

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

**FINANCIAL STATEMENTS**

**YEARS ENDED JANUARY 31, 2020 AND 2019**

**AND**

**INDEPENDENT AUDITORS' REPORT**

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <b>Independent Auditors' Report</b>                | 1           |
| <b>Financial Statements</b>                        |             |
| Statements of Financial Position                   | 3           |
| Statements of Activities and Changes in Net Assets | 5           |
| Statements of Functional Expenses                  | 7           |
| Statements of Cash Flows                           | 9           |
| Notes to Financial Statements                      | 10          |

# FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

## 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 (the "Synod") (a nonprofit organization), which comprise the statements of financial position as of January 31, 2020 and 2019, 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.

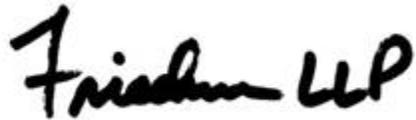
(Continued)

**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 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Emphasis-of-Matter**

As discussed in Note 16 to the financial statements, the Organization's operations may be affected by the recent and ongoing outbreak of the coronavirus disease (COVID-19), which in March 2020, was declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain. Our opinion is not modified with respect to this matter.



April 17, 2020

**NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

**STATEMENT OF FINANCIAL POSITION**

**JANUARY 31, 2020**

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|--|-------------------------------|----------------------------|----------------------|
| <b>ASSETS</b>                                      |                               |                            |                      |
| <b>Current assets</b>                              |                               |                            |                      |
| Cash and cash equivalents                          | \$ 2,195,937                  | \$ 1,318,612               | \$ 3,514,549         |
| Investments  | 341,060                       |                            | 341,060              |
| Grant receivable                                   | 80,460                        | -                          | 80,460               |
| Accounts receivable                                | 13,062                        | -                          | 13,062               |
| Loans receivable, current                          | 44,427                        | -                          | 44,427               |
| Prepaid expenses                                   | 14,797                        | -                          | 14,797               |
| <b>Total current assets</b>                        | <b>2,689,743</b>              | <b>1,318,612</b>           | <b>4,008,355</b>     |
| <b>Noncurrent assets</b>                           |                               |                            |                      |
| Restricted cash                                    | 107,268                       |                            | 107,268              |
| Certificates of deposit                            | -                             | 1,136,221                  | 1,136,221            |
| Investments  | 3,964,316                     | 817,844                    | 4,782,160            |
| 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                                       | 12,827                        | -                          | 12,827               |
| <b>Total noncurrent assets</b>                     | <b>8,715,836</b>              | <b>1,954,065</b>           | <b>10,669,901</b>    |
| <b>Total assets</b>                                | <b>\$ 11,405,579</b>          | <b>\$ 3,272,677</b>        | <b>\$ 14,678,256</b> |
| <b>LIABILITIES AND NET ASSETS</b>                  |                               |                            |                      |
| <b>Current liabilities</b>                         |                               |                            |                      |
| Accrued expenses and other liabilities             | \$ 24,003                     | \$ -                       | \$ 24,003            |
| Grants payable                                     | 54,442                        | -                          | 54,442               |
| Environmental remediation obligation               | 246,250                       | -                          | 246,250              |
| <b>Total current liabilities</b>                   | <b>324,695</b>                | <b>-</b>                   | <b>324,695</b>       |
| Commitments and contingencies                      |                               |                            |                      |
| <b>Net assets</b>                                  |                               |                            |                      |
| Without donor restrictions                         |                               |                            |                      |
| Undesignated                                       | 2,425,157                     | -                          | 2,425,157            |
| Board 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    | 2,487,147                     | -                          | 2,487,147            |
| <b>Total net assets without donor restrictions</b> | <b>11,080,884</b>             | <b>-</b>                   | <b>11,080,884</b>    |
| With donor restrictions                            |                               |                            |                      |
| Purpose restricted                                 | -                             | 788,103                    | 788,103              |
| Purpose restricted - endowments                    | -                             | 2,008,007                  | 2,008,007            |
| Perpetual in nature - endowments                   | -                             | 476,567                    | 476,567              |
| <b>Total net assets with donor restrictions</b>    | <b>-</b>                      | <b>3,272,677</b>           | <b>3,272,677</b>     |
| <b>Total net assets</b>                            | <b>11,080,884</b>             | <b>3,272,677</b>           | <b>14,353,561</b>    |
| <b>Total liabilities and net assets</b>            | <b>\$ 11,405,579</b>          | <b>\$ 3,272,677</b>        | <b>\$ 14,678,256</b> |

See notes to financial statements.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF FINANCIAL POSITION

JANUARY 31, 2019

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
|---|-------------------------------|----------------------------|---------------|
| <b>ASSETS</b>                                   |                               |                            |               |
| <b>Current assets</b>                           |                               |                            |               |
| Cash and cash equivalents                       | \$ 1,759,955                  | \$ 568,318                 | \$ 2,328,273  |
| Investments                                     | 403,735                       | -                          | 403,735       |
| Accounts receivable                             | 1,974                         | -                          | 1,974         |
| Loans receivable, current                       | 35,613                        | -                          | 35,613        |
| Mortgages receivable, current                   | 86,842                        | -                          | 86,842        |
| Prepaid expenses                                | 56,310                        | -                          | 56,310        |
| Total current assets                            | 2,344,429                     | 568,318                    | 2,912,747     |
| <b>Noncurrent assets</b>                        |                               |                            |               |
| Restricted cash                                 | 107,144                       | -                          | 107,144       |
| Certificates of deposit                         | -                             | 747,126                    | 747,126       |
| Investments                                     | 2,906,535                     | 1,841,807                  | 4,748,342     |
| Loans receivable, net of current portion        | 343,316                       | -                          | 343,316       |
| Mortgages receivable, net of current portion    | 55,568                        | -                          | 55,568        |
| Synod house property and equipment, net         | 433,559                       | -                          | 433,559       |
| Land and property held by the Synod             | 2,045,649                     | -                          | 2,045,649     |
| Equity in Cross Roads Outdoor Ministries        | 1,764,379                     | -                          | 1,764,379     |
| Other assets                                    | 12,238                        | -                          | 12,238        |
| Total noncurrent assets                         | 7,668,388                     | 2,588,933                  | 10,257,321    |
| Total assets                                    | \$ 10,012,817                 | \$ 3,157,251               | \$ 13,170,068 |
| <b>LIABILITIES AND NET ASSETS</b>               |                               |                            |               |
| <b>Current liabilities</b>                      |                               |                            |               |
| Accrued expenses and other liabilities          | \$ 598                        | \$ -                       | \$ 598        |
| Grants payable                                  | 56,720                        | -                          | 56,720        |
| Environmental remediation obligation            | 281,637                       | -                          | 281,637       |
| Total current liabilities                       | 338,955                       | -                          | 338,955       |
| <b>Noncurrent liabilities</b>                   |                               |                            |               |
| Total liabilities                               | 338,955                       | -                          | 338,955       |
| Commitments and contingencies                   |                               |                            |               |
| <b>Net assets</b>                               |                               |                            |               |
| Without donor restrictions                      |                               |                            |               |
| Undesignated                                    | 1,590,025                     | -                          | 1,590,025     |
| Board designated - endowments                   | 3,840,250                     | -                          | 3,840,250     |
| Cross Roads Outdoor Ministries                  | 1,764,379                     | -                          | 1,764,379     |
| Net investment in property, plant and equipment | 2,479,208                     | -                          | 2,479,208     |
| Total net assets without donor restrictions     | 9,673,862                     | -                          | 9,673,862     |
| With donor restrictions                         |                               |                            |               |
| Purpose restricted                              | -                             | 787,579                    | 787,579       |
| Purpose restricted - endowments                 | -                             | 1,893,105                  | 1,893,105     |
| Perpetual in nature - endowments                | -                             | 476,567                    | 476,567       |
| Total net assets with donor restrictions        | -                             | 3,157,251                  | 3,157,251     |
| Total net assets                                | 9,673,862                     | 3,157,251                  | 12,831,113    |
| Total liabilities and net assets                | \$ 10,012,817                 | \$ 3,157,251               | \$ 13,170,068 |

**NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**YEAR ENDED JANUARY 31, 2020**

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total        |
|--|-------------------------------|----------------------------|--------------|
| <b>Revenues, gains and other support</b>                 |                               |                            |              |
| 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      |
| Realized gains on investments                            | 371,206                       | 147,963                    | 519,169      |
| Unrealized gain on investments                           | 61,116                        | 24,360                     | 85,476       |
| Gain from sale of distressed church properties           | 1,783,473                     | -                          | 1,783,473    |
| Assembly income  | 63,304                        | -                          | 63,304       |
| Donor restricted net assets<br>released from restriction | 133,868                       | (133,868)                  | -            |
| Total revenues, gains and other support                  | 6,487,400                     | 115,426                    | 6,602,826    |
| <b>Expenses</b>  |                               |                            |              |
| 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                                       | 1,589,900                     | -                          | 1,589,900    |
| Total program services                                   | 4,675,604                     | -                          | 4,675,604    |
| Supporting services                                      |                               |                            |              |
| Oversight of the Mission Plan                            | 424,865                       | -                          | 424,865      |
| Total supporting services                                | 424,865                       | -                          | 424,865      |
| Total expenses before other gains (losses)               | 5,100,469                     | -                          | 5,100,469    |
| <b>Other gains (losses)</b>                              |                               |                            |              |
| Bad debt expense   | (8,271)                       |                            | (8,271)      |
| Equity share of gains - Cross Roads Outdoor Ministries   | 28,362                        | -                          | 28,362       |
| Total other gains  | 20,091                        | -                          | 20,091       |
| <b>Changes in net assets</b>                             | 1,407,022                     | 115,426                    | 1,522,448    |
| Net assets, beginning of year                            | 9,673,862                     | 3,157,251                  | 12,831,113   |
| <b>Net assets, end of year</b>                           | 11,080,884                    | 3,272,677                  | 14,353,561   |

See notes to financial statements.

**NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**YEAR ENDED JANUARY 31, 2019**

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total             |
|--|-------------------------------|----------------------------|-------------------|
| <b>Revenues, gains and other support</b>                 |                               |                            |                   |
| Support from congregations                               | \$ 1,852,646                  | \$ -                       | \$ 1,852,646      |
| Other contributions and gifts                            | 1,258,055                     | 45,496                     | 1,303,551         |
| Grant revenue  | 164,744                       | -                          | 164,744           |
| Rental income  | 42,000                        | -                          | 42,000            |
| Investment income, net                                   | 82,029                        | 28,427                     | 110,456           |
| Realized gains on investments                            | 124,329                       | 47,396                     | 171,725           |
| Unrealized losses on investments                         | (288,135)                     | (111,758)                  | (399,893)         |
| Gain from sale of distressed church property             | 1,165,297                     | -                          | 1,165,297         |
| Assembly income  | 49,776                        | -                          | 49,776            |
| Donor restricted net assets<br>released from restriction | 170,029                       | (170,029)                  | -                 |
| <b>Total revenues, gains and other support</b>           | <b>4,620,770</b>              | <b>(160,468)</b>           | <b>4,460,302</b>  |
| <b>Expenses</b>  |                               |                            |                   |
| Program services - Synod                                 |                               |                            |                   |
| Churchwide and Ministry Partners                         | 1,071,973                     | -                          | 1,071,973         |
| Strengthening Congregations                              | 307,180                       | -                          | 307,180           |
| Outreach Supporting Congregations                        | 156,192                       | -                          | 156,192           |
| Office of the Bishop                                     | 309,680                       | -                          | 309,680           |
| Program services - Partners in Ministry                  |                               |                            |                   |
| Designated Support                                       | 1,473,721                     | -                          | 1,473,721         |
| Mission Ministries                                       | 538,425                       | -                          | 538,425           |
| <b>Total program services</b>                            | <b>3,857,171</b>              | <b>-</b>                   | <b>3,857,171</b>  |
| Supporting services                                      |                               |                            |                   |
| Oversight of the Mission Plan                            | 404,761                       | -                          | 404,761           |
| <b>Total supporting services</b>                         | <b>404,761</b>                | <b>-</b>                   | <b>404,761</b>    |
| <b>Total expenses before other gains (losses)</b>        | <b>4,261,932</b>              | <b>-</b>                   | <b>4,261,932</b>  |
| <b>Other gains (losses)</b>                              |                               |                            |                   |
| Equity share of losses - Cross Roads Outdoor Ministries  | (3,913)                       | -                          | (3,913)           |
| Environmental remediation recoveries                     | 8,917                         | -                          | 8,917             |
| Forgiveness of debt                                      | (7,955)                       | -                          | (7,955)           |
| <b>Total other gains (losses)</b>                        | <b>(2,951)</b>                | <b>-</b>                   | <b>(2,951)</b>    |
| <b>Changes in net assets</b>                             | <b>355,887</b>                | <b>(160,468)</b>           | <b>195,419</b>    |
| Net assets, beginning of year                            | 9,317,975                     | 3,317,719                  | 12,635,694        |
| <b>Net assets, end of year</b>                           | <b>9,673,862</b>              | <b>3,157,251</b>           | <b>12,831,113</b> |

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JANUARY 31, 2020

|  | Program Services - Synod            |                                |                                      |                      | Program Services -<br>Partners in Ministry |                       | Total Program<br>Services | Supporting Services              | Total Expenses      |
|--|-------------------------------------|--------------------------------|--------------------------------------|----------------------|--|-----------------------|---------------------------|----------------------------------|---------------------|
|  | Churchwide and<br>Ministry Partners | Strengthening<br>Congregations | Outreach Supporting<br>Congregations | Office of the Bishop | Designated<br>Support                      | Mission<br>Ministries |                           | Oversight of the<br>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               |
| Congregation support                             | -                                   | -                              | 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 distributio                | -                                   | -                              | -                                    | -                    | -  | 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              |
| <b>Total expenses</b>                            | <b>\$ 1,053,412</b>                 | <b>\$ 331,311</b>              | <b>\$ 30,310</b>                     | <b>\$ 333,694</b>    | <b>\$ 1,336,977</b>                        | <b>\$ 1,589,900</b>   | <b>\$ 4,675,604</b>       | <b>\$ 424,865</b>                | <b>\$ 5,100,469</b> |

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JANUARY 31, 2019

|  | Program Services - Synod            |                                |                                      |                      | Program Services -<br>Partners in Ministry |                       | Total Program<br>Services | Supporting Services              | Total Expenses      |
|--|-------------------------------------|--------------------------------|--------------------------------------|----------------------|--|-----------------------|---------------------------|----------------------------------|---------------------|
|  | Churchwide and<br>Ministry Partners | Strengthening<br>Congregations | Outreach Supporting<br>Congregations | Office of the Bishop | Designated<br>Support                      | Mission<br>Ministries |                           | Oversight of the<br>Mission Plan |                     |
| Salaries and benefits                            | \$ -                                | \$ 279,705                     | \$ -                                 | \$ 237,164           | \$ -                                       | \$ -                  | \$ 516,869                | \$ 93,190                        | \$ 610,059          |
| Contributions to ELCA                            | 926,323                             | -                              | -                                    | -                    | -  | -                     | 926,323                   | -                                | 926,323             |
| ULS expenses                                     | 90,000                              | -                              | -                                    | -                    | -  | -                     | 90,000                    | -                                | 90,000              |
| Crossroads ministry support contributions        | 20,000                              | -                              | -                                    | -                    | -  | -                     | 20,000                    | -                                | 20,000              |
| LEAMNJ support contributions                     | 20,000                              | -                              | -                                    | -                    | -  | -                     | 20,000                    | -                                | 20,000              |
| Miscellaneous program expenses                   | 15,650                              | 18,826                         | -                                    | 19,205               | -  | -                     | 53,681                    | -                                | 53,681              |
| Communication expense                            | -                                   | 8,649                          | -                                    | -                    | -  | -                     | 8,649                     | -                                | 8,649               |
| Congregation support                             | -                                   | -                              | 156,192                              | -                    | -  | -                     | 156,192                   | -                                | 156,192             |
| Current year assembly expense                    | -                                   | -                              | -                                    | 53,311               | -  | -                     | 53,311                    | -                                | 53,311              |
| Fund Grants and disbursements                    | -                                   | -                              | -                                    | -                    | 1,473,721                                  | 83,925                | 1,557,646                 | -                                | 1,557,646           |
| Congregational Legacy distributor                | -                                   | -                              | -                                    | -                    | -  | 454,500               | 454,500                   | -                                | 454,500             |
| Staff travel expenses                            | -                                   | -                              | -                                    | -                    | -  | -                     | -                         | 6,327                            | 6,327               |
| Volunteers meeting and travel                    | -                                   | -                              | -                                    | -                    | -  | -                     | -                         | 19,891                           | 19,891              |
| Audit, legal and insurance                       | -                                   | -                              | -                                    | -                    | -  | -                     | -                         | 42,753                           | 42,753              |
| Property management                              | -                                   | -                              | -                                    | -                    | -  | -                     | -                         | 61,098                           | 61,098              |
| Supplies and utilities                           | -                                   | -                              | -                                    | -                    | -  | -                     | -                         | 35,640                           | 35,640              |
| Automobile                                       | -                                   | -                              | -                                    | -                    | -  | -                     | -                         | 15,000                           | 15,000              |
| External Church property maintenance and support | -                                   | -                              | -                                    | -                    | -  | -                     | -                         | 88,071                           | 88,071              |
| Depreciation                                     | -                                   | -                              | -                                    | -                    | -  | -                     | -                         | 42,791                           | 42,791              |
| <b>Total expenses</b>                            | <b>\$ 1,071,973</b>                 | <b>\$ 307,180</b>              | <b>\$ 156,192</b>                    | <b>\$ 309,680</b>    | <b>\$ 1,473,721</b>                        | <b>\$ 538,425</b>     | <b>\$ 3,857,171</b>       | <b>\$ 404,761</b>                | <b>\$ 4,261,932</b> |

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENTS OF CASH FLOWS

YEARS ENDED JANUARY 31, 2020 and 2019

|   | 2020                | 2019                |
|---|---------------------|---------------------|
| <b>Cash flows from operating activities</b>   |                     |                     |
| Changes in net assets   | \$ 1,522,448        | \$ 195,419          |
| Adjustments to reconcile changes in net assets to net cash used in operating activities     |                     |                     |
| Depreciation  |                     |                     |
| Synod house property and equipment  | 19,359              | 23,755              |
| Cross Roads Outdoor Ministries - Camp property improvements                                 | 19,036              | 19,036              |
| Gain from sale of distressed church properties  | (1,783,473)         | (1,165,297)         |
| Realized gains on investments   | (519,169)           | (171,725)           |
| Unrealized (gains) losses on investments  | (85,476)            | 399,893             |
| Equity share of (gains) losses - Cross Roads Outdoor Ministries                             | (28,362)            | 3,913               |
| Environmental remediation recoveries  | -                   | (8,917)             |
| Bad debt expense  | 8,271               | -                   |
| Forgiveness of debt   | -                   | 7,955               |
| Accrued interest on mortgage receivable   | (2,278)             | (2,761)             |
| Changes in assets and liabilities   |                     |                     |
| Grant receivable  | (80,460)            | -                   |
| Accounts receivable   | (11,088)            | 54,400              |
| Prepaid expenses  | 41,513              | (744)               |
| Other assets  | (589)               | (566)               |
| Accrued expenses and other liabilities  | 23,403              | (283)               |
| Grants payable  | -                   | 18,422              |
| Environmental remediation obligation  | (35,387)            | (131,475)           |
| Net cash used in operating activities   | (912,252)           | (758,975)           |
| <b>Cash flows from investing activities</b>   |                     |                     |
| Costs incurred to secure property (acquisition cost)  | (35,220)            | (28,872)            |
| Proceeds from sale of distressed church properties held by the Synod                        | 1,950,149           | 1,364,435           |
| Land and property held by the Synod - cost incurred for holding and improvement of property | (137,803)           | (82,337)            |
| Redemption of certificates of deposit   | 31,105              | 359,819             |
| Reinvestment of earnings on certificates of deposit   | (420,199)           | (56,068)            |
| Sale of investments   | 4,763,101           | 2,685,431           |
| Purchase of investments   | (4,129,600)         | (3,134,256)         |
| Purchase of vehicles  | (20,949)            | -                   |
| Loans issued to congregations   | (63,633)            | (20,000)            |
| Collections of loans receivable   | 74,859              | 48,264              |
| Collections of mortgages receivable   | 86,842              | -                   |
| Net cash provided by investing activities   | 2,098,652           | 1,136,416           |
| <b>Net increase in cash, cash equivalents and restricted cash</b>                           | <b>1,186,400</b>    | <b>377,441</b>      |
| Cash, cash equivalents and restricted cash, beginning of year                               | 2,435,417           | 2,057,976           |
| <b>Cash, cash equivalents and restricted cash, end of year</b>                              | <b>\$ 3,621,817</b> | <b>\$ 2,435,417</b> |
| <b>Supplemental cash flow disclosures</b>   |                     |                     |
| Non-cash investing activity   |                     |                     |
| Write-off of fully/partially depreciated assets   | \$ 39,422           | \$ -                |
| Schedule of cash, cash equivalents and restricted cash                                      |                     |                     |
| Without donor restrictions  |                     |                     |
| Cash and cash equivalents   | \$ 2,195,937        | \$ 1,759,955        |
| Restricted cash   | 107,268             | 107,144             |
| With donor restrictions   |                     |                     |
| Cash and cash equivalents   | 1,318,612           | 568,318             |
|   | <u>\$ 3,621,817</u> | <u>\$ 2,435,417</u> |

See notes to financial statements.

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

### 1 - NATURE OF ORGANIZATION

#### **Organization**

The New Jersey Synod of the Evangelical Lutheran Church in America, (the "Synod"), is one of sixty-five geographical synodical units of the Evangelical Lutheran Church in America (the "ELCA"). The Synod lies within Region 7 of the ELCA and is comprised of 160 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.

#### *Classes of 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 Board for use in the Synod's operations. These amounts also include Board-designated funds that have been segregated by the Board 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.

All contributions are considered available for unrestricted use, 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

### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Donor Restricted and Unrestricted Revenues and Support**

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities— Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). This ASU provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The Organization adopted ASU 2018-08 in 2019 on a modified prospective basis. The adoption of this ASU did not impact the financial statements.

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.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (“ASC 606”). The standard’s core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. The standard supersedes existing revenue recognition guidance. This standard was effective for annual reporting periods beginning after December 15, 2018. Effective February 1, 2019, the Organization adopted ASC 606 using the modified retrospective method. There was no cumulative effect of adopting ASC 606 to be recognized as an adjustment to opening net assets as of February 1, 2019. The initial application was applied to all contracts outstanding at February 1, 2019.

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are recognized at the point and time when the Organization and customer/buyer close on a final sales contract. The organization recognized revenue from contracts on sale of property in the amount of \$1,783,473 and \$1,165,297 for 2019 and 2018 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.

#### **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.

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Certificates of Deposit**

Certificates of deposit are carried at cost, which approximates their fair value. Certificates of deposit consisting of funds without donor restrictions are classified as a current asset in the accompanying statement of financial position. Certificates of deposit consisting of funds with donor restrictions are classified as a noncurrent asset in the accompanying statement of financial position. As of January 31, 2020, certificates of deposit interest rates range from 1.0% to 2.0% and maturity dates range from July 2, 2021 through March 31, 2026. As of January 31, 2019, certificates of deposit interest rates ranged from 1.0% - 2.5% and maturity dates ranged from February 21, 2019 through March 31, 2026.

#### **Investments**

Investments, including investments held for long-term purposes (with donor restrictions), 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.

GAAP defines fair value, provides guidance for measuring fair value, and requires certain disclosures, based on a fair value hierarchy. This fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs supported by little or no market activity and that require significant management judgment or estimation.

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

In 2020 and 2019, expenses relating to investment income, including custodial fees and investment advisory fees, amounted to \$56,002 and \$56,638, respectively. These fees are netted against investment income in the accompanying Statement of Activities and Changes in Net Assets for each respective year.

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **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 programs 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.

#### **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 January 31, 2020 was \$8,271. Management determined no allowance was necessary as of January 31, 2019.

#### **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.

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **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, 2020 or January 31, 2019. 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.

#### **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 ELCA, under the provisions of Section 501(c)(3) of the Internal Revenue Code.

#### **Subsequent Events**

These financial statements were approved by management and available for issuance on April 17, 2020. Management has evaluated subsequent events through this date. See Note 16.

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

### 3 - 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, 2020:

|  |              |
|--|--------------|
| Cash and cash equivalents  | \$ 3,514,549 |
| Restricted cash  | 107,268      |
| Certificates of deposit  | 1,136,221    |
| Investments  | 4,782,160    |
| Loans receivable, current  | 36,156       |
| Accounts receivable  | 13,062       |
| Grants receivable  | 80,460       |
| <hr/> Total financial assets available   | 9,669,876    |
| Less financial assets not available within one year *  | (541,060)    |
| <hr/> Total financial assets available within one year   | 9,128,816    |
| Less amounts unavailable for general expenditures within one year due to:                                  |              |
| Restricted cash  | (107,268)    |
| Restricted by donor with purpose restrictions  | (788,103)    |
| Endowments-restricted by donor with purpose restrictions   | (2,008,007)  |
| Endowments-restricted by donor in perpetuity   | (476,567)    |
| Less amounts unavailable to management without board approval:   |              |
| Endowments-board designated funds  | (4,394,875)  |
| <hr/> Total financial assets available to management<br>for general operating expenditures within one year | \$ 1,353,996 |

\*Represents certificates of deposit and bond investments with maturity dates greater than one year.

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 board 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.

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

### 3 - LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

#### *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 board 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.

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

| <u>Board Designated Funds:</u> | <u>2020</u>         | <u>2019</u>         |
|--------------------------------|---------------------|---------------------|
| Fund for Mission               | \$ 1,627,681        | \$1,436,081         |
| Cross Roads Unrestricted       | 182,187             | 182,187             |
| Camden Lutheran Ministries     | 218,813             | 219,046             |
| Mission Development            | 507,654             | 301,850             |
| Synod Parsonage                | 203,191             | 186,270             |
| Wurffel Fund                   | 1,655,349           | 1,514,816           |
|                                | <u>\$ 4,394,875</u> | <u>\$ 3,840,250</u> |

### 4 - 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

### 4 - PROGRAM AND SUPPORTING SERVICES (Continued)

#### **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 Abled, 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**5 - INVESTMENTS**

The table below sets forth a summary of both the current and non-current investments held by the Synod as of January 31, 2020, and the changes in the fair value of those investments from inception through January 31, 2020:

| <b>2020</b>                     | <b>Cost</b>         | <b>Fair Value</b>   | <b>Unrealized<br/>Appreciation<br/>(Depreciation)</b> |
|---------------------------------|---------------------|---------------------|---|
| <b>Investments – Current</b>    |                     |                     |   |
| Corporate bonds                 | \$ 440,000          | \$ 341,060          | \$ (98,940)   |
| <b>Investments – Noncurrent</b> |                     |                     |   |
| Equities                        | 3,754,085           | 4,271,393           | 517,308   |
| Fixed income securities         | 426,774             | 510,767             | 83,993  |
|                                 | <b>\$ 4,620,859</b> | <b>\$ 5,123,220</b> | <b>\$ 502,361</b>                                     |

The table below sets forth a summary of both the current and non-current investments held by the Synod as of January 31, 2019, and the changes in the fair value of those investments from inception through January 31, 2019:

| <b>2019</b>                     | <b>Cost</b>         | <b>Fair Value</b>   | <b>Unrealized<br/>Appreciation<br/>(Depreciation)</b> |
|---------------------------------|---------------------|---------------------|---|
| <b>Investments – Current</b>    |                     |                     |   |
| Corporate bonds                 | \$ 427,000          | \$ 403,735          | \$ (23,265)   |
| <b>Investments – Noncurrent</b> |                     |                     |   |
| Equities                        | 3,974,394           | 4,362,246           | 387,852   |
| Fixed income securities         | 422,323             | 386,096             | (36,227)  |
|                                 | <b>\$ 4,823,717</b> | <b>\$ 5,152,077</b> | <b>\$ 328,360</b>                                     |

The table below presents the balances of assets measured at fair value, on a recurring basis, by level, within the fair value hierarchy as of January 31, 2020:

|                                    | Quoted Prices in Active<br>Markets for Identical<br>Assets - Level 1 | Significant Other<br>Observable Inputs -<br>Level 2 | Unobservable Inputs-<br>Level 3 | Total               |
|------------------------------------|--|---|---------------------------------|---------------------|
| <b>Pooled income<br/>portfolio</b> |  |   |                                 |                     |
| Corporate bonds                    | \$ -   | \$ 341,060  | -                               | \$ 341,060          |
| Equities                           | 4,271,393  | -   | -                               | 4,271,393           |
| Fixed income securities            | -  | 510,767   | -                               | 510,767             |
|                                    | <b>\$ 4,271,393</b>  | <b>\$ 851,827</b>                                   |                                 | <b>\$ 5,123,220</b> |

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

**NOTES TO FINANCIAL STATEMENTS**

**5 - INVESTMENTS (Continued)**

The table below presents the balances of assets measured at fair value, on a recurring basis, by level, within the fair value hierarchy as of January 31, 2019:

|                                | Quoted Prices in Active<br>Markets for Identical<br>Assets - Level 1 | Significant Other<br>Observable Inputs -<br>Level 2 | Unobservable<br>Inputs-<br>Level 3 | Total        |
|--------------------------------|--|---|------------------------------------|--------------|
| <b>Pooled income portfolio</b> |  |   |                                    |              |
| Corporate bonds                | \$ -   | \$ 403,735  | -                                  | \$ 403,735   |
| Equities                       | 4,362,246  | -   | -                                  | 4,362,246    |
| Fixed income securities        | -  | 386,096   | -                                  | 386,096      |
|                                | \$ 4,362,246   | \$ 789,831  |                                    | \$ 5,152,077 |

**6 - LOANS RECEIVABLE**

The Synod holds the following loans receivable:

|   | <b>January 31,<br/>2020</b> | <b>January 31,<br/>2019</b> |
|---|-----------------------------|-----------------------------|
| Cross Roads Camp and Retreat Center, Port Murray, NJ<br>Principal of \$292,536 at 4.5% interest, due<br>November 8, 2029                      | \$ 211,632                  | \$228,548                   |
| Transformational Ministry Loans<br>Various principal amounts at 1.0% interest, with<br>various final maturity dates through March 15,<br>2026 | 156,071                     | 150,381                     |
|   | 367,703                     | 378,919                     |
| Less allowance  | (8,271)                     | -                           |
| Less - current portion  | (44,427)                    | (35,613)                    |
| Noncurrent portion  | \$ 315,005                  | \$ 343,316                  |

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

|              |                   |
|--------------|-------------------|
| 2020         | \$ 44,427         |
| 2021         | 38,558            |
| 2022         | 39,557            |
| 2023         | 40,484            |
| 2024         | 40,222            |
| Thereafter   | 164,455           |
| <b>Total</b> | <b>\$ 367,703</b> |

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

**NOTES TO FINANCIAL STATEMENTS**

**7 - MORTGAGES RECEIVABLE**

The Synod holds the following mortgages receivable:

|  | <b>January 31,<br/>2020</b> | <b>January 31,<br/>2019</b> |
|--|-----------------------------|-----------------------------|
| Dunamis Life Church, Camden, NJ<br>\$36,000 at 5.0% interest, due February 12, 2025 (1)  | \$36,000                    | \$ 36,000                   |
| Trinity Lutheran Church, Jersey City, NJ<br>Originally \$50,000 at 1.0% interest, due June 22, 2021,<br>converted to a long-term lien in July 2017 (2) | 19,568                      | 19,568                      |
| Holy Trinity Baptist Church of New Jersey, Inc., Trenton, NJ<br>\$86,842 at 3.0% interest, due February 2019 (3)                                       | -                           | 86,842                      |
|  | <hr/> 55,568                | <hr/> 142,410               |
| <b>Less - current portion</b>  | -                           | (86,842)                    |
| Noncurrent portion   | <hr/> \$55,568              | <hr/> \$ 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.

(3) In February 2019, Holy Trinity Baptist Church of New Jersey, Inc. negotiated with the Synod to settle their \$94,797 loan balance for \$86,842. The amount was paid in full as of February 2019 and the loan was retired. As a result, the Synod wrote down the balance of this loan as of January 31, 2019, which resulted in the recognition of a \$7,955 forgiveness of debt loss for the year ended January 31, 2019.

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

|              |                |
|--------------|----------------|
| 2021         | -              |
| 2022         | -              |
| 2023         | -              |
| 2024         | -              |
| 2025         | 36,000         |
| Thereafter   | 19,568         |
| <b>Total</b> | <hr/> \$55,568 |

**NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**  
**NOTES TO FINANCIAL STATEMENTS**

**8 - SYNOD HOUSE PROPERTY AND EQUIPMENT**

The Synod house property and equipment consists of the following:

|                                 | <b>January 31,</b> |             |
|---------------------------------|--------------------|-------------|
|                                 | <b>2020</b>        | <b>2019</b> |
| Land                            | \$ 51,502          | \$ 51,502   |
| Building and improvements       | 551,792            | 551,792     |
| Office furniture and equipment  | 53,870             | 53,870      |
| Vehicles                        | 42,749             | 61,220      |
|                                 | 699,913            | 718,384     |
| Less - Accumulated depreciation | (264,764)          | (284,825)   |
|                                 | \$ 435,149         | \$ 433,559  |

**9 - LAND AND PROPERTY HELD BY THE SYNOD**

Property held by the Synod consists of the following:

|   | <b>January 31,</b> |              |
|---|--------------------|--------------|
|   | <b>2020</b>        | <b>2019</b>  |
| <b>Property held by Synod:</b>                  |                    |              |
| St. John the Baptist, Hoboken, NJ (1)           | \$ 584,611         | \$ 578,539   |
| Santa Isabel Lutheran Church, Elizabeth, NJ (2) | 580,376            | 576,447      |
| Santa Isabel Parsonage, Elizabeth, NJ (3)       | 128,335            | 127,827      |
| Santa Isabel Parish Hall, Elizabeth, NJ (4)     | 142,863            | 134,955      |
| Bridge of Peace, Camden, NJ (5)                 | 230,813            | 214,009      |
| Land, Jackson, NJ (6)                           | 385,000            | 385,000      |
| Townsend's Inlet, Sea Isle City, NJ (7)         | -                  | -            |
| Holy Trinity, Audubon, NJ (8)                   | -                  | 23,916       |
| The Youth Center, Glen Gardner, NJ (9)          | -                  | 1,956        |
| St. Stephen, Edison, NJ (10)                    | -                  | 3,000        |
|   | \$ 2,051,998       | \$ 2,045,649 |

(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 \$6,072 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 \$3,929 incurred and capitalized in connection with holding and improving the property

# NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

## NOTES TO FINANCIAL STATEMENTS

### 9 - LAND AND PROPERTY HELD BY THE SYNOD (Continued)

(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 \$508 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 \$7,908 incurred and capitalized in connection with holding and improving the property.

(5) Bridge of Peace congregation transitioned from a mission ministry to an organized congregation in May 2007. The Synod continues to own the property and assist the congregation. The current year increase in the balance represents additional costs of \$16,804 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 relative to the sale of land. As such, the value of the property was written down by \$40,853 as of December 31, 2017, to equal the net realizable value of the property. The sale was extended on through various dates in 2019 and completed on February 26, 2020, after the close of this fiscal year.

(7) The Synod became the Trustee to the Townsend's Inlet property in 2014. A congregation uses the property for summer worship. This property, originally valued at \$36,344, was written down to zero value as of December 31, 2017, as it is required to be indefinitely held in trust, therefore legally never to be sold.

(8) In May of 2018, the congregation of Holy Trinity Lutheran Church in Audubon, NJ, voted to bring their ministry to a close and turned the property over to the Synod. The property was sold in January of 2020. Net proceeds from the sale amounted to \$297,730, resulting in a gain on the sale of \$219,185. Prior to the sale, additional costs of \$54,629 were incurred and capitalized in connection with holding and improving the property in the current year. The proceeds were disbursed in February of 2020 according to a legacy plan approved by the Synod Council.

(9) In 1971, the property at 16 Hampton Road, Glen Gardner, NJ, was sold by the New Jersey Synod of the Lutheran Church in America (LCA) to the Glen Gardner Youth Association. A condition of the sale was that the property would revert to the NJ Synod if use of the property did not continue as a youth center. Due to financial difficulties the Glen Gardner Youth Association was unable to continue providing youth services and the land was transferred in January of 2019 to the NJ Synod of the ELCA, which is the successor to the NJ Synod of the LCA. The Synod sold the property to Freedom House, Inc. in June of 2019. Prior to the sale, additional costs of \$7,208 were incurred and capitalized in connection with holding and improving the property in the current year. The property sold for \$1, resulting in a write off of accumulated costs of \$9,164.

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

**NOTES TO FINANCIAL STATEMENTS**

**9 - LAND AND PROPERTY HELD BY THE SYNOD (Continued)**

(10) The congregation of St. Stephen Evangelical Lutheran Church in Edison, NJ, discontinued its ministry in March of 2019 and turned its assets over to the NJ Synod for management and disposition. Net proceeds from the sale amounted to \$1,652,228 resulting in a gain on the sale of \$1,573,452. Prior to the sale, additional costs of \$78,776 were incurred and capitalized in connection with holding and improving the property in the current year. The proceeds were according to a legacy plan recommended by the St. Stephen congregation.

**10 - NET ASSETS WITH DONOR RESTRICTIONS**

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

|   | <b>January 31,</b>  |                     |
|---|---------------------|---------------------|
| <b>Purpose Restricted:</b>                              | <b>2020</b>         | <b>2019</b>         |
| Partners in Ministry: Designated Support                |                     |                     |
| Danish Children's Home – Endowment                      | \$ -                | \$ 926              |
| Franklin Fry Chair – Endowment                          | 45,873              | 43,082              |
| Brueckner Outdoor Ministries – Endowment                | 532,515             | 474,357             |
| Cross Roads Rental – Endowment                          | 2,121               | 2,020               |
| Compensation Aid – Endowment                            | 427,903             | 413,155             |
| Candidacy - Endowment                                   | 251,687             | 245,095             |
| Stewardship   | 3,294               | 4,589               |
| Brauninger Travel                                       | 15,772              | 22,241              |
| Namibia Special   | 21,216              | 20,928              |
| Global Mission Team                                     | 4,822               | 4,822               |
| Immediate Response Disaster Fund                        | 4,597               | 5,598               |
| Total Partners in Ministry – Designated Support         | 1,309,800           | 1,236,813           |
| Partners in Ministry - Mission Ministries:              |                     |                     |
| Transitional Ministries (Fund for Mission) – Endowment: |                     |                     |
| North Plainfield Music                                  | \$ 76,759           | \$ 71,203           |
| St. Luke Legacy   | 362,995             | 338,036             |
| Handicap Access - Redeemer                              | 29,545              | 26,642              |
| Fund for Mission Legacy - Endowment                     | 278,589             | 278,588             |
| Fund for Mission, Advent Legacy                         | 558,450             | 554,430             |
| St. Mark Legacy   | 174,972             | 174,972             |
| Hudson/Christ Ridgefield                                | 5,000               | -                   |
| Total Partners in Ministry - Mission Ministries         | 1,486,310           | 1,443,871           |
| Total - purpose restricted                              | 2,796,110           | 2,680,684           |
| <b>Endowment Funds - Perpetual in Nature:</b>           |                     |                     |
| Danish Children's Home                                  | 31,105              | 31,105              |
| Transitional Ministries (Fund for Mission)              | 445,462             | 445,462             |
| Total – perpetual in nature                             | 476,567             | 476,567             |
| <b>Total net assets with donor restrictions</b>         | <b>\$ 3,272,677</b> | <b>\$ 3,157,251</b> |

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

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

### **NOTES TO FINANCIAL STATEMENTS**

#### **11 - 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 the Portico of the ELCA. The Synod contributes 12% based upon the plan agreement. The full current employer cost provided for under the plan was approximately \$70,300 for the year ended January 31, 2020 and \$76,000 for the year ended January 31, 2019.

#### **12 - 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**

**12 - EQUITY IN CROSS ROADS OUTDOOR MINISTRIES (Continued)**

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, 2020 and 2019, the Synod's equity in Cross Roads Outdoor Ministries is comprised of the following:

|  | 2020         | 2019        |
|--|--------------|-------------|
| Camp property improvements,<br>net of accumulated depreciation | \$ 393,472   | \$ 412,508  |
|  | 250,000      | 250,000     |
| Camp reserve   |              |             |
|  | 1,030,262    | 1,030,262   |
| Camp land  |              |             |
|  | 19,538       | 19,538      |
| Camp land improvements   |              |             |
|  | 1,693,272    | 1,712,308   |
| Cumulative equity, share of<br>earnings, beginning of year     | 52,071       | 55,984      |
| Equity share of gains (losses) - see table below               | 28,362       | (3,913)     |
| Cumulative equity, share of<br>earnings, end of year           | \$ 1,773,705 | \$1,764,379 |

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

|  | 2020         | 2019       |
|--|--------------|------------|
| Total support and revenues   | \$ 1,061,045 | \$ 991,272 |
| Total expenses   | 1,004,321    | 999,098    |
| Change in net assets   | 56,724       | (7,826)    |
| Synod's percentage interest  | x 50%        | x 50%      |
| Synod's share of gains (losses) in Cross Roads<br>Outdoor Ministries | \$ 28,362    | \$ (3,913) |

**13 - 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.

## NJ SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

### NOTES TO FINANCIAL STATEMENTS

#### **Endowment Description and Interpretation of Relevant Law (Continued)**

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**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, 2020 and 2019.

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

|   | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> |                                | <b>Total</b> |
|---|---|------------------------------------|--------------------------------|--------------|
|   | <b>Board<br/>Designated</b>               | <b>Purpose<br/>Restricted</b>      | <b>Perpetual in<br/>Nature</b> |              |
| 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                 | (195,397)                                 | (124,229)                          | -                              | (319,626)    |
| Endowment net assets, end of year       | \$ 4,394,875                              | \$ 2,008,007                       | \$ 476,567                     | \$ 6,879,449 |

**Changes in Endowment Net Assets for the Year Ended January 31, 2019:**

|   | <b>Without<br/>Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> |                                | <b>Total</b> |
|---|---|------------------------------------|--------------------------------|--------------|
|   | <b>Board<br/>Designated</b>               | <b>Purpose<br/>Restricted</b>      | <b>Perpetual in<br/>Nature</b> |              |
| Endowment net assets, beginning of year | \$ 3,968,226                              | \$ 2,019,124                       | \$ 476,567                     | \$ 6,463,917 |
| Investment loss, net                    | (91,854)                                  | (35,935)                           | -                              | (127,789)    |
| Contributions                           | 132,406                                   | 15,451                             | -                              | 147,857      |
| Endowment disbursements                 | (168,528)                                 | (105,535)                          | -                              | (274,063)    |
| Endowment net assets, end of year       | \$ 3,840,250                              | \$ 1,893,105                       | \$ 476,567                     | \$ 6,209,922 |

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

**NOTES TO FINANCIAL STATEMENTS**

**14 - 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, 2020, there were no defaults under these arrangements.

As of January 31, 2020 and 2019, the Synod was party to four tenant-in-common agreements. At January 31, 2020 and 2019, total funds in reserve related to tenant-in-common agreements were \$107,268 and \$107,144 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.

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

|              | Keys to Life<br>Ministries | Holy Trinity<br>Baptist<br>Church | Muongano<br>Seventh Day | Macedonia<br>Baptist<br>Church | Total              |
|--------------|----------------------------|-----------------------------------|-------------------------|--------------------------------|--------------------|
| 2021         | 34,124                     | 15,462                            | 34,888                  | 26,470                         | 110,944            |
| 2022         | 36,409                     | 16,498                            | 36,673                  | 27,750                         | 117,330            |
| 2023         | 38,847                     | 17,602                            | 38,550                  | 29,091                         | 124,090            |
| 2024         | 41,449                     | 18,781                            | 40,522                  | 30,498                         | 131,250            |
| 2025         | 44,225                     | 20,039                            | 42,595                  | 31,973                         | 138,832            |
| Thereafter   | 247,485                    | 239,329                           | 486,276                 | 469,093                        | 1,442,183          |
| <b>Total</b> | <b>\$442,539</b>           | <b>\$327,711</b>                  | <b>\$679,504</b>        | <b>\$614,875</b>               | <b>\$2,064,629</b> |

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

### **NOTES TO FINANCIAL STATEMENTS**

#### **15 - 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 12, 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.

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 lake bed. 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, 2020. The project is estimated to be completed in May of 2020.

#### **16 – SUBSEQUENT EVENTS**

The Organization’s operations may be affected by the recent and ongoing outbreak of the coronavirus disease (COVID-19), which in March 2020 was declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain; however it may result in a material adverse impact on the Organization’s financial position, operations and cash flows. Possible areas that may be affected include, but are not limited to, disruption to the organization’s sources of revenue due to a drop in contributions from temporary church closures, and the decline in value of assets held by the organization, including land and property, and loans and mortgages receivable, and investments.