Presbytery of the Twin Cities Area

Financial Statements

December 31, 2022

Presbytery of the Twin Cities Area
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Independent Auditor's Report

Board of Trustees
Presbytery of the Twin Cities Area
Eagan, Minnesota

Qualified Opinion

We have audited the financial statements of Presbytery of the Twin Cities Area, which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Presbytery of the Twin Cities Area as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

Presbytery of the Twin Cities Area has excluded from property and equipment in the accompanying statement of financial position certain assets that, in our opinion, should be capitalized to conform with accounting principles generally accepted in the United States of America. The effects of the exclusion of property and equipment as of December 31, 2022 have not been determined.

Presbytery of the Twin Cities Area's financial statements do not disclose the information related to endowment funds required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205-45 *Other Presentation Matters*. In our opinion, disclosure of this information is required to conform with the accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Presbytery of the Twin Cities Area and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Change in Accounting Principle
As discussed in Note 1 to the financial statements, in 2022, the entity adopted new accounting guidance FASB ASC Topic 842: *Leases.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

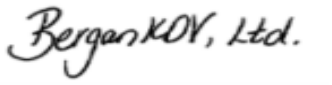
In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Presbytery of the Twin Cities Area's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Presbytery of the Twin Cities Area's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Presbytery of the Twin Cities Area's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.



St. Cloud, Minnesota
August 16, 2023

Presbytery of the Twin Cities Area
Statement of Financial Position
As of December 31, 2022

Assets	
Cash and cash equivalents	$ 192,084
Restricted cash	62,761
Investment and loan program depository accounts	794,428
Investments	5,255,406
Accounts receivable	2,558
Right-of-use asset - operating lease	60,459
Note receivable	333,551
Land held for development	559,046
Total assets	$ 7,260,293
Liabilities and Net Assets	
Liabilities	
Accounts payable	$ 51,264
Operating lease liability	60,459
Mortgage note payable	93,546
Total liabilities	205,269
Net assets	
Without donor restrictions	
Undesignated	29,897
Board designated	6,962,366
Total net assets without donor restrictions	6,992,263
With donor restrictions	62,761
Total net assets	7,055,024
Total liabilities and net assets	$ 7,260,293

See notes to financial statements.

Presbytery of the Twin Cities Area
Statement of Activities
Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Support			
Per capita	$ 393,806	$ -	$ 393,806
Unified mission giving	102,144	-	102,144
Other contributions and grants	44,581	2,504	47,085
Total support	540,531	2,504	543,035
Revenue			
Investment return, net	(931,631)	-	(931,631)
Miscellaneous	8,979	-	8,979
Total revenues	(922,652)	-	(922,652)
Net assets released from restrictions	802	(802)	-
Total support and revenues	(381,319)	1,702	(379,617)
Expenses			
Program services	637,437	-	637,437
Management and general	201,003	-	201,003
Total expenses	838,440	-	838,440
Change in net assets	(1,219,759)	1,702	(1,218,057)
Net Assets			
Beginning of year	8,212,022	61,059	8,273,081
End of year	$ 6,992,263	$ 62,761	$ 7,055,024

See notes to financial statements.

Presbytery of the Twin Cities Area
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services	Management and General	Total
Expenses			
Grants and scholarships	$ 167,090	$ -	$ 167,090
Presbytery mission partners	44,300	-	44,300
Committees	1,058	22,842	23,900
Interest	2,357	-	2,357
Prebytery leadership team	41,917	983	42,900
Stated clerk	2,847	1,899	4,746
Office manager	-	85,831	85,831
Executive presbytery	67,082	16,770	83,852
Committee coordinator	30,997	-	30,997
Treasurer	-	24,343	24,343
Anti-racism coordinator	64,493	-	64,493
KCOC pastor	21,852	-	21,852
Other personnel expenses	6,000	-	6,000
Administration expenses	-	45,835	45,835
Per capita expense	187,444	-	187,444
Miscellaneous	-	2,500	2,500
Total expenses	$ 637,437	$ 201,003	$ 838,440

See notes to financial statements.

Presbytery of the Twin Cities Area
Statement of Cash Flows
Year Ended December 31, 2022

Cash Flows - Operating Activities	
Change in net assets	$ (1,218,057)
Adjustments to reconcile change in net assets	
to net cash flows - operating activities	
Amortization of right-of-use asset	19,738
Net realized and unrealized loss on investments	1,007,023
Change in operating assets and liabilities:	
Accounts receivable	8,041
Accounts payable	39,205
Operating lease liability	(19,738)
Total adjustments	1,054,269
Net cash flows - operating activities	(163,788)
Cash Flows - Investing Activities	
Proceeds on sale of contract for deed	3,731
Proceeds on sale of investments	51,444
Purchases of and reinvested earnings on investment and loan program depository acc	(352,457)
Purchases of and reinvested earnings on investments and reinvested earnings	(116,149)
Net cash flows - investing activities	(413,431)
Cash Flows - Financing Activities	
Principal payments on mortgage note payable	(14,471)
Net change in cash and cash equivalents and restricted cash	(591,690)
Cash and Cash Equivalents and Restricted Cash	
Beginning of year	846,535
End of year	$ 254,845
Reconciliation to Statement of Financial Position	
Cash and cash equivalents	$ 192,084
Restricted cash	62,761
Total cash and cash equivalents and restricted cash	$ 254,845
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	$ 2,357
ROU asset obtained in exchange for operating lease liability	$ 80,197
Cash paid for operating lease	$ 20,406

See notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization
Presbytery of the Twin Cities Area (the Organization) is the governing body of the Presbyterian Church U.S.A. which provides ecclesiastical oversight to 60 churches and mission service in the southeastern Minnesota and western Wisconsin area.

The Organization's goals are to foster communication and cooperation among its member churches, to explore and rank particular needs and to assess the current and potential resources to fulfill those needs within a reasonable period.

Accounting 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Equivalents
The Organization considers highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents.

Restricted Cash
The Organization holds cash that has been received from permanent funds of the Presbyterian Foundation of which the Organization is the beneficiary. This cash is restricted by donors, primarily for scholarships and general mission and similar purposes. The Organization is accountable to the Presbyterian Foundation for the use of those funds.

Investments
The Organization considers financial instruments with a maturity greater than three months to be investments. Investment and Loan Program Depository Accounts are carried at cost and are unsecured. Other investments are valued using fair value measurement methods.

Concentrations
Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization places its cash and cash equivalents with a limited number of financial institutions. At times, the Organization's cash and cash equivalents are in excess of the FDIC insurance limit.

Note Receivable
In April 2020, the Organization was assigned interest in a mortgage originally dated June 2019. Monthly installments are $1,795, including 4% interest, with final balloon payment due on or before December 2024.

Land Held for Development
The Organization purchased vacant land in December 2011 with the intention of holding it for future new church development. The land is being held at cost.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Effective January 1, 2022, the Organization classifies leases as either operating or finance leases at the commencement date of the lease. A lease is classified as a finance lease if any of the five criteria are met: (1) ownership transfers at the end of the lease term, (2) there is an option to purchase the underlying assets and the lessee is reasonably certain to exercise the option, (3) the term of the lease is for a major part of the remaining economic life of the underlying assets, (4) the present value of the sum of the lease payments and any residual value guaranteed by the lessee equals or exceeds substantially all of the fair value of the underlying assets or (5) the underlying assets are of such a specialized nature that they are expected to have no alternative use to the lessor at the end of the lease term. Leases that do not meet any of the five criteria above for a finance lease are classified as operating leases.

The Organization recognizes a right-of-use (ROU) asset and lease liability for each operating and finance lease with a term greater than 12 months at the time of lease inception. The Organization does not record an ROU asset or lease liability for leases with an initial term of 12 months or less but continues to record rent expense on a straight-line basis over the lease term. Options to extend or terminate at the sole discretion of the Organization are included in the determination of lease term when they are reasonably certain to be exercised. The lease liability represents the present value of future lease payments over the lease term. The Organization has elected the practical expedient that allows for private companies to utilize the risk-free rate based on asset class.

Net Assets

Net assets and support and revenue are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions
Net assets available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for various purposes.

Net Assets With Donor Restrictions
Net assets subject to donor or grantor-imposed 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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, 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 restrictions.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition
Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of an irrevocable beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. As of December 31, 2022 there were no conditional contributions.

Functional Allocation of Expenses
The costs of providing the program and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expense presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited based on estimates of time and effort.

Income Taxes
The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Code.

Recently Adopted Accounting Pronouncement
Effective January 1, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, utilizing the modified retrospective optional method, where the cumulative catch-up adjustment is recorded at the date of adoption. Operating leases with a duration greater than one year, are included in operating lease right-of-use assets, current portion operating lease liabilities, and operating lease liabilities, net of current portion in the balance sheet as of December 31, 2022. The Organization has elected the package of practical expedients permitted in Topic 842. Accordingly, the Organization did not reassess at adoption (a) whether the contract contains a lease under Topic 842, (b) whether classification of the operating lease would be different in accordance with Topic 842, or (c) initial direct costs for existing leases. The Organization also elected the practical expedients (1) to discount the lease liability using the risk-free rate, (2) to use hindsight for assessing the lease term and impairment of the ROU asset, and (3) to not separate lease and non-lease components.

As a result of the adoption of the new lease accounting standard, the Organization's statement of financial position was materially impacted by the recognition of its ROU asset and lease liability of $80,197. There was no significant impact on the statements of activities, functional expenses, or cash flows as a result of the adoption.

Subsequent Events
The Organization has evaluated subsequent events through August 16, 2023, the date which the financial statements were available to be issued.

NOTE 2 – LIQUIDITY AND AVAILABILITY

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 of the following as of December 31, 2022:

	2022
Cash and cash equivalents	$ 192,084
Investment and loan program depository accounts	794,428
Investments	5,255,406
Accounts receivable	2,558
Less net assets without donor restrictions - board designated	(6,069,769)
Total financial assets available for general expenditures	$ 174,707

The Organization does not have a formal policy; however, it structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Although the Organization does not intend to spend from the board-designated funds (other than amounts appropriated for expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary. The portion of the net assets with donor restrictions – board designated is compromised of the note receivable and land held for development. In addition, as part of its liquidity management, the Organization would invest cash in excess of daily requirements in various short-term investments, including certificates of deposit and short-term treasury instruments.

NOTE 3 – FOUNDATION INVESTMENTS

The Presbyterian Foundation (the Foundation) holds third-party contributions to the Foundation on behalf of the Organization. The investments are administered by the Foundation and the Foundation has discretionary authority over the principal of the funds. Therefore, the investments are not reflected in the Organization's financial statement. However, the Organization is the beneficiary of the income on these accounts, and income is distributed to the Organization based on the Foundation's current income distribution formula. Investments under the control of the Foundation totaled $395,285 as of December 31, 2022.

NOTE 4 – FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3: Inputs are unobservable inputs based on the Organization's own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. There have been no changes in the methodologies used as of December 31, 2022.

Investment in U.S. Treasury bonds and common stocks are measured using quoted market prices. Municipal bonds are valued based on discounted cash flow model using coupon rates, par values and maturity periods.

Fair values of assets measured on a recurring basis are as follows as of December 31, 2022:

	Level 1	Level 2	Level 3	Total
Cash, bank sweep, and money market	$ 406,122	$ -	$ -	$ 406,122
U.S. Treasury bonds	93,428	-	-	93,428
Municipal bonds	-	1,870,823	-	1,870,823
Common stocks	2,885,033	-	-	2,885,033
Total	$ 3,384,583	$ 1,870,823	$ -	$ 5,255,406

NOTE 5 – MORTGAGE NOTE PAYABLE

The Organization is obligated on a mortgage payable to the Synod of Lakes and Prairies of the Presbyterian Church. The mortgage is due October 2028 and bears interest at 1% through August 2017. The interest rate increases every five years by 1% for the duration of the mortgage note payable. Annual principal and interest payments of $2,690 are due through August 2017 and monthly principal and interest payments of $1,361 are due beginning September 2017. The interest rate increased to 3% on September 1, 2022, with resulting monthly payments of $1,460. The mortgage note payable is secured by the land now used by a member congregation for its church building. In connection with the Organization's mortgage note payable agreement, the Organization has agreed to certain restrictive covenants.

NOTE 5 – MORTGAGE NOTE PAYABLE (CONTINUED)

Future principal payments on the mortgage note payable are as follows for the years ending December 31:

2023	$ 14,885
2024	15,338
2025	15,804
2026	16,285
2027	17,017
Thereafter	14,217
Total	$ 93,546

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS - BOARD DESIGNATED

Board designated net assets consist of the following as of December 31, 2022:

Blaine Property Easement Fund (formerly COL Easement)	$ 12,290
Ethiopian Ministry Grant Fund	34,683
Le Sueur Church Building Fund	300
Other designated escrow funds	18,948
Peace & Global Witness Offering Fund (Presbytery Share)	20,442
Shared Grant (aka: Welfare) Fund	844
Triennium Fund	24,223
Presbytery Reserve Fund	766,623
Strategic Asset Fund	6,084,013
Total net assets without donor restrictions - board designated	$ 6,962,366

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of December 31, 2022:

Restricted for purpose	
Ministry in a Changing World	$ 3,489
Bossman Scholarship Fund	13,806
Erlandson Scholarship Fund	1,621
Heller Fund	9,480
Livingston Scholarship Fund	24,936
Tilton Scholarship Fund	7,429
Donor endowment - Kenneth Clark Endowment Trust Fund	2,000
Total net assets with donor restrictions	$ 62,761

NOTE 8 – LEASE

The Organization has an operating agreement for office space with a remaining lease term of three years. Payments under this lease arrangement are fixed.

For the year ended December 31, 2022, operating lease expenses were $20,460. As of December 31, 2022, the operating lease had a weighted-average remaining lease term of 35 months and the weighted-average discount rate was 1.04%.

Future minimum lease payments under the lease are as follows for the years ending December 31:

2023	$ 20,460
2024	20,460
2025	20,460
Total lease payments	61,380
Less amounts representing interest	921
Present value of lease liabilities	$ 60,459

NOTE 9 – RELATED PARTY TRANSACTIONS

The Organization holds investments with a certain company that has representation on the Board of Trustees. These investment fees have occurred during the normal course of the operations and totaled $27,993 during the year ended December 31, 2022.

NOTE 10 – GUARANTEES

The Organization is a loan guarantor and contingently liable on 22 loans with a total balance of approximately $23,489,000 as of December 31, 2022. The last loan matures in the year 2056. Each loan is collateralized by a mortgage.

All property held by or for a congregation, a presbytery, a synod, the General Assembly, or the Presbyterian Church (U.S.A.), whether legal title is lodged in a corporation, a trustee or trustees, or an unincorporated association, and whether the property is used in programs of a congregation or of a higher council or retained for the production of income, is held in trust nevertheless for the use and benefit of the Presbyterian Church (U.S.A.).

Any time a congregation seeks to sell, lease, mortgage or otherwise encumber their church property, the Organization is required to give its approval. Any time property is pledged, the Organization becomes the guarantor, whether formally and legally acknowledged as with most loans with the Presbyterian Investment and Loan Program or informally acknowledged as with some loans with the Synod of Lakes and Prairies (the Synod). If the congregation defaults, closes, or is otherwise unable to repay a loan, the Organization would step in to make repayment and negotiate a strategy with the congregation, which might include selling the property to recover the amount due on the loan. The Organization could involve holding the property to start a new congregation there or a variety of other options to benefit the mission of the church. If the congregation is still active, that would be negotiated with the congregation. If the congregation is closed, there is no recourse on any loan payments made. Generally, the congregation would have little to no recourse if the Organization were forced to step in.

All of the loans with the Presbyterian Investment and Loan Program and the Synod are paid current except one loan with the Synod with an outstanding balance of $137,389.

Subsequent to year end the Organization entered into two additional agreements as a loan guarantor and is contingently liable on those loans with a total balance of approximately $5,583,400 as of December 31, 2022. The last loan matures in the year 2056. Each loan is collateralized by a mortgage.