

PRESBYTERY OF MACKINAC
Financial Statements
for the year ended December 31, 2019



Klepadlo • Winnell • Nuorala • P.C.

Certified Public Accountants & Trusted Advisors

2301 Mitchell Park Drive
Petoskey, MI 49770
office: 231.347.3963
fax: 231.347.5509
www.kwncpa.com

October 15, 2020

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Council of
Presbytery of Mackinac:

We have reviewed the accompanying financial statements of Presbytery of Mackinac (a Michigan nonprofit corporation), which comprise the statements of assets, liabilities and net assets – modified cash basis as of December 31, 2019, and the related statements of revenues and expenses – modified cash basis for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the modified cash basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the modified cash basis of accounting.

Basis of Accounting

We draw attention to the accounting policies footnote of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Klepadlo Winnell Nuorala P.C.

PRESBYTERY OF MACKINAC
 Statements of assets, liabilities and net assets-modified cash basis
 As of December 31, 2019

ASSETS	Operating Fund	Mission Fund	Restricted Fund	Total
Cash	\$ 92,968.00	\$ 2,632.44	\$ 91,266.74	\$ 186,867.18
Restricted cash	-	3,282.18	173,448.34	176,730.52
Accounts receivable	33.85	-	-	33.85
Investment in Presbyterian church (USA) Investment & Loan Program	-	-	6,820.62	6,820.62
Investments with The New Covenant Mutual Funds, at market:				
Campus Ministry Fund	-	-	13,878.71	13,878.71
Church Development Fund	-	-	79,268.07	79,268.07
Presbytery Point Fund	-	-	5,924.26	5,924.26
Faith Journey Fund	-	-	1,299.00	1,299.00
Total investments with The New Covenant Mutual Funds	-	-	100,370.04	100,370.04
Investments with the Presbyterian Foundation, at market:				
Mackinac Campus Ministry Fund	-	-	40,511.08	40,511.08
Marilu Van Dam Memorial Fund	-	-	35,192.17	35,192.17
Roma F. Walstrom-Boline Fund	-	-	85,347.09	85,347.09
Presbytery's share of the Mawby Endowment Fund	-	-	1,570.95	1,570.95
Total investments with the Presbyterian Foundation	-	-	162,621.29	162,621.29
Total assets	\$ 93,001.85	\$ 5,914.62	\$ 534,527.03	\$ 633,443.50
LIABILITIES AND NET ASSETS				
Payroll withholdings	\$ 635.14	\$ -	\$ -	\$ 635.14
Per capita payable	9,537.03	-	-	9,537.03
Total liabilities	10,172.17	-	-	10,172.17
Net assets:				
Without donor restrictions	82,829.68	2,632.44	91,266.74	176,728.86
Without donor restrictions, but designated by Presbytery	-	-	37,520.16	37,520.16
Total net assets without donor restrictions	82,829.68	2,632.44	128,786.90	214,249.02
With donor restrictions, Purpose restricted	-	3,282.18	243,118.84	246,401.02
With donor restrictions, Endowment funds held by Presbytery Foundation	-	-	162,621.29	162,621.29
Total net assets with donor restrictions	-	3,282.18	405,740.13	409,022.31
Total net assets	82,829.68	5,914.62	534,527.03	623,271.33
Total liabilities and net assets	\$ 93,001.85	\$ 5,914.62	\$ 534,527.03	\$ 633,443.50

The accompanying notes are a part of the financial statements.

PRESBYTERY OF MACKINAC
Statements of support, revenue, and expenses - modified cash basis
for the year ended December 31, 2019

	Operating Fund, Without Donor Restrictions	Mission Fund		Restricted Fund			Total Without Donor Restrictions	
		Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions		With Donor Restrictions		
				Without Designation	With Designation	As to Purpose		Endowment Funds
Revenue:								
Per capita collections	\$ 160,041.40	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,041.40
Less per capita paid to:								
General Assembly	(37,997.44)	-	-	-	-	-	-	(37,997.44)
Synod	(13,797.95)	-	-	-	-	-	-	(13,797.95)
Per capita retained by Presbytery	108,246.01	-	-	-	-	-	-	108,246.01
Other revenues:								
Basic missions	57,790.72	-	-	-	-	-	-	57,790.72
James Joy estate bequest	15,338.71	-	-	-	-	-	-	15,338.71
Synod grant	5,079.37	-	-	-	-	-	-	5,079.37
Other	3,247.15	-	-	-	-	-	-	3,247.15
Basic mission contributions	-	70,120.00	-	-	-	-	-	70,120.00
Special mission offerings collected:								
One Great Hour of Sharing	-	-	21,232.89	-	-	-	-	-
Christmas Joy	-	-	19,309.16	-	-	-	-	-
Peacemaking	-	-	3,428.75	-	-	-	-	-
Theological education	-	-	2,496.74	-	-	-	-	-
Pentecost	-	-	2,492.20	-	-	-	-	-
Other	-	-	7,555.38	-	-	-	-	-
Contributions to Restricted Fund	-	-	-	-	82.19	3,061.65	-	82.19
Investment income	-	-	-	3,408.26	-	5,373.05	6,279.29	3,408.26
Net assets released from restriction	68,692.34	-	(65,197.34)	60.61	-	2,716.12	(6,271.73)	68,752.95
Total revenues before unrealized gains	258,394.30	70,120.00	(8,682.22)	3,468.87	82.19	11,150.82	7.56	332,065.36
Unrealized gain on investments	-	-	-	-	-	11,563.89	20,246.40	-
Total revenue and unrealized gains	258,394.30	70,120.00	(8,682.22)	3,468.87	82.19	22,714.71	20,253.96	332,065.36
Expenses:								
Functional and natural classified expenses:								
Mission grants	59,265.82	57,790.72	-	-	-	-	-	117,056.54
Grants to General assembly	-	16,766.69	-	-	-	-	-	16,766.69
Grants to Synod	-	5,052.15	-	-	-	-	-	5,052.15
Other	-	50.00	-	-	-	-	-	50.00
Disbursement of special mission offerings	65,197.34	-	-	-	-	-	-	65,197.34
Operating expenses:								
Personnel costs	80,021.95	-	-	-	-	-	-	80,021.95
Office expenses	17,612.81	-	-	-	-	-	-	17,612.81
Presbytery meeting expenses	4,240.32	-	-	-	-	-	-	4,240.32
Presbytery committee expenses	2,650.74	-	-	-	-	-	-	2,650.74
Vital congregations	3,324.10	-	-	-	-	-	-	3,324.10
Scholarships for youth to attend triennium	-	-	-	-	3,950.00	-	-	3,950.00
Grants for restricted purposes:								
Pastoral retreat	1,995.00	-	-	-	-	-	-	1,995.00
Presbytery Point Camp repairs	1,500.00	-	-	-	-	-	-	1,500.00
Total expenses	235,808.08	79,659.56	-	-	3,950.00	-	-	319,417.64
Changes in net assets before transfer	22,586.22	(9,539.56)	(8,682.22)	3,468.87	(3,867.81)	22,714.71	20,253.96	12,647.72
Transfer (out) in	(50,000.00)	-	-	50,000.00	-	-	-	-
Change in net assets after transfer	(27,413.78)	(9,539.56)	(8,682.22)	53,468.87	(3,867.81)	22,714.71	20,253.96	12,647.72
Net assets beginning of year	110,243.46	12,172.00	11,964.40	37,797.87	41,387.97	220,404.13	142,367.33	201,601.30
Net assets end of year	\$ 82,829.68	\$ 2,632.44	\$ 3,282.18	\$ 91,266.74	\$ 37,520.16	\$ 243,118.84	\$ 162,621.29	\$ 214,249.02

The accompanying notes are a part of the financial statements.

PRESBYTERY OF MACKINAC
Notes to Financial Statements – Modified Cash Basis
for the year ended December 31, 2019

The Presbytery of Mackinac is a regional governing body of the Presbyterian Church (U.S.A.) covering most of Michigan's upper peninsula and most of the 15 counties of the northern portion of its lower peninsula. There are 39 Presbyterian churches within this area. The Presbytery's offices are located in the greater Petoskey, Michigan area.

Accounting policies: The Presbytery of Mackinac uses fund accounting to record its financial activity. The funds used are the Operating Fund, the Mission Fund, and the Restricted Fund.

The Operating Fund is subject to budget oversight. Revenues to defray operating expenses and the cost of mission projects located within the Presbytery are recorded in this Fund.

The Mission Fund is used to record receipt of contributions identified as basic mission contributions as well as receipt and disbursement of contributions designated for specific mission projects located outside of the Presbytery. Contributions for basic missions are allocated 73 pct. to the Presbytery, 21 pct. to the General Assembly and 6 pct. to Synod. The Presbytery's portion of the basic missions is transferred into the Operating Fund for mission projects located within the Presbytery and other Presbytery costs.

The Restricted Fund is used primarily to record assets whose use is restricted by donors. In addition, the Fund is used to account for the Operating Fund's reserve and assets designated by the Presbytery's governing body for specific purposes.

The Presbytery uses the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The basis differs from generally accepted accounting principles (GAAP) in that revenues are recorded when cash is received instead of when earned and expenses when paid instead of when the obligation is incurred. Accordingly, expenditures for compensated absences are recorded when paid and expenditures for furniture and equipment are expensed as capital outlay costs as opposed to capitalizing and depreciating those costs.

In addition, investments are carried at market value as of the statements of assets, liabilities and net assets-modified cash basis date with subsequent annual changes in market value recorded as unrealized gains or losses in the statements of support, revenue and expenses. Further, any inter-fund receivables and payables are recognized as assets and liabilities of the appropriate fund, withheld payroll taxes are recorded as a liability until paid, and any amounts received or disbursed on behalf of others are recorded as payables or receivables until disbursed or collected.

Substantially all investments are in mutual funds that are subject to fluctuations of the investment markets. Accordingly, there is risk that changes in the value of investments may occur and that such changes could have a material adverse effect on the Presbytery's financial statements.

Net assets without donor restrictions can include both net assets with no donor restrictions and those designated by the Presbytery's board for specific purposes. Net assets with donor restrictions can include both donations that can be used for donor-specified purposes and those irrevocably placed in Endowment Funds with only the investment income available for use as specified by the donor. Net assets held by the Presbyterian Foundation fall in this latter category.

Cash: Cash consists of amounts held in checking and money market accounts. The restricted cash is related to the net assets identified as designated, purpose restricted, and endowment funds net assets in the balance sheet. Substantially all cash is maintained on deposit in regional banks and a brokerage firm. Management believes there is no substantial risk involved even though the amounts on deposit may occasionally exceed the applicable amount of FDIC insurance provided or the brokerage firm's Securities Investors Protection Corporation (SIPC) coverage.

Investment & Loan Program, Inc.: During a prior year, the Presbytery made a grant to one of its churches to provide assistance with the purchase of land and/or construction of a new church building. The remaining financing of the project was provided by the congregation and a loan from the Investment & Loan Program, Inc. of the Presbyterian Church (U.S.A.).

To help secure this financing, the Presbytery was required to make an investment in the Investment & Loan Program, Inc. in the amount of \$5,000. Earnings from this investment are reinvested. At December 31, 2019 the investment, a six-month certificate, with reinvested earnings amounted to \$6,821; it matures March 5, 2020.

Investments with The New Covenant Mutual Funds: Investment income from assets held by The New Covenant Mutual Funds is recorded as an addition to each individual fund held by that institution. Changes in market value are recorded as either unrealized gains or losses for each individual fund.

Investments with Presbyterian Foundation: Investments with the Presbyterian Foundation are those investments that have been irrevocably placed with the Foundation by donors for the benefit of the Presbytery. Since the placement is irrevocable, these assets, including any net investment earnings retained by the Foundation in accordance with its spending policy, are carried in the Restricted Fund. These investments support the Endowment Funds reported in the net asset section of the financial statements and the Presbytery believes that including these investments enhances the use of these financial statements for its users.

The Board of the Presbytery is assisted by the Foundation in interpreting the Uniform Prudent Management of Institutional Funds Act (commonly known as "UPMIFA") that was signed into law by the Governor of the State of Michigan on September 10, 2009. Included in UPMIFA is the stipulation that an organization consider the following factors: (1) the duration and preservation of the various fund, (2) the purpose of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the organization's investment policies.

According to the Foundation's spending policy, investment income to be distributed by the Foundation is computed prior to the beginning of each year. Under this policy, a percentage, determined by the Foundation, is applied to the average value of an investment at the end of the prior twenty calendar quarters with an 18 month lag time. This lengthy period is used to compensate for market volatility and permit time to compute the amount to be distributed.

Net Assets: Net assets are identified as those without donor restrictions, those without donor restrictions but designated by the Presbytery's governing body for certain purposes, and those with donor restrictions. Net assets without donor restrictions may be used as determined by the Presbytery's governing body. Net assets without donor restrictions but designated may be expended for the designated purpose. Donor restricted net assets include those restricted for a purpose specified by the donor or they include donations to create endowment funds. The corpus or principle of endowment funds is not spendable; however, earnings of the funds may be expended for the purpose stipulated by the donor.

Designated net assets: At December 31, 2019 designated net assets include \$30,595 designated for church development and \$6,925 designated for missions.

Net Assets with Donor Restrictions: Both the Mission Fund and the Restricted Fund have net assets with donor restrictions. The donor restrictions of the Mission Fund are purpose restrictions; those of the Restricted Fund include both amounts with purpose restrictions and endowment restrictions.

At December 31, 2019 purpose restricted net assets of the Mission Fund are comprised of the following:

Peacemaking:	
Presbytery	\$75
General Assembly	152
Synod	75
One Great Hour of Sharing	
Christmas Joy	(275)
Theological education	655
Other validated causes	2,600
Total	<u>\$3,282</u>

The donor restricted net assets of the Restricted Fund with purpose restrictions and endowment fund restrictions are comprised of the following as of December 31, 2019:

	Purpose Restricted	Endowment Funds	Total
Campus ministry	\$47,591	\$40,511	\$88,102
Marilyn VanDam Memorial Scholarship Fund	13,012	35,192	48,204
Church development Redevelopment & Mission Fund	153,873	85,347	239,220
Mawby Fund	-	1,571	1,571
Presbytery Point Camp Fund	4,424	-	4,424
COM Emergency Fund	10,119	-	10,119
Peacemaking	6,735	-	6,735
Mission Committee	2,475	-	2,475
Faith Journey Fund	1,299	-	1,299
Missionary in Residence	1,419	-	1,419
Preparation for ministry & CLP	2,172	-	2,172
Totals	<u>\$243,119</u>	<u>\$162,621</u>	<u>\$405,740</u>

Presbytery Offices: The Presbytery owns its office, which is located in an office condominium complex near Petoskey, Michigan. Annual condominium dues were \$ 3,246 during 2019 and similar amounts, adjusted for inflation, are anticipated in future years.

Income Taxes: The Presbytery of Mackinac, an affiliate of the Presbyterian Church (USA), is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Further, as a religious organization the Presbytery is not required to file the federal return for organizations exempt from income tax, Form 990. As a 501(c)(3) organization, contributions to the Presbytery are deductible for federal income tax purposes.

Donated services: No amounts have been reflected in the financial statements for donated services inasmuch as no objective basis is available to measure the value of such services. However, various individuals performed a variety of tasks that assisted the Organization with its specific programs and events.

Medical Benefits: During 2019 the Presbytery provided medical benefits for one of its employees. The cost of those benefits was \$5,888.

Contingencies: One of the churches within the Presbytery has borrowed money from the Investment & Loan Program, Inc. of the Presbyterian Church (U.S.A.) to finance new construction and/or renovation of its facilities. As a condition for obtaining this loan, the Presbytery co-signed the loan agreement. The aggregate amount borrowed was \$674,500. The unpaid balance at December 31, 2019 was about \$419,000.

At December 31, 2019 and, the date these financial statements were prepared, the Presbytery has not been required to perform as a co-signer of these loans.

Liquidity: The Presbytery maintains liquidity by managing its cash and investments. The financial assets available within one year from December 31, 2019 for operating expenses and mission grants are as follows:

Cash, unrestricted	\$186,867
Cash, restricted	176,731
Investment & Loan Program certificate	6,821
Investments with The New Covenant Fund	100,370
Investments with the Presbyterian Foundation	<u>162,621</u>
Financial assets at December 31, 2019	633,410
Less financial assets unavailable for operating and mission expenditures and grants due to various restrictions by the Presbytery and donors	<u>(446,542)</u>
Financial assets available to meet operating and mission grants within one year	<u>\$186,868</u>

Subsequent Event: Subsequent events have been evaluated through October 15, 2020, the date of the accountants' report and when the financial statements were available for issue. Other than the COVID-19 pandemic, which resulted in the Michigan governor issuing orders preventing social gatherings, including church attendance, there is no known event that adversely affected the financial condition of the Presbytery of Mackinac. It is not possible at this time to determine what future financial impact the pandemic may have.