

**Lower Susquehanna Synod of the
Evangelical Lutheran Church in America**

Financial Statements

January 31, 2020 and 2019



Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Table of Contents

January 31, 2020 and 2019

	Page
INDEPENDENT AUDITOR'S REPORT	1 and 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5 to 8
Statement of Cash Flows	9
Notes to Financial Statements	10 to 23



Independent Auditor's Report

To the Synod Council
Lower Susquehanna Synod of the Evangelical Lutheran Church in America
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Lower Susquehanna Synod of the Evangelical Lutheran Church in America, which comprise the statement of financial position as of January 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lower Susquehanna Synod of the Evangelical Lutheran Church in America as of January 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

RKL LLP

May 21, 2020
Wyomissing, Pennsylvania

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Financial Position

	January 31,	
	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 507,849	\$ 445,694
Prepaid expenses	7,930	17,274
Total Current Assets	515,779	462,968
Investments		
Investments, at fair value	2,381,801	2,233,427
Mission investment fund, at fair value	325,704	293,354
Total Investments	2,707,505	2,526,781
Other Assets		
Note receivable	44,500	46,700
Leasehold improvements	19,824	19,824
Equipment	116,794	116,794
Accumulated depreciation	(136,494)	(135,077)
Total Other Assets	44,624	48,241
Total Assets	\$ 3,267,908	\$ 3,037,990
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 138,740	\$ 97,710
Deferred program support	655	3,600
Other current liabilities	109,363	116,609
Total Current Liabilities	248,758	217,919
Net Assets		
Without donor restrictions	361,572	336,094
With donor restrictions	2,657,578	2,483,977
Total Net Assets	3,019,150	2,820,071
Total Liabilities and Net Assets	\$ 3,267,908	\$ 3,037,990

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Activities

	Year Ended January 31, 2020			Year Ended January 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue						
Benevolence						
Mission support	\$ 2,472,478	\$ -	\$ 2,472,478	\$ 2,522,696	\$ -	\$ 2,522,696
Churchwide special	-	406,964	406,964	-	421,596	421,596
Synod special	-	329,967	329,967	-	356,889	356,889
Other special	-	100,364	100,364	-	76,471	76,471
Always Being Made New	-	101,561	101,561	-	250,387	250,387
Grants and support	320,544	147,638	468,182	258,109	20,223	278,332
Program ministries, fees, and reimbursements	217,599	-	217,599	182,474	223	182,697
Net assets released from restrictions	1,176,643	(1,176,643)	-	1,211,046	(1,211,046)	-
Total Support and Revenue	4,187,264	(90,149)	4,097,115	4,174,325	(85,257)	4,089,068
Operating Expenses						
Program services	3,475,825	-	3,475,825	3,518,173	-	3,518,173
Supporting services						
Management and general	629,520	-	629,520	614,784	-	614,784
Fund-raising	70,330	-	70,330	78,939	-	78,939
Total Operating Expenses	4,175,675	-	4,175,675	4,211,896	-	4,211,896
Changes in Net Assets from Operations	11,589	(90,149)	(78,560)	(37,571)	(85,257)	(122,828)
Nonoperating Activities						
Interest and dividend income, net	7,373	16,622	23,995	4,186	10,261	14,447
Net realized and unrealized gains (losses) on investments	6,516	247,128	253,644	4,006	(63,434)	(59,428)
Total Nonoperating Activities	13,889	263,750	277,639	8,192	(53,173)	(44,981)
Change in Net Assets	25,478	173,601	199,079	(29,379)	(138,430)	(167,809)
Net Assets at Beginning of Year	336,094	2,483,977	2,820,071	365,473	2,622,407	2,987,880
Net Assets at End of Year	\$ 361,572	\$ 2,657,578	\$ 3,019,150	\$ 336,094	\$ 2,483,977	\$ 2,820,071

See accompanying notes.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Functional Expenses

	Year Ended January 31, 2020			
	Supporting Services			Total
	Program Services	Management and Administrative	Fund- Raising	
Expenses				
ELCA churchwide mission support	\$ 754,106	\$ -	\$ -	\$ 754,106
Ministry Partners				
Region 8	11,806	-	-	11,806
United Lutheran Seminary	172,500	-	-	172,500
Social Ministry Organizations	1,000	-	-	1,000
PA Council of Churches	4,650	-	-	4,650
Outdoor Ministry	71,000	-	-	71,000
Total Ministry Partners	260,956	-	-	260,956
Synodical Ministries				
Care of rosters persons	1,084	-	-	1,084
Psychological services	280	-	-	280
Leadership support	2,413	-	-	2,413
Communication	6,552	-	-	6,552
Alpha Beta Xhristo	884	-	-	884
Conference of Deans	282	-	-	282
Resource center	20,452	-	-	20,452
Evangelism and outreach	273,894	-	-	273,894
Ecumenical programs	25	-	-	25
Synodical worship	2,978	-	-	2,978
Candidacy committee	7,797	-	-	7,797
Faith formation with youth	57,337	-	-	57,337
Campus Ministry	65,500	-	-	65,500
Coordination of relief projects	287	-	-	287
Advocacy ministry	9,000	-	-	9,000
Total Synodical Ministries	448,765	-	-	448,765
Governance				
Assembly planning	-	95,360	-	95,360
Synod council and standing committee	-	285	-	285
Total Governance	-	95,645	-	95,645

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Functional Expenses (continued)

	Year Ended January 31, 2020			Total
	Supporting Services			
	Program Services	Management and Administrative	Fund- Raising	
Expenses (continued)				
Administration				
Office operating costs	\$ -	\$ 15,622	\$ -	\$ 15,622
Occupancy	-	60,804	2,866	63,670
Office operations	-	86,904	3,152	90,056
Human resources	620,404	351,563	62,041	1,034,008
Travel Synod staff	22,711	12,869	2,271	37,851
Total Administration	643,115	527,762	70,330	1,241,207
Always Being Made New Campaign	239,787	4,696	-	244,483
Specific Synod ministries	192,240	-	-	192,240
Special benevolence	936,856	-	-	936,856
Depreciation	-	1,417	-	1,417
Total Expenses	\$ 3,475,825	\$ 629,520	\$ 70,330	\$ 4,175,675

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Functional Expenses (continued)

	Year Ended January 31, 2019			
	Program Services	Supporting Services		Total
		Management and Administrative	Fund- Raising	
Expenses				
ELCA churchwide mission support	\$ 728,803	\$ -	\$ -	\$ 728,803
Ministry Partners				
Region 8	11,806	-	-	11,806
Lutheran Theological Seminary at Gettysburg	185,000	-	-	185,000
Social Ministry Organizations	1,000	-	-	1,000
Lutheran Camping Corporation of Central Pennsylvania	76,000	-	-	76,000
PA Council of Churches	5,000	-	-	5,000
Campus ministry	70,000	-	-	70,000
Total Ministry Partners	348,806	-	-	348,806
Synodical Ministries				
Care of rosters persons	733	-	-	733
Leadership support	4,219	-	-	4,219
Communication	10,375	-	-	10,375
Beginning ministry	398	-	-	398
Conference of Deans	342	-	-	342
Resource network	11,256	-	-	11,256
Resource center	2,827	-	-	2,827
Evangelism and outreach	268,322	-	-	268,322
Ecumenical programs	25	-	-	25
Synodical worship	1,861	-	-	1,861
Candidacy committee	15,514	-	-	15,514
Faith formation with youth	66,434	-	-	66,434
Church in Society	797	-	-	797
Coordination of relief projects	601	-	-	601
Advocacy ministry	9,000	-	-	9,000
Total Synodical Ministries	392,704	-	-	392,704
Governance				
Assembly planning	-	77,580	-	77,580
Synod council and standing committee	-	80	-	80
Total Governance	-	77,660	-	77,660

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Functional Expenses (continued)

	Year Ended January 31, 2019			Total
	Supporting Services			
	Program Services	Management and Administrative	Fund- Raising	
Expenses (continued)				
Administration				
Office operating costs	\$ -	\$ 3,417	\$ -	\$ 3,417
Occupancy	-	58,547	2,759	61,306
Office operations	-	79,171	2,871	82,042
Human resources	660,438	374,248	66,045	1,100,731
Travel Synod staff	28,618	16,217	2,861	47,696
	689,056	531,600	74,536	1,295,192
Total Administration				
Always Being Made New Campaign	186,988	-	4,403	191,391
Specific Synod ministries	147,761	-	-	147,761
Special benevolence	1,024,055	-	-	1,024,055
Depreciation	-	5,524	-	5,524
	-	5,524	-	5,524
Total Expenses	\$ 3,518,173	\$ 614,784	\$ 78,939	\$ 4,211,896

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Cash Flows

	Years Ended January 31,	
	2020	2019
Cash Flows from Operating Activities		
Change in net assets	\$ 199,079	\$ (167,809)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,417	5,524
Net realized and unrealized gains (losses) on investments and other assets	(253,644)	59,428
(Increase) decrease in assets		
Accounts receivable	-	189
Prepaid expenses	9,344	(405)
Increase (decrease) in liabilities		
Accounts payable	41,030	2,834
Deferred program support	(2,945)	3,600
Other current liabilities	(7,246)	23,052
	(12,965)	(73,587)
Net Cash Used in Operating Activities		
Cash Flows from Investing Activities		
Proceeds from sale of investments	861,489	1,240,383
Purchases of investments	(818,217)	(1,186,393)
Proceeds from note receivable	2,200	3,700
	45,472	57,690
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash		
	32,507	(15,897)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year		
	569,210	585,107
Cash, Cash Equivalents, and Restricted Cash at End of Year		
	\$ 601,717	\$ 569,210
Reconciliation of Cash, Cash Equivalents, and Restricted Cash Reported within the Statement of Financial Position to Cash, Cash Equivalents, and Restricted Cash in the Statement of Cash Flows		
Cash and cash equivalents	\$ 507,849	\$ 445,694
Restricted cash under investments, at fair value	93,868	123,516
	\$ 601,717	\$ 569,210
Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows		
	\$ 601,717	\$ 569,210

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 1 - Nature of Activities

The Lower Susquehanna Synod of the Evangelical Lutheran Church in America (the Synod) is a nonprofit organization established to bear primary responsibility for pastoral care of the congregation, to provide for lay leadership, foster organizations for youth, women, and men, develop the policy and implement programs of the Synod, promote relationships with other congregations and ministries, and elect members of the churchwide assembly.

The Synod of the Evangelical Lutheran Church in America (ELCA) was organized on April 17, 1986 as a Pennsylvania nonprofit corporation, a geographical faith community of the ELCA. The Synod is one of 65 Synods of the ELCA and one of seven ELCA Synods in Pennsylvania. The Synod is located in the south central part of Pennsylvania and covers a nine county area that reached from Fulton County to the urban areas of Harrisburg, York, and Lancaster, and is subject to the overall economic conditions of the region. The Synod's 230 congregations represent over 85,000 baptized members of the ELCA.

The Synod Council serves as an interim legislative authority between meetings of the Synod Assembly. The Synod maintains relations with several ELCA affiliated institutions and agencies. The relationships include the election of members to the churchwide assembly of the ELCA and appointment or election of institution and agency board members.

Note 2 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of Accounting

The accrual basis of accounting is utilized.

Basis of Presentation

The Synod's financial statement presentation follows the reporting provisions applicable to not-for-profit entities. Under these provisions, the Synod is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets are classified as follows:

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for particular purposes by action of the Synod Council, or may otherwise be limited by contractual agreements with outside parties.

Net Assets with Donor Restrictions - Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Note 2 - Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, including functional allocations during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Synod considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly-liquid investments purchased with a maturity of three months or less, to be cash and cash equivalents on the statement of financial position. This includes checking, savings, and money market accounts, except for highly-liquid cash and investment accounts held in brokerage accounts which are classified as investments.

Investments

Investments in debt and equity securities with readily determinable fair values are reported at fair value. Unrealized gains and losses are reported as increases or decreases in net assets without restrictions, unless their use is restricted by explicit donor stipulation. Realized gains and losses, if any, on the sale or disposal of investments are computed on a specific identification basis and are also included as increases or decreases in net assets without donor restriction, unless their use is restricted by explicit donor stipulation.

Leasehold Improvements and Equipment

Leasehold improvements and equipment are recorded at cost when purchased. Maintenance and repair costs are charged to expenses as incurred. Gains and losses on disposition of leasehold improvements and equipment are reflected in income. Currently the Synod capitalizes assets purchased with a cost or fair value greater than \$2,500. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of assets as follows:

Leasehold improvements	3 years
Furniture and equipment	3 to 5 years

Long-Lived Assets

Long-lived assets consist of leasehold improvements and equipment, and are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value of the impaired asset. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and discount rates reflecting varying degrees of perceived risk. The Synod had concluded that no impairment adjustments were required as of January 31, 2020 and 2019.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Revenue Recognition

Grants and Contributions

Grants and contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as with donor restriction support that increases that net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Synod reports the support as without donor restrictions.

When a donor restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Educational Programs and Courses

The Synod recognizes revenue from registration fees for religious and mission programs during the year in which the related services are provided to congregations. The performance obligation of delivering services is simultaneously received and consumed by the participants; therefore, the revenue is recognized ratably over the course of the programs and courses. Registration and payment is required prior to beginning the program or course. All amounts received are deferred to the applicable period.

Income Taxes

The Internal Revenue Service has issued a Group Exemption Letter to the ELCA which includes the Synod as part of the group. Inclusion in the group exemption established that the Synod is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code of 1986 and is not a private foundation as defined in Code Section 509(a). Accordingly, no provision for income taxes has been made in the financial statements.

Changes in Net Assets from Operations

The statement of activities and changes in net assets includes changes in net assets from operations. Nonoperating activities, which are excluded from changes in net assets from operations, consistent with industry practice, include investment income, net, realized and unrealized gains and losses on investments.

Functional Allocation of Expenses

Natural expenses are accounted for and reported on a direct cost basis to the program or function that the expense is incurred. Facilities and occupancy expense represent the cost of maintaining a building or paying rent for facility use and any other related costs. Expenses attributable to more than one program or supporting function are allocated using reasonable cost allocation techniques. Support costs, including human resources, are allocated based on a program-expense-related basis.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Donated Services

A substantial number of volunteers have donated significant hours to the Synod's programs and activities; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Separate Entities

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of only the Synod as one expression of this church in relationship with congregations, related institutions and agencies, and the churchwide agencies of the ELCA. These are separate and distinct legal entities with their own accounting systems for providing budgetary and financial information.

Related Party Transactions

A significant portion of the Synod's revenue, support, and expenses are received from and disbursed to the separate entities as discussed above.

Change in Accounting Principles

In May 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 supersedes or replaces nearly all U.S. GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Synod has implemented ASU 2014-09 and has adjusted the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented, with no effect on net assets.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Synod has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements, under a modified perspective basis. Accordingly, there is no effect on net assets in connection with the Synod's implementation of ASU 2018-08.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for the fiscal years beginning after December 31, 2019. The Synod implemented this standard during the year ended December 31, 2019. The ASU has been applied retrospectively to all periods presented.

Note 2 - Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, and subsequently amended in ASU 2019-10. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases, based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. The new standard is effective for privately held companies for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The ASU is expected to impact the Synod's financial statements, as the Synod has certain operating leases for which it is the lessee. The Synod will be evaluating the impact of this new guidance.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of ASU 2018-13 is not expected to have a material impact on the Synod's financial statements.

The Synod is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 3 - Liquidity and Availability

The Synod manages its liquidity by managing its working capital.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of January 31:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 507,849	\$ 445,694
Investments, at fair value	2,381,801	2,233,427
Mission investment fund, at cost	325,704	293,354
Note receivable	44,500	46,700
	<u>3,259,854</u>	<u>3,019,175</u>
Amounts that are internally designated or externally restricted		
Donor restricted for specific purpose	(288,909)	(276,976)
Investments held in perpetual endowment	(2,368,669)	(2,207,001)
Board-designated for specific purposes	(306,040)	(281,824)
	<u>\$ 296,236</u>	<u>\$ 253,374</u>

The Synod's endowment consists of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditures. The Board of Directors approves annual disbursements from the fund on a specific need basis.

Note 4 - Investments

The Synod had the following debt investments and related maturities as of January 31:

2020	<u>Cost</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Credit Rating</u>
Bond Mutual Funds				
iShare Agency Bond ETF	\$ 92,063	\$ 96,913	5 years	AAA
iShares 3-7 Treasury Bond ETF	103,431	105,906	5 years	AAA
iShares Short-Term Corporate Bond ETF	85,317	89,119	3 years	
JP Morgan US Aggregate Bond ETF	262,793	266,664	8 years	AA
JP Morgan Ultra-Short Income ETF	123,433	124,230	1 year	A
iShares iBoxx Investment Grade Corporate Bond ETF	86,210	110,116	13 years	A

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 4 - Investments (continued)

2019	Cost	Fair Value	Maturity	Credit Rating
Bond Mutual Funds				
iShare Agency Bond ETF	\$ 92,063	\$ 92,813	6 years	AAA
iShares 3-7 Treasury Bond ETF	189,435	190,858	6 years	AAA
iShares Barclays Tips Bond	153,212	152,499	1 year	AAA
JP Morgan Ultra-Short Income ETF	123,433	123,541	1 year	A
iShares iBoxx Investment Grade Corporate Bond ETF	86,210	97,961	14 years	A

Investment income is as follows for the years ended January 31:

2020	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	\$ 7,373	\$ 30,541	\$ 37,914
Net unrealized gains	6,516	175,762	182,278
Net realized gains	-	71,366	71,366
Investment fees	-	(13,919)	(13,919)
	<u>\$ 13,889</u>	<u>\$ 263,750</u>	<u>\$ 277,639</u>
2019			
Interest and dividends	\$ 4,186	\$ 24,349	\$ 28,535
Net unrealized gains (losses)	4,006	(172,618)	(168,612)
Net realized gains	-	109,184	109,184
Investment fees	-	(14,088)	(14,088)
	<u>\$ 8,192</u>	<u>\$ (53,173)</u>	<u>\$ (44,981)</u>

Note 5 - Mission Investment Fund Investments

Funds invested in the Mission Investment Fund of the ELCA are unsecured. These investments, which are available to entities associated with the ELCA, are uninsured.

These securities, which mature in one year, earn interest in a range from 1.19% and 1.54%.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 6 - Fair Value of Investments

The Synod defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the Synod sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Fair value measurements are disclosed by level within that hierarchy. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Synod performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of January 31:

	Fair Value Measurements at January 31, 2020			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money Market	\$ 93,868	\$ -	\$ -	\$ 93,868
Fixed Income Mutual Funds	-	792,948	-	792,948
Equity Securities				
Technology	495,604	-	-	495,604
Producer durables	66,961	-	-	66,961
Consumer discretionary	352,995	-	-	352,995
Consumer staples	118,169	-	-	118,169
Financial services	269,901	-	-	269,901
Health care	191,355	-	-	191,355
Mission Investment Fund of the ELCA	-	-	325,704	325,704
	<u>\$ 1,588,853</u>	<u>\$ 792,948</u>	<u>\$ 325,704</u>	<u>\$ 2,707,505</u>

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 6 - Fair Value of Investments (continued)

	Fair Value Measurements at January 31, 2019			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money Market	\$ 123,516	\$ -	\$ -	\$ 123,516
Fixed Income Mutual Funds	-	657,672	-	657,672
Equity Securities				
Technology	455,308	-	-	455,308
Producer durables	111,772	-	-	111,772
Consumer discretionary	477,336	-	-	477,336
Consumer staples	93,983	-	-	93,983
Financial services	123,316	-	-	123,316
Health care	169,024	-	-	169,024
Utilities	21,500	-	-	21,500
Mission Investment Fund of the ELCA	-	-	293,354	293,354
	<u>\$ 1,575,755</u>	<u>\$ 657,672</u>	<u>\$ 293,354</u>	<u>\$ 2,526,781</u>

The following information should not be interpreted as an estimate of the fair value of the Synod since a fair value calculation is only provided for a limited portion of the Synods' assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Synod's disclosures and those of other synods may not be meaningful. The following methods and assumptions were used to estimate the fair value of the Synods' financial instruments:

Mutual funds and money market funds are valued at the net asset value of the shares held by the Synod at year-end.

The fair value of Level 3 investment, Mission Investment Fund of the ELCA, held by a third party is measured using the fair value of the assets contributed to the fund.

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

We evaluated the significance of transfers between levels based upon the nature of the financial instrument and the size of the transfer relative to total net assets available for benefits. There were no significant transfers in or out of Level 3 for the years ended January 31, 2020 and 2019.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 6 - Fair Value of Investments (continued)

For assets falling within Level 3 in the fair value hierarchy, the activity recognized is as follows during the years ended January 31:

	<u>2020</u>	<u>2019</u>
Balance at Beginning of Year	\$ 293,354	\$ 204,803
Contributions	66,289	170,290
Distributions	(38,261)	(84,179)
Investment income, Interest	4,322	2,440
Balance at End of Year	<u>\$ 325,704</u>	<u>\$ 293,354</u>

Investment Risk

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and that such changes could materially affect account balances and the amounts reported in the statement of activities for the Synod.

Note 7 - Always Being Made New Campaign

The 2014 Synod Assembly adopted a resolution to initiate the 25th Anniversary Campaign for the ELCA in the Lower Susquehanna Synod. The campaign, titled "Always Being Made New", is a five-year effort to raise \$6,050,000 to support a variety of Synod and ELCA ministries, and pay for direct campaign costs estimated at \$550,000 for the five-year term of the campaign. All campaign support, including multi-year donor commitments which are not binding obligations, will be recognized and reported as the financial support is received.

In February 2016, the Synod Council adopted a resolution for the funding of the campaign. The resolution limits costs to \$350,000. The February 2016 resolution lacked adequate provision to fund campaign expenses. Accordingly, in November 2016, the Synod Council adopted a second resolution. Under the resolution, the Synod's Restitution Fund and realized "Where Needed Most" campaign contributions through January 31, 2017, will be used to fund the cumulative campaign expenses. The remaining balance will come from the Unrestricted - Undesignated Fund. This campaign concluded in June 2019.

Note 8 - Note Receivable

On December 15, 2009, the Synod entered into a noninterest bearing mortgage note with Holy Spirit Lutheran Church in the amount of \$65,000. The note is secured by property. The principal amount is due on demand. The balance of the mortgage note at January 31, 2020 and 2019 was \$44,500 and \$46,700, respectively.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 9 - Operating Lease, Real Estate

The Synod leases 5,072 square feet of office space in the United Church Center under a lease agreement with the Pennsylvania Council of Churches. The lease is dated January 21, 2002. The term of the lease is not specified; however, it can be canceled by either party with one year's notification. Total payments for both the fiscal years ended January 31, 2020 and 2019 amounted to \$63,670 and \$61,306, respectively.

Note 10 - Retirement Plan

The Synod participates in a defined contribution retirement plan with Portico Benefit Services. The plan, which covers substantially all employees, is fully vested and funded. In addition, employees may elect to defer additional amounts subject to limitations. The total retirement cost paid to Portico Benefit Services totaled \$84,265 and \$88,938 for the fiscal years ended January 31, 2020 and 2019, respectively.

Note 11 - Net Assets Without Donor Restrictions

The Synod's net assets without donor restrictions are comprised of undesignated and Board-designated amounts for the following purposes at January 31:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 55,532	\$ 54,270
Board-designated for specified purposes		
Fixed Asset Funds	11,519	12,935
Care of Rostered Leaders Fund	7,393	7,393
Lower Susquehanna Synod Fund	251,084	230,018
Bishop's Discretionary Fund	25,349	23,368
Harrisburg Area Youth Initiative	1,668	8,000
Communities of Hope	9,027	-
Haiti Mission Fund	-	110
	<u>\$ 361,572</u>	<u>\$ 336,094</u>

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 12 - Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purpose as of January 31:

	<u>2020</u>	<u>2019</u>
Konde Fund	\$ 65,672	\$ 60,489
Always Being Made New Campaign	22,718	160,892
Synod Programs	172,065	39,662
Funds Held for Others	8,389	8,389
Scholarship Fund	3,964	3,856
Thrivent Grants	90	1,375
Leadership Programs Musicians	195	687
Student Aid Fund	15,816	1,626
Support of Konde Diocese	782,231	727,936
Eliminate Hunger	782,026	727,730
Seminarian Scholarship Support	356,173	334,500
Synodical Program Support	303,916	282,453
Bishop's Discretionary Fund Support	144,323	134,382
	<u>\$ 2,657,578</u>	<u>\$ 2,483,977</u>

Net assets with donor restrictions were release from purpose restrictions of \$1,176,643 and \$1,211,016 for the years ended January 31, 2020 and 2019 respectfully for programs services.

Net assets with donor restrictions of \$2,368,669 and \$2,207,001 at January 31, 2020 and 2019, respectively, represent true endowment funds held in perpetuity, the income from which is expendable to support Synod programs as specified by the donors of the respective funds.

Note 13 - Net Assets in Endowment Fund

The Synod's endowments consist of several funds established for a variety of purposes. Its endowments include various donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Synod interprets relevant Pennsylvania law governing the net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift as of the gift date, absent explicit donor stipulations to the contrary. As a result of the interpretation, the Synod classifies as net assets with donor restrictions: (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument, at the time the accumulation is added to the fund.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 13 - Net Assets in Endowment Fund (continued)

Interpretation of Relevant Law (continued)

The Synod has a policy of distributing up to 5% of the monthly fair market value average over the most recent three calendar years. The presumption is that over the course of multiple years, the average investment returns will equal or exceed 5% per annum, and that the endowment will meet the objective of providing ongoing financial support to the Synod for these initiatives. Distributions made during fiscal years ended January 31, 2020 and 2019 totaled \$108,599 and \$66,765, respectively.

Net assets maintained for these program initiatives are as follows as of January 31:

	<u>2020</u>	<u>2019</u>
Support of Konde Diocese	\$ 782,231	\$ 727,936
Eliminate Hunger	782,026	727,730
Seminarian Scholarship Support	356,173	334,500
Synodical Program Support	303,916	282,453
Bishop's Discretionary Fund Support	144,323	134,382
	<u>\$ 2,368,669</u>	<u>\$ 2,207,001</u>

Changes in endowment net assets for the fiscal years ended January 31:

	<u>2020</u>	<u>2019</u>
Endowment Net Assets at Beginning of Year	\$ 2,207,001	\$ 2,322,934
Investment return		
Interest and dividend income	30,541	24,348
Net realized and unrealized gains (losses) on investments	253,644	(59,428)
Total investment gains (losses)	284,185	(35,080)
Legacy fund distribution	(108,598)	(66,765)
Other changes, investment fees	(13,919)	(14,088)
Endowment Net Assets at End of Year	\$ 2,368,669	\$ 2,207,001

Underwater Endowment Funds

The fair value of assets associated with individual endowment funds with donor restrictions may fall below the level that the donor or the relevant state law requires the Synod to retain as a fund of perpetual duration. In accordance with the Synod's investment policy, endowment funds with donor restrictions are reported at the original value of initial and subsequent gifts (see Interpretation of Relevant Law). As a result, there were no deficiencies reported as of January 31, 2020 and 2019.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2020 and 2019

Note 14 - Contingencies

Concentrations of Credit Risk

Cash and Cash Equivalents

The Synod maintains its monies in a financial institution in South Central Pennsylvania. Cash accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Securities held by third-party institutions are covered by the Securities Investor Protection Corporation, except for funds held by the Mission Investment Fund of the ELCA, which is not insured by the federal or state regulatory agency.

Note 15 - Reclassifications

Certain information in the 2019 financial statements and related notes contain reclassifications necessary to make that information comparable to information presented in the 2020 financial statements.

Note 16 - Subsequent Events

The Synod has evaluated subsequent events through May 21, 2020. This date is the date the financial statements were available to be issued. The following events subsequent to January 31, 2020 were noted:

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economy, financial markets, public and congregational support, and the geographical area in which the Synod operates. It is unknown how long these conditions will last and what the complete financial effect will be to the Synod.

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which established the Paycheck Protection Program (the Program). The Program was created to assist small businesses in paying their employees and certain other expenses during the COVID-19 crisis. The Synod applied for a loan under this Program and received from its bank a loan in the amount of \$234,127 on April 29, 2020. The loan is forgivable if the Synod meets certain criteria as established under the Program. The Synod will seek loan forgiveness in fiscal year 2020. The Synod anticipates there may be further guidance issued by the Small Business Administration (SBA), the U.S. Department of the Treasury, the bank, and other regulators related to the Program which could impact the loan and loan forgiveness. Any of the loan amount not forgiven under the Program will be due April 29, 2022 with interest at 1.0%. The loan is unsecured and does not require personal guarantees.

Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions.

No other material events subsequent to January 31, 2020 were noted.