,117</u>
Real estate and property	<u>1,034,783</u>	<u>-</u>	<u>1,034,783</u>	<u>1,034,783</u>
Total without donor restrictions	7,585,980	-	7,585,980	3,223,070
With donor restrictions <i>(Note 4)</i>	<u>-</u>	<u>4,019,122</u>	<u>4,019,122</u>	<u>2,782,698</u>
Total net assets	<u>7,585,980</u>	<u>4,019,122</u>	<u>11,605,102</u>	<u>6,005,768</u>
Total liabilities and net assets	<u>\$7,717,668</u>	<u>\$4,019,122</u>	<u>\$11,735,790</u>	<u>\$6,161,265</u>

See notes to financial statements.

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended January 31, 2020 With Summarized Information For 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>	
			<u>2020</u>	<u>2019</u>
Operating Support and Revenue				
Support				
Contributions from congregations				
Partnership support	\$ 1,716,538	\$ -	\$ 1,716,538	\$ 1,798,189
Endowment contributions	-	178,394	178,394	-
Beneficial interest in perpetual trust	-	998,282	998,282	-
Other contributions	186,673	56,923	243,596	513,430
Total support	<u>1,903,211</u>	<u>1,233,599</u>	<u>3,136,810</u>	<u>2,311,619</u>
Revenue				
Investment income	164,233	15,608	179,841	176,276
Income from outside trusts	-	65,246	65,246	63,212
Registration fees	135,301	-	135,301	130,372
Remittance to designated agencies	-	(19,940)	(19,940)	(16,944)
Other	26,950	-	26,950	35,200
Total revenue	<u>326,484</u>	<u>60,914</u>	<u>387,398</u>	<u>388,116</u>
Net assets released from restrictions (Note 4)	<u>195,565</u>	<u>(195,565)</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	<u>2,425,260</u>	<u>1,098,948</u>	<u>3,524,208</u>	<u>2,699,735</u>
Expenses (Note 5)				
Evangelical Lutheran Church in America				
Apportionment and other gifts	858,269	-	858,269	899,094
Budgeted operating expenses and disbursements	1,568,254	-	1,568,254	1,539,029
Distributions to beneficiary agencies	152,656	-	152,656	152,067
Grants to organizations	20,999	-	20,999	27,240
Total expenses	<u>2,600,178</u>	<u>-</u>	<u>2,600,178</u>	<u>2,617,430</u>
Excess (deficit) of operating support and Revenue over expenses	<u>(174,918)</u>	<u>1,098,948</u>	<u>924,030</u>	<u>82,305</u>
Nonoperating Changes in Net Assets				
Unrealized gain (loss) on investments	501,456	11,209	512,665	(222,001)
Change in beneficial interest in perpetual trusts	-	126,267	126,267	(51,803)
Maintenance expenses for closed churches	(244,574)	-	(244,574)	(110,835)
Proceeds from sale of Church property – net (Note 8)	4,280,946	-	4,280,946	-
Total nonoperating changes	<u>4,537,828</u>	<u>137,476</u>	<u>4,675,304</u>	<u>(384,639)</u>
Changes in net assets	<u>4,362,910</u>	<u>1,236,424</u>	<u>5,599,334</u>	<u>(302,334)</u>
Net assets				
Beginning of year (Note 9)	<u>3,223,070</u>	<u>2,782,698</u>	<u>6,005,768</u>	<u>6,308,102</u>
End of year	<u>\$ 7,585,980</u>	<u>\$ 4,019,122</u>	<u>\$ 11,605,102</u>	<u>\$ 6,005,768</u>

See notes to financial statements.

**SOUTHEASTERN PENNSYLVANIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

STATEMENTS OF CASH FLOWS

Years Ended January 31, 2020 And 2019

	<u>2020</u>	<u>2019</u>
INCREASE (DECREASE) IN CASH		
<i>Change in net assets</i>	\$ 5,599,334	\$(302,334)
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities</i>		
Depreciation	1,161	2,578
Dividends reinvested	(161,175)	(165,563)
Net realized and unrealized loss (gains) on investments	(512,665)	222,001
Contributions of beneficial interest in perpetual trust	(998,282)	-
Change in beneficial interest in perpetual trust	(126,267)	51,803
Contributions restricted for endowment	(178,394)	-
(Increase) decrease in		
Prepaid rent	-	51,058
Contributions receivable	84,765	38,974
Miscellaneous receivable	-	10,330
Receivable for Property Sales	(756,983)	-
Prepaid expenses	(5,922)	1,672
Increase (decrease) in		
ELCA payable	10,697	(19,343)
Accounts payable and other accrued expenses	(23,083)	39,586
Deferred revenue	<u>(12,423)</u>	<u>10,276</u>
Net cash provided by (used in) operating activities	<u>2,920,763</u>	<u>(58,962)</u>
<i>Cash flows from investing activities</i>		
Purchase of long-term investments	(1,877,186)	(32,964)
Changes in short-term investments	<u>(51,125)</u>	<u>(141,621)</u>
Net cash used in investing activities	<u>(1,928,311)</u>	<u>(174,585)</u>
<i>Cash flows from financing activities</i>		
Proceeds from contributions restricted for endowments	<u>178,394</u>	<u>-</u>
Net cash provided by investing activities	<u>178,394</u>	<u>-</u>
Net increase (decrease) in cash	1,170,846	(233,547)
<i>Cash</i>		
Beginning of year	<u>37,130</u>	<u>270,677</u>
End of year	<u>\$ 1,207,976</u>	<u>\$ 37,130</u>

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

January 31, 2020 And 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

The Southeastern Pennsylvania 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.

BASIS OF ACCOUNTING

The financial statements have been prepared on the accrual basis of accounting. Contributions from congregations received by the Synod represent calendar year (January through December) giving by congregations. These contributions are remitted to and support the fiscal year operations of the Synod.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities as of January 31, 2020 and 2019, and the reported amounts of revenues and expenses for the years then ended. Actual results may differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of amounts held in highly liquid securities with maturities less than three months at the time of purchase are stated at cost, which approximates fair value.

CONCENTRATION OF CREDIT RISK

The Synod occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (“*ASC*”) 825, “*Financial Instruments*”, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

INVESTMENTS

Investments are stated at market value with gains and losses, both realized and unrealized included in the statement of activities. The fair value of investments traded on a securities exchange is determined based on quoted market prices for those investments.

PROMISES TO GIVE

Contributions are recognized when the donor makes a promise to give to the Synod that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor-imposed restrictions, if the restrictions expire in the fiscal year in which the contributions are recognized. All other contribution with donor-imposed restrictions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with restrictions are re-classified to net assets without restrictions and reported in the statement of activities and changes in net assets as “*net assets released from restrictions.*”

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing Program Services and Supporting Services have been summarized on a functional basis in footnote 6. Accordingly, certain costs have been allocated among Program Services and Supporting Services as follows:

Program Services – Certain expenses are charged to Program Services that benefit directly from the expenditure. Salaries, employee benefits, and payroll taxes directly related to programs are charged to Program Services. Office and occupancy expenses are allocated based on square footage of the Synod's facility. All other program costs are allocated to the programs based on a predetermined percentage.

Supporting Services – These expenses comprise general and administrative expenses attributable to the general operations of the Synod. These expenses also included fundraising costs incurred to generate contributions for the Synod.

REAL ESTATE

Real estate held consists of property of active congregations acquired by the Synod and is recorded at cost.

LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Equipment and furniture are carried at cost. Depreciation is provided on a straight-line basis over their useful lives, which is 3-7 years. Leasehold improvements are carried at cost and amortization of such costs is provided over the term of the lease. Depreciation expense for the years ended January 31, 2020 and 2019 was \$1,161 and \$2,578, respectively.

NET ASSETS

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

Net assets without donor restrictions include the following:

- ◆ ***Operations*** – Undesignated net assets include the revenues and expenses associated with the principal mission.
- ◆ ***Designated for Fund for Mission*** – The Fund for Mission shall serve as a vehicle for providing financial support for specific mission initiatives and strategies of the Synod, in its efforts to equip the saints and congregations for the work of ministry for building up of the body of Christ.

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

- ◆ **Designated for Forward Together in Faith** – The vision encompasses:
 - ◆ **Equipping** our congregations' lay and rostered leaders for innovative risk-taking to reach out beyond their walls and making the Congregational Assessment Tool (CAT) available to all who want it.
 - ◆ **Innovating** the birth of new ministries through the Synod and through congregations listening to their neighborhoods.
 - ◆ **Communicating** our stories more effectively by improving Synod technologies that link congregational leaders and equipping congregations in social media, web and electronic communications.
 - ◆ **Networking** lay and rostered leaders in new ways, using results of the CAT and by supporting local initiatives to partner with church and community groups.
- ◆ **Designated for St. Michael's Germantown Cemetery** – for perpetual care of St. Michael's Germantown Cemetery.
- ◆ **Designated for St. John's Quakertown Cemetery Restoration Fund** – for perpetual care of St. John's Quakertown Cemetery.
- ◆ **Designated for Other** – includes various other designations by Synod Council.

Net assets with donor restrictions include gifts for which donor-imposed restrictions have not been met. Also included in this category are gifts which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. In conjunction with net asset held in perpetuity, accumulated net gains on long-term investments from such net assets includes a time restriction which can be designated for use in future periods.

REVENUE AND REVENUE RECOGNITION

The Synod recognizes revenue from registration fees at the time of the event. The Synod recognizes contributions when cash, securities or assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

TAX-EXEMPT STATUS

The Internal Revenue Service ("**IRS**") has determined the Synod to be an "association of churches" and, therefore, exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The IRS has further determined that contributions made to the Synod are deductible by the donors to the extent allowed by law.

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

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

RECLASSIFICATION

Certain account balances in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. This ASU was adopted by the Synod for the year ended January 31, 2020 and did not have a material effect on the statement of financial position or results of operations.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. This ASU was adopted by the Synod for the year ended January 31, 2020 and did not have a material effect on the statement of financial position or results of operations.

(2) INVESTMENTS

Investments at January 31 were as follows:

	2019		2018	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Short-Term Investments				
Savings and Certificates	\$ 392,153	\$ 392,153	\$ 391,708	\$ 391,708
Mutual Funds – Money Market	<u>53,199</u>	<u>53,199</u>	<u>2,519</u>	<u>2,519</u>
Total Short-Term Investments	<u>445,352</u>	<u>445,352</u>	<u>394,227</u>	<u>394,227</u>
Long-Term Investments				
Mission Development Certificates – ELCA	300,000	300,000	300,000	300,000
Pooled Funds – ELCA Endowment	178,394	189,603	-	-
Mutual Funds – Equity	<u>4,385,896</u>	<u>5,264,398</u>	<u>2,525,929</u>	<u>2,902,975</u>
Total Long-Term Investments	<u>4,864,290</u>	<u>5,754,001</u>	<u>2,825,929</u>	<u>3,202,975</u>
Total – Pooled Investment Funds	<u>\$ 5,309,642</u>	<u>\$ 6,199,353</u>	<u>\$ 3,220,156</u>	<u>\$ 3,597,202</u>

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

Equity in Pooled

Investment Funds is allocated as follows:

Without donor restrictions	\$ 4,680,440	\$ 2,274,929
With donor restrictions	<u>1,518,913</u>	<u>1,322,273</u>
	<u>\$ 6,199,353</u>	<u>\$ 3,597,202</u>

At January 31, 2020 and 2019, gross unrealized gains on investments were \$889,711 and \$377,046, respectively.

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 at the measurement date for identical assets and/or liabilities. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.

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 – Assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints.

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, 2020 are as follows:

	2020				
	Total	Level 1 Quoted Prices	Level 2 Other Significant Inputs	Level 3 Significant Unobservable Inputs	Net Asset Value
Savings, Certificates and Loans	\$ 392,153	\$ 392,153	\$ -	\$ -	\$ -
Mission Development Certificates	300,000	300,000	-	-	-
Pooled Funds	189,603	-	-	-	189,603
Mutual Funds – Money Market	53,199	53,199	-	-	-
Mutual Funds - Equity	<u>5,264,398</u>	<u>5,264,398</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,199,353</u>	<u>\$ 6,009,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 189,603</u>
Beneficial interest in perpetual Trusts	<u>\$ 2,461,739</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,461,739</u>	<u>\$ -</u>

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

The summary of inputs used to value the Synod's investments as of January 31, 2019 are as follows:

	2019				
	Total	Level 1 Quoted Prices	Level 2 Other Significant Inputs	Level 3 Significant Unobservable Inputs	Net Asset Value
Savings, Certificates and Loans	\$ 391,708	\$ 391,708	\$ -	\$ -	\$ -
Mission Development Certificates	300,000	300,000	-	-	-
Mutual Funds – Money Market	2,519	2,519	-	-	-
Mutual Funds - Equity	<u>2,902,975</u>	<u>2,902,975</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>\$3,597,202</u></u>	<u><u>\$3,597,202</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Beneficial interest in perpetual Trusts	<u><u>\$ 1,337,190</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,337,190</u></u>	<u><u>\$ -</u></u>

There were no transfers between Level 1 and Level 2 during the years ended January 31, 2020 and 2019

The changes in the beneficial interest in perpetual trusts measured at fair value for which the Synod used Level 3 inputs to determine fair value are as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 1,337,190	\$ 1,388,993
Contributions	998,282	-
Realized/unrealized gains (losses) – net/change in valuation	<u>126,267</u>	<u>(51,803)</u>
Ending balance	<u><u>\$ 2,461,739</u></u>	<u><u>\$ 1,337,190</u></u>

The beneficial interest in perpetual trusts is measured at the fair value of the underlying investments. Since the Synod does not have access to the underlying investments, the fair value measurement is Level 3.

(3) CONTRIBUTIONS RECEIVABLE

Contributions receivable are due as follows:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 38,470	\$ 112,488
Due in one to five years	<u>-</u>	<u>10,747</u>
Total contributions receivable	<u><u>\$ 38,470</u></u>	<u><u>\$ 123,235</u></u>

No allowance for uncollectible contributions receivable has been recorded at January 31, 2020 and 2019 based on management's estimate of collectability.

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

(4) NET ASSETS

Net assets with donor restrictions are available for the following purposes at January 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for a specific purpose:		
Urban Philadelphia Conference	\$ 5,868	\$ 5,578
Youth Ministry	20,821	20,821
Auxiliary Pastor	34,697	34,697
University/Incarnation Air Rights	106,549	106,549
Companion Synod Reserve	13,686	23,647
Candidacy Bequest	148,999	158,834
Resurrection Scholarships	7,000	7,000
World Hunger	16,486	17,736
Saints United – Inner City Ministries	49,887	49,887
St. John’s Quakertown – Cemetery Restoration	190,481	174,240
Other	<u>22,140</u>	<u>13,729</u>
Total subject to expenditure for a specific purpose:	<u>616,614</u>	<u>612,718</u>
Subject to the passage of time:		
Accumulated gains on endowment	11,209	-
Contributions Receivable – Forward Together in Faith	<u>38,470</u>	<u>123,235</u>
Total subject to the passage of time:	<u>49,679</u>	<u>123,235</u>
Perpetual in nature:		
Beneficial interest in perpetual trust	2,461,739	1,337,190
St. John’s Quakertown Cemetery Restoration	178,394	-
Investment in perpetuity	<u>712,696</u>	<u>709,555</u>
Total perpetual in nature:	<u>3,352,829</u>	<u>2,046,745</u>
	<u>\$4,019,122</u>	<u>\$2,782,698</u>

Income generated on the investment in perpetuity is separated into income reinvested in perpetuity, income remitted to beneficiary agencies and income which is expendable to support any activities of the Synod.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes. Total net assets used in various synodical programs totaled \$195,565 for the year ended January 31, 2020.

As of January 31, 2020, the Synod held title to two churches which have closed, the value of which is not included in the net assets of the Synod. One of the two churches, St. John’s Ambler, is under an agreement of sale.

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

The Synod classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as net assets with donor restrictions. Interest and dividend income earned on such gifts is classified as without donor restriction except for those endowment gifts for which the donor has designated the income to be reinvested in perpetuity or to be remitted to beneficiary agencies. Cumulative net unrealized gains on net assets with donor restrictions - perpetual endowment funds are classified as net assets with donor restrictions – time/purpose since the Synod has not adopted a total return investment policy in accordance with Commonwealth of Pennsylvania law.

Changes in endowment net assets for the year ended January 31, 2020 and 2019:

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 31, 2019	\$ -	\$ 709,555	\$ 709,555
Contributions	-	178,394	178,394
Investment income, net	-	16,639	16,639
Endowment income designated for current operations	-	(2,289)	(2,289)
Endowment net assets, January 31, 2020	<u>\$ -</u>	<u>\$ 902,299</u>	<u>\$ 902,299</u>

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 31, 2018	\$ -	\$ 706,139	\$ 706,139
Investment income, net	-	3,416	3,416
Endowment net assets, January 31, 2019	<u>\$ -</u>	<u>\$ 709,555</u>	<u>\$ 709,555</u>

**SOUTHEASTERN PENNSYLVANIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

(5) EXPENSES BY NATURE AND FUNCTION

	Program Activities						Program Activities Subtotal
	Youth And Young Adult Ministries	ELCA Proportionate	Ministry And Agency Support	Global	Candidacy And Deans	Missions	
Salaries & Benefits	\$ 93,496	\$ -	\$ -	\$ 4,921	\$ 112,868	\$ 78,650	\$ 289,935
Distributions to agencies	-	858,269	152,656	-	-	-	1,010,925
Ecumenical distributions	-	-	54,727	-	-	-	54,727
ELCA grant distributions	-	-	25,950	-	-	-	25,950
Forward Together grants	-	-	28,095	-	-	-	28,095
Trust Fund distributions	-	-	65,246	-	-	-	65,246
Grants to organizations	-	-	19,999	1,000	-	-	20,999
Supplies & Travel	7,451	-	-	6,278	9,963	9,213	32,905
Services & Professional	-	-	-	-	9,908	-	9,908
Office & Occupancy	8,964	-	-	-	4,482	8,964	22,410
Events	66,544	-	-	-	1,591	-	68,135
Maintenance expenses for closed churches	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-
Total Expenses	\$ 176,455	\$ 858,269	\$ 346,673	\$ 12,199	\$ 138,812	\$ 96,827	\$ 1,629,235

	Supporting Activities				2019 Total Expenses
	Management And General	Fund- Raising	Supporting Activities Subtotal	2020 Total Expenses	
Salaries & Benefits	\$ 569,297	\$ 14,239	\$ 583,536	\$ 873,471	\$ 899,641
Distributions to agencies	-	-	-	1,010,925	1,051,161
Ecumenical distributions	-	-	-	54,727	7,900
ELCA distributions	-	-	-	25,950	31,412
Forward Together grants	-	-	-	28,095	24,500
Trust Fund distributions	-	-	-	65,246	63,212
Grants to organizations	-	-	-	20,999	27,240
Supplies & Travel	75,716	-	75,716	108,621	114,575
Services & Professional	92,608	-	92,608	102,516	121,789
Office & Occupancy	62,743	4,482	67,225	89,635	89,592
Events	130,015	20,682	150,697	218,832	183,830
Depreciation	1,161	-	1,161	1,161	2,578
Total Expenses	\$ 931,540	\$ 39,403	\$ 970,943	\$ 2,600,178	\$ 2,617,430

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

(6) PENSIONS

The Synod participates in pension plans administered by Portico Benefit Services of the ELCA for all eligible employees. Contributions made on behalf of such employees are accumulated in separate accounts and, upon retirement, pension benefits are provided based on the balance in the separate account of the participant. The Synod's policy is to fund all pension costs on a current basis. Contributions to the pension plan for the years ended January 31, 2020 and 2019 were \$64,588 and \$62,815, respectively.

(7) LEASE COMMITMENTS

The Synod entered into a lease agreement on May 15, 2008 with Lutheran Theological Seminary at Philadelphia (the "***Seminary***") to occupy space in the basement of the Chapel on the Seminary's campus. In connection with the lease agreement, the Synod would contribute \$1.5 million to cover one-half the cost of renovating the area for the Synod's use to be borrowed from the Synod's Fund for Mission. This payment would constitute payment of rent in advance for a term of 17 years. On January 15, 2009, this agreement was amended due to the economic conditions delaying the raising of necessary funds by the Seminary to complete the project, which was postponed. As of January 31, 2009, the Synod had advanced \$696,061 of prepaid rent to the Seminary to be expensed over the term of the original lease. Effective June 30, 2013 the rental agreement was extended to December 31, 2018 and the monthly rent reduced. Beginning January 1, 2019, the Synod is now paying cash rent of \$4,642 on a month-to-month basis.

(8) REAL ESTATE SALES

In connection with the sale of properties, the Synod records the net proceeds as follows: 15% to the general operating budget, reimbursement for the Synod's expenses related to the church properties under management is deducted from the net proceeds and the remaining net proceeds, if any, to the Fund for Mission.

During the year ended January 31, 2020, Immanuel Evangelical Lutheran Church of Burholme, was sold for a net sales price, after closing costs, of \$978,314, which was transferred to the Synod, of which \$649,237 was recorded in the Fund for Mission and the remainder in operations for the 15% share the general operating budget and as reimbursement for expenses incurred in managing the various church properties.

During the year ended January 31, 2020, St. Michael's, Germantown, was sold for a net sales price, after closing costs, of \$514,976, which was transferred to the Synod, of which \$129,650 was recorded in the Fund for Mission, \$250,000 was recorded in the St. Michael's Germantown – Cemetery Fund, and the remainder in operations for the 15% share the general operating budget and as reimbursement for expenses incurred in managing the various church properties.

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

During the year ended January 31, 2020, Prince of Peace Lutheran Church of Plymouth Township, was sold for a net sales price, after closing costs, of \$939,987, which was transferred to the Synod, of which \$718,699 was recorded in the Fund for Mission and the remainder in operations for the 15% share the general operating budget and as reimbursement for expenses incurred in managing the various church properties.

During the year ended January 31, 2020, St. Petri-Hope Evangelical Lutheran Church, Philadelphia, was sold for a net sales price, after closing costs, of \$510,620, which was transferred to the Synod, of which \$421,010 was recorded in the Fund for Mission and the remainder in operations for the 15% share the general operating budget and as reimbursement for expenses incurred in managing the various church properties.

During the year ended January 31, 2020, Evangelical Lutheran Church of The Good Shepherd, Philadelphia, was sold for a net sales price, after closing costs, of \$594,893, which was transferred to the Synod, of which \$494,428 was recorded in the Fund for Mission and the remainder in operations for the 15% share the general operating budget and as reimbursement for expenses incurred in managing the various church properties.

During the year ended January 31, 2020, St. John's, Quakertown, was sold for a net sales price, after closing costs, of \$742,156, which was transferred to the Synod, of which \$405,916 was recorded in the Fund for Mission, \$200,000 was recorded in the St. John's Quakertown – Cemetery Restoration Fund, and the remainder in operations for the 15% share the general operating budget and as reimbursement for expenses incurred in managing the various church properties.

During the year ended January 31, 2019, no real estate transactions occurred.

(9) RESTATEMENT

During the year ended January 31, 2020, the Synod determined they should record a beneficial interest in a perpetual trust naming them as the beneficiary. As such, the Synod restated its opening net assets as of January 31, 2018.

The cumulative effect of restating the 2019 beginning net asset balances was as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Retriction</u>	<u>Total</u>
Net assets, January 31, 2018 as previously reported	\$3,663,376	\$1,255,733	\$ 4,919,109
Effect of recording beneficial interest	<u>-</u>	<u>1,388,993</u>	<u>1,388,993</u>
Net assets, January 31, 2018, as restated	<u>\$3,663,376</u>	<u>\$2,644,726</u>	<u>\$ 6,308,102</u>

The effect of these restatements on the 2019 financial statements was to decrease net assets with donor restrictions by \$51,803.

SOUTHEASTERN PENNSYLVANIA SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS – (Continued)

January 31, 2020 And 2019

(10) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects the Synod's financial assets as of January 31, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual and/or donor restrictions. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions and assets designated by the Synod Council.

Financial Assets	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,207,976	\$ 37,130
Investments	6,199,353	3,597,202
Receivable for property sales	756,983	-
Contributions receivable	<u>38,470</u>	<u>123,235</u>
Total financial assets	8,202,782	3,757,567
Less:		
Designated by the Synod Council	(5,965,499)	(2,412,117)
Net assets with donor restrictions	<u>(1,557,383)</u>	<u>(1,445,508)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 679,990</u>	<u>\$ (100,058)</u>

The Synod strives to maintain liquid financial assets to be available as its general expenditures, liabilities and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds, mission development certificates, and savings accounts. The Synod can spend from the designated funds with the approval of the Synod Council.

(11) SUBSEQUENT EVENTS

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The ultimate impact of COVID-19 on the financial performance of the Synod's investments and operations is not reasonably estimable at this time.

Management has evaluated subsequent events through May 7, 2020 the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

**SOUTHEASTERN PENNSYLVANIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

**RECEIPTS AND DISBURSEMENTS –
OPERATING, DESIGNATED AND DONOR RESTRICTED NET ASSETS**

Year Ended January 31, 2020

	Balance January 31, 2019	Including Interfund Transfers Receipts Disbursements	Balance January 31, 2020
Undesignated			
General operating	<u>\$ (223,830)</u>	<u>\$ 3,171,586</u>	<u>\$ 2,362,058</u>
Designated net assets			
Fund for Mission	<u>\$1,997,922</u>	<u>\$ 3,258,927</u>	<u>\$ 259,008</u>
Forward Together in Faith	<u>394,287</u>	<u>122,653</u>	<u>28,121</u>
St. Michael's Germantown - Cemetery	<u>-</u>	<u>261,566</u>	<u>2,635</u>
St. John's Quakertown Fund	<u>-</u>	<u>200,000</u>	<u>-</u>
Other			
Educational Ministry	4,479	-	-
Salary Sustentation	7,458	-	-
Youth Ministry	7,891	-	-
Other	<u>80</u>	<u>-</u>	<u>-</u>
Total other	<u>19,908</u>	<u>-</u>	<u>-</u>
Total designated net assets	<u>\$2,412,117</u>	<u>\$ 3,843,146</u>	<u>\$ 289,764</u>
Net Assets with donor restrictions			
Urban Philadelphia Conference	\$ 5,578	\$ 2,535	\$ 2,245
Youth Ministry	20,821	-	-
Auxiliary Pastor	34,697	-	-
University/Incarnation Air Rights Fund	106,549	5,734	5,734
Comp Synod Reserve	23,647	10,904	20,865
Candidacy Bequest	158,834	-	9,835
Pledges Receivable – Forward Together in Faith	123,235	-	84,765
Resurrection Scholarships	7,000	-	-
World Hunger	17,736	-	1,250
Saints United – Inner City Ministries	49,887	-	-
St. John's Quakertown	174,240	20,917	4,676
St. John's Cemetery Perpetual Care Fund	-	189,603	-
Other	<u>13,729</u>	<u>9,361</u>	<u>950</u>
Total net assets			
With donor restrictions*	<u>\$ 735,953</u>	<u>\$ 239,054</u>	<u>\$ 130,320</u>

* Excludes Investment in Perpetuity of \$712,696 and \$709,555 as of January 31, 2020 and 2019, respectively and Beneficial Interest in Perpetual Trusts of \$2,461,739 and \$1,337,190 as of January 31, 2020 and 2019, respectively.

**SOUTHEASTERN PENNSYLVANIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

RECEIPTS AND DISBURSEMENTS – SALE OF CHURCH PROPERTIES

Years Ended January 31, 2020 And 2019

	January 31, 2020	January 31, 2019	Total
Proceeds from Sale of Church Property			
Immanuel Evangelical Lutheran Church of Burholme	\$ 978,314	\$ -	\$ 978,314
St. Michael's, Germantown	514,976	-	514,976
Prince of Peace Lutheran Church of Plymouth Township	939,987	-	939,987
St. Petri-Hope Evangelical Lutheran Church, Philadelphia	510,620	-	510,620
Evangelical Lutheran Church of The Good Shepherd	594,893	-	594,893
St. John, Quakertown	<u>742,156</u>	<u>-</u>	<u>742,156</u>
Total Proceeds	<u>4,280,946</u>	<u>-</u>	<u>4,280,946</u>
Reimbursement of Property Management Expenses			
for closed churches	(369,865)	-	(369,865)
Operating Income for the Synod	(642,142)	-	(642,142)
Transfer to St. John's Quakertown Fund	(200,000)	-	(200,000)
Transfer to St. Michael's, Germantown Cemetery Fund	(250,000)	-	(250,000)
Transfer to Fund for Mission	<u>(2,818,939)</u>	<u>-</u>	<u>(2,818,939)</u>
Total Disbursements	<u>(4,280,946)</u>	<u>-</u>	<u>(4,280,946)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>