



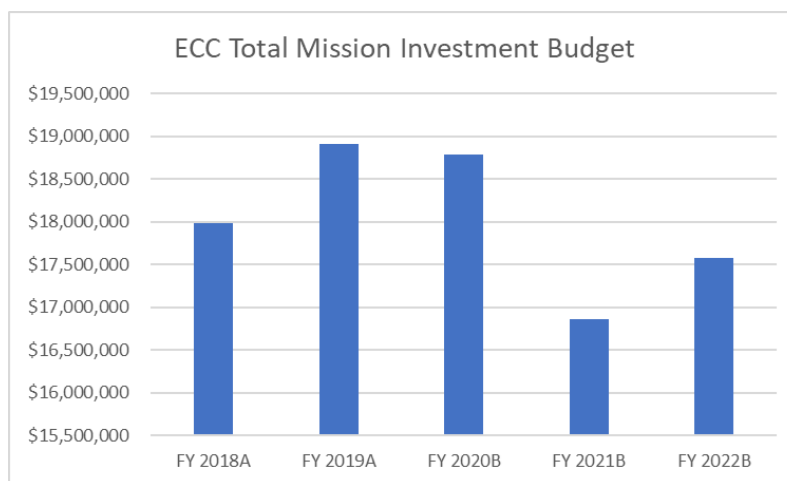
Fiscal Year 2021 Performance Report

As we prepare to gather at our annual meeting, please find the following summary of the financial materials and information we will be providing to our delegates related to our operating results, our benefit programs, and our financial stewardship.

FY2021 OPERATING RESULTS

Over the past two years, Covenant leadership has worked hard to reduce the size of the total spend that undergirds our mission to “join God in God’s mission to see more disciples, among more populations, in a more caring and just world.” While we are extremely grateful for the faithful support of our donors, total undesignated giving (the lifeblood of our coordinated mission budget) has been flat for the past five years. To maintain the financial capacity necessary to advance our mission, we have been engaged in a thoughtful and collaborative program of budget cuts to better live within our means.

As detailed in the chart below, our stewardship effort has resulted in a stepped down total spend that notably diverges from our historical budget trend, without damaging or degrading mission effectiveness.



We are pleased to report to you that despite the significantly reduced budget target in fiscal year 2021, our unaudited actual FY2021 spend was approximately \$16,705,131, or \$153,527 under budget. Total FY2021 income was \$16,224,186, or \$60,029 below target. Accordingly, our FY2021 financial performance was \$93,229 better than

budget, resulting in a budget deficit of \$480,944. Please find details regarding our fiscal year 2021 performance in the table below.

	Budget FY 2021	Actual FY 2021	Actual vs Budget %
Mission Provision			
ECC Church Support	\$ 8,150,000	\$ 8,026,758	-1.5%
Individual Donor Support	2,612,000	2,858,470	9.4%
Affiliate Fees	4,203,006	4,200,488	-0.1%
Annual Bequests Draw	818,000	928,000	13.4%
Other Income and Rent	501,209	210,470	-58.0%
TOTAL MISSION PROVISION	16,284,215	16,224,186	-0.4%
Misssion Investment			
Start and Strengthen Churches	\$ 1,053,075	\$ 1,081,223	2.7%
Make and Deepen Disciples	858,639	700,191	-18.5%
Develop Leaders	922,067	776,409	-15.8%
Love Mercy Do Justice	675,172	627,420	-7.1%
Serve Globally	1,429,348	1,221,721	-14.5%
MarComm	1,250,068	1,337,396	7.0%
Shared Services	3,951,152	4,543,402	15.0%
Other	250,000	166,523	-33.4%
Core Mission Investment	10,389,521	10,454,285	0.6%
Church Plant Appropriations	1,880,500	1,518,410	-19.3%
Living Legacy Funding	(686,669)	(495,000)	-27.9%
Net Church Plant Appropriations	1,193,831	1,023,410	-14.3%
Global Personnel Appropriations	4,275,036	4,227,435	-1.1%
North Park University Support	1,000,000	1,000,000	0.0%
Mission Friends Appropriations	5,275,036	5,227,435	-0.9%
TOTAL MISSION INVESTMENT	16,858,388	16,705,131	-0.9%
Mission Surplus (Deficit)	\$ (574,173)	\$ (480,944)	16.2%

Total Mission Provision

While total income was slightly under budget, undesignated giving from our churches and individuals totaled \$10,885,228, or \$123,228 ahead of budget. The 13.4% increase in the Annual Bequest Draw reflects the strong investment performance of our bequest reserve funds (we draw 10% of the bequest fund balances as of 9/30 of each fiscal year). The primary drag on our FY2021 income total was a significant decline in “Other Income and Rent” – specifically Communication Sales. We projected \$340,000 in Communication Sales, but the actual result totaled only \$100,665.

Total Mission Investment

As detailed in the table above, there are three categories of Mission Investment: Core Mission (our Five Mission Priorities and related Ministry support), Net Church Plant Appropriations (in support of Church Planting activities), and Mission Friends Appropriations (our investment in shared mission with our Mission Friends).

Core Mission Investment is the component of our annual spend where the Covenant Offices team exercises the most discretion. Here is where we can most directly impose stewardship discipline, as the catalysts for appropriations related to Church Plant activities and Mission Friends are largely constituency centered. Notably, the aggregated spend of our 5 Mission Priorities was \$531,336 below budget. Mission support expenses (Communications and Shared Services) were 13.1% over budget due to the costs related to our transition to a remote working structure and a more “digital friendly” denomination. In total, Core Mission Investment expenses came in .6% above budget.

Net Church Plant Appropriations were 14.3% below budget as church planting activity remained at approximately one half of historical (or “normal”) levels of activity. Appropriations related to our Mission Friends were .9% below budget as Global Personnel appropriations were \$47,601 under projections, and we were blessed to be able to maintain our annual support of North Park University at a level of \$1 million.

Although we would always prefer a balanced budget outcome – or, better yet, a budget surplus! – the FY2021 deficit of \$480,944 is 16.2% better than the \$574,173 deficit assumed in the approved budget. This is a significant reduction from the peak \$2.6 million funding gap we experienced in FY2019.

As noted in the enclosed summary titled “Presentation and Adoption of the FY2023 Budget”, our total income (net of the annual draw from our bequest reserves) has been flat over the past four years and recently has been trending downward. While we remain committed to bringing forth a balanced FY2024 budget proposal to Gather23 - should the recent trends in undesignated giving persist – it is difficult to imagine achieving a balanced budget without a major restructuring of the Covenant Offices mission and team. In our budget presentation at Gather, we will provide additional thoughts and observations regarding Covenant giving trends and the affordability of our current missioning structure.

Financial Audit Updates

We provide you with the most recent Covenant audited financial reports at our annual meeting. Enclosed in this packet is the audited consolidated financial statements of the Covenant for the fiscal year ended September 30, 2020. This report includes both “base mission” activity as well as broader global “project ministries” and related Covenant financial obligations. This is the most comprehensive view of our mission activity from a financial

perspective.

At the annual meeting in June, we will also make available to you the audited consolidated financial statements for the fiscal year most recently concluded (September 30, 2021), as well as a DRAFT of the audited financial statements of the Covenant Pension Plan (“CPP”) as of December 31, 2021. The CPP is the primary pension plan for Covenant ministers and Global Personnel. As in prior years, the audit remains in DRAFT form only because of a normal delay in receiving final valuations from certain private capital asset managers. The report will be finalized in the second half of 2022, and we do not expect any material revision.

Covenant Benefits

The newly renamed “Covenant Benefits” team (formerly “Bethany Benefit Service”) continues to provide a high level of care and service to our pastors, employees, and churches – while maintaining sound reserves and good operating results. Year after year, the Covenant Benefits team strives to provide our participants with affordable, high quality and comprehensive care – without compromising the plan’s long-term sustainability. The team is presently exploring new ways of expanding its program of care to better fit our member’s needs, both in terms of affordability and flexibility of coverage. We also plan to allocate more time and resources toward promoting greater awareness of Covenant Benefits across our churches, in the hope of expanding our membership. Increased enrollment means lower costs to our members, better care of our pastors, and a more diverse spread of the plan’s risks.

We are pleased to share that the Covenant Pension Plan continued to enjoy fully funded status as of year-end 2021.

Our goal is to ensure the long-term sustainability of the Covenant’s finances in its support our mission. If we are to mission well, we must steward well. We remain focused on creating better financial reporting across the Covenant ecosystem, enhancing transparency around our finances and annual budget, tightening expense management, expanding our programs around pastor economic wellness (particularly in under-resourced churches), growing our financial reserves, and continuing to build our Advancement efforts and our 3StrandStrong bonds.

We continue to be blessed by talented and faithful Covenanters who work alongside us on the Finance Committee of the Executive Board and on the Board of Pensions and Benefits. Our work would not be possible without them, nor without you.

We look forward to sharing more with you at Gather 2022.

With deep gratitude,

Steve Klimkowski
Executive Director of Finance, Corporate Treasurer, and Chief Financial Officer

THE EVANGELICAL COVENANT CHURCH

Consolidated Financial Statements
With Independent Auditors' Report

September 30, 2020 and January 31, 2020

THE EVANGELICAL COVENANT CHURCH

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INDEPENDENT AUDITORS' REPORT

To the Executive Board of
The Evangelical Covenant Church
Chicago, Illinois

We have audited the accompanying consolidated financial statements of The Evangelical Covenant Church, which comprise the consolidated statements of financial position as of September 30, 2020 and January 31, 2020, and the related consolidated statements of activities and cash flows for the eight months and year then ended, respectively, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Covenant Trust Company, an investee of which The Evangelical Covenant Church has a significant influence. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the investment in Covenant Trust Company, is based solely on the report of the other auditors. The investment in Covenant Trust Company made up 2.0% of The Evangelical Covenant Church's total assets and 7.1% of its change in net assets. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

To the Executive Board of
The Evangelical Covenant Church
Chicago, Illinois

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Evangelical Covenant Church as of September 30, 2020 and January 31, 2020, and the changes in its consolidated net assets and cash flows for the eight months and year then ended, respectively, in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Naperville, Illinois
March 11, 2022

THE EVANGELICAL COVENANT CHURCH

Consolidated Statements of Financial Position

	<u>September 30, 2020</u>	<u>January 31, 2020</u>
ASSETS:		
Cash and cash equivalents	\$ 3,232,647	\$ 1,891,153
Contributions and bequests receivable	-	142,440
Prepaid expenses and other assets	123,580	103,832
Notes and accounts receivable:		
Churches and other affiliates (net of allowance of \$25,500 at September 30, 2020 and January 31, 2020)	1,311,651	886,776
Other Covenant entities	2,187,302	1,700,442
Other	307,450	398,373
Real estate held for sale (Note 15)	592,719	1,715,685
Investments (Note 2)	61,106,198	55,587,089
Investments whose use is limited (Note 2):		
Annuities	7,584,604	7,906,225
Investments pledged	1,505,581	1,481,916
Property and equipment, net (Note 4)	9,537,972	9,711,295
Interest in irrevocable trusts (Note 7)	809,528	837,107
	<u>\$ 88,299,232</u>	<u>\$ 82,362,333</u>
Total Assets		
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued expenses	\$ 2,387,721	\$ 2,585,748
Deferred income	1,750,758	1,878,996
Insurance payable	21,997,615	22,312,113
Lines of credit and notes payable (Note 5)	6,685,234	4,472,016
Supplemental retirement benefits payable (Note 12)	575,308	589,789
Annuities (Note 13):		
Annuities payable	841,588	925,524
Due to other Covenant entities	6,418,274	6,664,466
Total Liabilities	<u>40,656,498</u>	<u>39,428,652</u>
Net assets:		
Without donor restrictions	22,498,235	17,197,065
With donor restrictions (Note 10)	25,144,499	25,736,616
Total Net Assets	<u>47,642,734</u>	<u>42,933,681</u>
Total Liabilities and Net Assets	<u>\$ 88,299,232</u>	<u>\$ 82,362,333</u>

See notes to consolidated financial statements

THE EVANGELICAL COVENANT CHURCH

Consolidated Statements of Activities

	Eight Month Period Ended September 30, 2020			Year Ended January 31, 2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
INCOME:						
Church giving	\$ 3,129,382	\$ 2,261,566	\$ 5,390,948	\$ 5,271,674	\$ 3,766,164	\$ 9,037,838
Fees	2,601,221	-	2,601,221	3,893,833	-	3,893,833
Contributions	7,302,616	2,636,293	9,938,909	1,562,716	8,641,633	10,204,349
Meetings and events	14,817	-	14,817	928,194	-	928,194
Communication sales	119,446	-	119,446	344,120	-	344,120
Bequests	1,026,368	-	1,026,368	2,027,207	-	2,027,207
Loss on sale of real estate held for sale	(355,888)	-	(355,888)	-	-	-
Other	290,351	1,382,407	1,672,758	1,570,406	661,437	2,231,843
Investment income net of fees	793,147	250,893	1,044,040	1,541,974	1,008,622	2,550,596
Change in value of annuities and interest in irrevocable trusts	(5,289)	(13,784)	(19,073)	(9,196)	(119,662)	(128,858)
Total Support and Revenue	14,916,171	6,517,375	21,433,546	17,130,928	13,958,194	31,089,122
Net Assets Released From Restrictions:	7,109,492	(7,109,492)	-	11,843,500	(11,843,500)	-
	22,025,663	(592,117)	21,433,546	28,974,428	2,114,694	31,089,122
EXPENSES:						
Start & Strengthen Churches	3,133,039	-	3,133,039	4,399,897	-	4,399,897
Make & Deepen Disciples	616,845	-	616,845	1,743,812	-	1,743,812
Develop Leaders	1,777,128	-	1,777,128	2,699,440	-	2,699,440
Love Mercy, Do Justice	539,979	-	539,979	1,071,740	-	1,071,740
Serve Globally	6,570,619	-	6,570,619	11,216,649	-	11,216,649
General Mission	87,119	-	87,119	266,551	-	266,551
Communication	836,239	-	836,239	1,221,606	-	1,221,606
General administration	2,740,324	-	2,740,324	6,280,753	-	6,280,753
Fundraising	423,201	-	423,201	638,145	-	638,145
Total Expenses	16,724,493	-	16,724,493	29,538,593	-	29,538,593
Changes in Net Assets	5,301,170	(592,117)	4,709,053	(564,165)	2,114,694	1,550,529
Net Assets, Beginning of Year	17,197,065	25,736,616	42,933,681	17,761,230	23,621,922	41,383,152
Net Assets, End of Year	\$ 22,498,235	\$ 25,144,499	\$ 47,642,734	\$ 17,197,065	\$ 25,736,616	\$ 42,933,681

See notes to consolidated financial statements

THE EVANGELICAL COVENANT CHURCH

Consolidated Statements of Cash Flows

	Eight Month Period Ended September 30, 2020	Year Ended January 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 4,709,053	\$ 1,550,529
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	173,323	261,424
Unrealized appreciation on investments	(392,285)	(942,787)
Unrealized depreciation (appreciation) on annuity investments	2,631	(32,900)
Loss (Gain) on sale of investments	189,283	(1,331,024)
Gain on sale of annuity investments	(9,521)	(22,557)
Loss on sale of real estate held for sale	355,888	-
Annuity payments	95,198	145,216
Actuarial change in annuities	(83,936)	(42,087)
Change in interest in irrevocable trusts	27,579	114,652
Contributions restricted for investment in endowment	(1,172,813)	(2,681,890)
Changes in:		
Contributions and bequests receivable	142,440	57,983
Accounts receivable	(450,301)	145,522
Prepaid expenses and other assets	(19,748)	19,840
Accounts payable and accrued expenses	(198,027)	(24,160)
Insurance payable	(314,498)	(2,291,708)
Supplemental retirement benefits payable	(14,481)	(20,004)
Deferred income	(128,238)	(305,211)
Net Cash Provided (Used) by Operating Activities	<u>2,911,547</u>	<u>(5,399,162)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	-	(6,419)
Purchases of investments	(8,737,066)	(28,500,712)
Proceeds from sale and maturity of investments	3,397,292	29,657,189
Purchase of investments restricted for annuities	-	(8,545)
Proceeds from sale and maturity of investments restricted for annuities	82,320	120,295
Proceeds from sale of property held for sale	874,651	57,380
Disbursements under notes receivable	(594,155)	(199,700)
Collections on notes receivable	223,644	196,609
Net Cash (Used) Provided by Investing Activities	<u>(4,753,314)</u>	<u>1,316,097</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for investment in endowment	1,172,813	2,681,890
Borrowings from lines of credit and notes payable	3,100,052	2,121,626
Repayments from lines of credit and notes payable	(994,406)	(1,692,940)
Annuity payments	(95,198)	(145,216)
Net Cash Provided by Financing Activities	<u>3,183,261</u>	<u>2,965,360</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,341,494	(1,117,705)
Cash and Cash Equivalents, Beginning of Year	<u>1,891,153</u>	<u>3,008,858</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,232,647</u>	<u>\$ 1,891,153</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 107,700</u>	<u>\$ 163,276</u>
Payoff of old debt with issuance of new debt	<u>\$ -</u>	<u>\$ 2,168,256</u>
Acquisition of real estate held for sale by note payable	<u>\$ 107,573</u>	<u>\$ 107,206</u>

See notes to consolidated financial statements

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF ORGANIZATION

The Evangelical Covenant Church (the “Church”) and other Covenant institutions are accountable to the Executive Board of the Covenant and the Covenant Annual Meeting. Only those funds under the Executive Board's control that are associated with the Church activities are included in these consolidated financial statements. The consolidated financial statements exclude the accounts of member churches and regional conferences. They also exclude other Covenant institutions administered by separate Boards. These Covenant institutions are related parties of the Church as the Executive Board is a member of their institutional boards. Related parties include Covenant Ministries of Benevolence, North Park University, National Covenant Properties, Covenant Trust Company, Paul Carlson Partnership, and Centro Hispano de Estudios Teologicos del Pacto Evangelico. The Church is exempt from taxation pursuant to Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Church has been classified as an organization that is not a private foundation under IRC Section 509(a)(1). Accordingly, no provision for federal or state income taxes is required.

BASIS OF CONSOLIDATION

Bezalel, Inc. and CovScholars LLC are nonprofit organizations whose sole member is the Church. They have been incorporated in the State of Illinois within the meaning of Section 501(c)(3) of the IRC. Bezalel, Inc. was formed in 2016 to assist the Church in acquiring and developing real property for families in low-income communities. CovScholars was formed in 2017 to provide a loan program for scholars at North Park Theological Seminary. Intercompany transactions and balances have been eliminated for consolidated financial statement purposes.

BASIS OF ACCOUNTING

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 consolidated financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

CHANGE IN FISCAL YEAR

In March 2020, the Executive Board changed the Church's fiscal year end to September 30. Therefore, the consolidated financial statements presented for the period ended September 30, 2020 and year ended January 31, 2020, reflect the results of activity for the eight month period and year, respectively.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking, savings, and money market accounts. At times these balances may exceed federally insured limits. As of September 30, 2020 and January 31, 2020, the Church had cash on deposit that exceeded federally insured limits by \$2,719,449 and \$3,731,665, respectively. The Church has not experienced any losses on these accounts and does not believe it is exposed to any significant risk.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments, including investments whose use is limited, with readily determinable fair values are reported at fair value based on quoted market prices. Investments, including investments whose use is limited, in National Covenant Property (NCP) Certificates and NCP Demand Accounts are reported at cost plus accrued interest. Investment in Covenant Trust Company (CTC) is reported under the equity method. Investment income and realized and unrealized appreciation and depreciation are included in investment income in the consolidated statements of activities. Assets funding endowment net assets are included in investments on the consolidated statements of financial position.

CONTRIBUTIONS AND BEQUESTS

Contributions and bequests are recorded at the time of notification of an unconditional promise from the donor and are classified as net assets without donor restrictions or net assets with donor restrictions (see Note 10). Net assets without donor restrictions are primarily derived from member churches, individual donors, and fees (see Note 8). Restricted contributions are received from member churches and individual donors in support of various ministries of the Church. Funds are raised by member churches, direct mailings to individuals, and promotion of ministry opportunities through the Church's web site. Contributions receivable represent amounts expected to be collected within less than one year.

NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable consist of discretionary loans made to Covenant entities for building projects with related accrued interest and various receivables from other Covenant entities. All notes and accounts receivable are due on demand. The allowance for notes and accounts receivable is maintained at a level that, in management's judgment, is adequate to absorb probable losses.

PROPERTY AND EQUIPMENT

Property and equipment in excess of \$5,000 are capitalized at cost, or if donated, at the fair market value on the date of the gift. Property and equipment is depreciated on a straight-line basis over their estimated useful lives, ranging from 5 to 50 years. Property donated with restrictions regarding its use and contributions of cash to acquire property are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired or placed in service, and a reclassification is made from net assets with donor restrictions to net assets without donor restrictions at that time.

REAL ESTATE HELD FOR SALE

Real estate held for sale is initially reported at cost, if purchased, or fair value on the date of receipt as determined by appraisals and thereafter adjusted to estimated net realizable value. All real estate held for sale is actively marketed and is expected to be sold within one year. Subsequent gains from disposition of property held for sale are recorded as gain on sale of property in the period realized. Subsequent losses are recorded in the period when it is probable and able to be estimated.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES, continued:

INSURANCE PAYABLE

Bethany Benefit Service (BBS), an activity of the Church, administers the voluntary health (including medical, dental, prescription drug and vision), life, and long-term disability insurance plan for the denomination's ministers, missionaries, and staff. BBS collects and remits the benefit premiums on behalf of the participants. Amounts payable represent benefit premiums collected from participants not yet remitted to the insurance carrier at year-end as well as reserves allocated to BBS to cover future liabilities including claims incurred but not received.

ANNUITY AGREEMENTS

The Church has an obligation to make payments under charitable gift annuity agreements. In accordance with various state regulations, the Church maintains separate trust funds as a reserve fund to meet the future payments under these agreements (see Note 13). Annuities payable are determined based upon the annuitants' ages and life expectancies using rates which comply with various state requirements. A discount rate of 7% and the Annuity 2015 Mortality Table were used in the valuation of the annuity agreements. Payouts are made for the life of the annuitants at rates ranging from 4.2% to 21.6% based on existing annuity agreements. The excess of amounts available to fund the annuities over the calculated amount of annuities payable is recorded as net assets with or without donor restrictions if the residual is available to the Church or as a liability if the residual is payable to others or other Covenant entities.

DEFERRED INCOME

Deferred income includes monies received in advance for meetings and events, and payments received for subscriptions not yet mailed. In addition, deferred income includes grant funds received that have not yet been expended and are subject to certain conditions.

CLASSES OF NET ASSETS

The consolidated financial statements report amounts separately by classes of net assets as follows:

Net assets without donor restrictions are those currently available at the discretion of the Executive Board for use in the Church's operations, those designated by the Board for specific purposes, and those resources invested in property and equipment.

Net assets with donor restrictions are those contributed with donors' restrictions for specific operating purposes or programs, or those with timing restrictions. They are not currently available for use in the Church's ministries until commitments regarding their use have been fulfilled. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Net assets with donor restrictions also include those restricted by donors in perpetuity. These assets are included with investments.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES, continued:

EXPENSES

Expenses are recorded as incurred in accordance with the accrual basis of accounting. The costs of providing the various program services and supporting activities have been summarized on a functional basis in Note 14. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Advertising costs, if any, are expensed as incurred.

MEETINGS AND EVENTS

Meetings and events income and expenses include the activities of the Church's annual meeting and an annual conference held for Church pastors. Additionally, a youth conference and a women's conference are held every three years.

2. INVESTMENTS AND INVESTMENTS WHOSE USE IS LIMITED:

Investments as of September 30, 2020 and January 31, 2020, consist of the following:

	<u>September 30,</u>	<u>January 31,</u>
Money Market Funds	<u>\$ 2,977,008</u>	<u>\$ 6,069,575</u>
NCP Demand Accounts	<u>10,944,469</u>	<u>5,653,072</u>
Equity:		
Mutual Funds	17,912,602	15,271,233
Other Assets Illiquid	2,809,298	3,353,210
Total Equity	<u>20,721,900</u>	<u>18,624,443</u>
Fixed Income:		
Mutual Funds	17,494,464	16,098,620
NCP Certificates	7,229,418	7,771,515
Total Fixed Income	<u>24,723,882</u>	<u>23,870,135</u>
Investment in CTC	<u>1,738,939</u>	<u>1,369,864</u>
Total Investments	<u><u>\$ 61,106,198</u></u>	<u><u>\$ 55,587,089</u></u>

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

2. INVESTMENTS AND INVESTMENTS WHOSE USE IS LIMITED, continued:

Investments, whose use is limited as of September 30, 2020 and January 31, 2020, consist of the following:

	<u>September 30,</u>	<u>January 31,</u>
Annuities:		
Money Market Funds	\$ 449,125	\$ 92,551
Equity Mutual Funds	<u>3,522,665</u>	<u>3,334,073</u>
Fixed Income:		
Bonds - Federal Agencies	-	1,018,568
Bonds - US Government	3,125,616	3,066,895
Mutual Funds	<u>487,198</u>	<u>394,138</u>
Total Fixed Income	<u>3,612,814</u>	<u>4,479,601</u>
 Total Annuity Investments	 <u>7,584,604</u>	 <u>7,906,225</u>
 Investments Pledged - National Covenant		
Properties Certificates (see Note 6)	<u>1,505,581</u>	<u>1,481,916</u>
	<u><u>\$ 9,090,185</u></u>	<u><u>\$ 9,388,141</u></u>

Investments in NCP Certificates bear interest at rates ranging from 1.0% to 3.5% and mature through 2026. Investments in NCP Demand Accounts bear interest at 1.0% and are redeemable on demand.

Investment in the CTC represents the Church's ownership interest in the CTC, which is equally owned with related parties North Park University and Covenant Ministries of Benevolence.

Fees paid for investments held and managed by the CTC were \$52,579 and \$109,910 for the eight months and year ended September 30, 2020 and January 31, 2020, respectively. Included in investment income is \$157,575 and \$190,770 of interest income earned from sources held at other than fair value as of September 30, 2020 and January 31, 2020, respectively.

At September 30, 2020, approximately \$50.5 million of the Church's investment portfolio was held and managed by CTC and approximately \$19.7 million was held at NCP. While these assets are subject to investment risk, the Church has not incurred and does not expect to incur any losses related to the solvency of the entities themselves. The Church does not believe it is exposed to any significant risk of loss related to these entities.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

3. FAIR VALUE MEASUREMENTS AND DISCLOSURES:

The Church uses appropriate valuation techniques to determine fair value based on inputs available using the hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring the investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The type of investments included in Level I are publicly traded securities.

Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III — Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement and considers factors specific to the investment.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

3. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The following table summarizes the valuation of the Church's financial assets by the above fair value hierarchy levels as of September 30, 2020:

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Investments at fair value:				
Money Market Funds	\$ 2,977,008	\$ 2,977,008	\$ -	\$ -
Equity:				
Mutual Funds	17,912,602	17,912,602	-	-
Other Assets Illiquid	2,809,298	-	-	2,809,298
Fixed Income Mutual Funds	17,494,464	17,494,464	-	-
Total investments at fair value	41,193,372	38,384,074	-	2,809,298
Investments carried at cost:				
NCP Demand Accounts	10,944,469			
NCP Certificates	7,229,418			
	<u>18,173,887</u>			
Investment in CTC	<u>1,738,939</u>			
Total Investments	<u>\$ 61,106,198</u>	<u>\$ 38,384,074</u>	<u>\$ -</u>	<u>\$ 2,809,298</u>
Investments whose use is limited at fair value:				
Money Market Funds	\$ 449,125	\$ 449,125	\$ -	\$ -
Equity Mutual Funds	3,522,665	3,522,665	-	-
Fixed Income:				
Bonds - US Government	3,125,616	-	3,125,616	-
Mutual Funds	487,198	-	487,198	-
Total investments whose use is limited at fair value	7,584,604	3,971,790	3,612,814	-
Investments whose use is limited at cost:				
NCP Certificates	<u>1,505,581</u>			
Total investments whose use is limited	<u>\$ 9,090,185</u>	<u>\$ 3,971,790</u>	<u>\$ 3,612,814</u>	<u>\$ -</u>

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

3. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The following table summarizes the valuation of the Church's financial assets by the above fair value hierarchy levels as of January 31, 2020:

	Total	Level I	Level II	Level III
Investments at fair value:				
Money Market Funds	\$ 6,069,575	\$ 6,069,575	\$ -	\$ -
Equity:				
Mutual Funds	15,271,233	15,271,233	-	-
Other Assets Illiquid	3,353,210	-	-	3,353,210
Fixed Income Mutual Funds	16,098,620	16,098,620	-	-
Total investments at fair value	40,792,638	37,439,428	-	3,353,210
Investments carried at cost:				
NCP Demand Accounts	5,653,072			
NCP Certificates	7,771,515			
	13,424,587			
Investment in CTC	1,369,864			
Total Investments	<u>\$ 55,587,089</u>	<u>\$ 37,439,428</u>	<u>\$ -</u>	<u>\$ 3,353,210</u>
Investments whose use is limited at fair value:				
Money Market Funds	\$ 92,551	\$ 92,551	\$ -	\$ -
Equity Mutual Funds	3,334,073	3,334,073	-	-
Fixed Income:				
Bonds - Federal Agencies	1,018,568	-	1,018,568	-
Bonds - US Government	3,066,895	-	3,066,895	-
Mutual Funds	394,138	394,138	-	-
Total investments whose use is limited at fair value	7,906,225	3,820,762	4,085,463	-
Investments whose use is limited at cost:				
NCP Certificates	1,481,916			
Total investments whose use is limited	<u>\$ 9,388,141</u>	<u>\$ 3,820,762</u>	<u>\$ 4,085,463</u>	<u>\$ -</u>

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

3. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

Investments in NCP Demand Accounts, NCP Certificates, and the investment in the CTC have been excluded from the fair value hierarchy as they are carried at cost, which approximates fair value.

The Church's investments that are measured at fair value on a recurring basis using significant unobservable inputs (Level III) are summarized as follows:

Balance January 31, 2019	\$ 3,328,837
Purchases	77,149
Unrealized Loss	(52,776)
Balance January 31, 2020	<u>3,353,210</u>
Purchases	19,173
Unrealized Loss	<u>(563,085)</u>
Balance September 30, 2020	<u><u>\$ 2,809,298</u></u>

Other assets illiquid consists of limited liability partnerships and is carried at fair value, as determined by the fund's general partners based on information provided by the funds' underlying professional managers. The funds do not allow for withdrawals of investments but will make distributions of its distributable cash flows to its limited partners over the estimated ten year life of the fund. The Church has an outstanding capital commitment of \$87,500 and \$77,500 as of September 30, 2020 and January 2020, respectively.

4. PROPERTY AND EQUIPMENT:

Property and equipment at September 30, 2020 and January 31, 2020, consist of the following:

	<u>September 30,</u>	<u>January 31,</u>
Administrative office:		
Land	\$ 3,098,419	\$ 3,098,419
Building and improvements	8,013,581	8,013,581
Furniture, fixtures, equipment and vehicles	968,443	968,443
	<u>12,080,443</u>	<u>12,080,443</u>
Less accumulated depreciation	<u>(2,542,471)</u>	<u>(2,369,148)</u>
	<u><u>\$ 9,537,972</u></u>	<u><u>\$ 9,711,295</u></u>

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

5. LINES OF CREDIT AND NOTES PAYABLE:

The Church has a line of credit with NCP. As of September 30, 2020 and January 31, 2020, the available line of credit was \$2,500,000. At September 30, 2020 and January 31, 2020, the outstanding balance was \$1,200,000 and \$0, respectively. The interest rate is set at the prime rate, but in no event less than 4.0% per annum. At September 30, 2020 and January 31, 2020, the interest rate was 4.0% and 4.75%, respectively. This line of credit is payable on demand with sixty days written notice.

The Church also has a mortgage note payable with NCP on the building it now owns and occupies. This loan was refinanced in May 2019 at a total loan amount of \$2,680,000. As of September 30, 2020 and January 31, 2020, the outstanding balance on the mortgage note payable was \$2,516,973 and \$2,596,830, respectively. The initial interest rate was 4.75%. The interest rate was adjusted on May 1, 2020 and will be adjusted every twelve months thereafter. At September 30, 2020 and January 31, 2020, the interest rate was 4.25% and 4.75%, respectively. Under the refinanced loan terms, principal and interest is paid monthly in arrears in installments of \$19,221, based on the most recent interest rate adjustment. All unpaid principal and interest is due and payable on May 1, 2032. The note is secured with real estate.

During the year ended January 31, 2008, the Church acquired real estate located in Westminster, Colorado by assuming the related mortgage note payable and outstanding interest payable with NCP of \$2,026,953. As of September 30, 2020 and January 31, 2020, the outstanding balance on the mortgage note payable was \$0 and \$909,730, respectively. The mortgage note payable was due on demand and bore interest at prime, but in no event less than 4.0% per annum. At January 31, 2020, the interest rate was 4.75%. Monthly payments of interest only were required. This loan was secured by real estate.

During the year ended January 31, 2017, Bezalel, Inc. obtained a mortgage with NCP to acquire real estate in Dolton, IL. The original principal amount is not to exceed \$500,000. Interest, charged at prime rate, but no less than 4%, is added to the principal of the loan. At September 30, 2020 and January 31, 2020, the interest rate was 4.0% and 4.75%, respectively. The mortgage balance of each property is due in full upon the sale of the property. The outstanding balance on the mortgage note payable was \$663,399 and \$559,910 as of September 30, 2020 and January 31, 2020, respectively. This note is secured with real estate.

During the year ended January 31, 2018, the Church started a program called CovScholars. The Church obtained a loan with NCP to be able to offer eligible Covenant Scholars interest free loans. The original principal amount for the ECC is not to exceed \$1,000,000. Interest, charged at prime rate, but no less than 4.0%, is added to the principal of the loan. At September 30, 2020 and January 31, 2020, the interest rate was 4.0% and 4.75%, respectively, and is due monthly. Principal payments will be due from the students commencing on the earlier of six months after completion of the coursework/graduation at North Park Theological Seminary or six months after ceasing to be enrolled at least half-time. The total outstanding as of September 30, 2020 and January 31, 2020, is \$225,653 and \$152,237, respectively.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

5. LINES OF CREDIT AND NOTES PAYABLE, continued:

During the year ended January 31, 2019, the Church established a \$1,000,000 line of credit with NCP in support of pastoral grantmaking. The interest rate is set at the prime rate, but in no event less than 4.0% per annum. At September 30, 2020 and January 31, 2020, the interest rate was 4.0% and 4.75%, respectively. This line of credit is payable on demand with sixty days written notice. The outstanding balance on the line of credit is \$303,309 and \$253,310 as of September 30, 2020 and January 31, 2020, respectively, and is secured by invested funds from proceeds of a grant from the Lilly Foundation.

As part of the response to the impact of COVID-19, the Church applied for a Paycheck Protection Program (PPP) loan, administered by the Small Business Administration (SBA), under the CARES Act, which was signed into law in March 2020. The Church was approved for a loan in the amount of \$1,775,900 in May 2020. The PPP loan program provides for potential loan forgiveness up to the full amount of the loan provided the Church overcomes (meets) certain loan stipulations. The Church received notice from its lender in July 2021 that the full amount of the loan had been forgiven.

Principal payments on lines of credit and notes payable are due as follows for the years ending September 30:

2021	\$ 2,292,825
2022	1,907,484
2023	137,287
2024	143,236
2025	149,444
Thereafter	<u>2,054,958</u>
	<u>\$ 6,685,234</u>

Interest expense for the eight month period ended September 30, 2020 and year ended January 31, 2020, was \$87,170 and \$142,525, respectively.

6. COMMITMENTS AND CONTINGENCIES:

GUARANTOR OF DEBT

The Church is liable as joint guarantor, with the regional conferences, of various mortgage loans of local Covenant churches. As of September 30, 2020, the outstanding principal balance on these loans totaled \$74,032,236. These loans are secured by the related properties. The Church has pledged investments totaling \$1,505,581 as security for these loans. The mortgage loans have maturity dates ranging from on demand through the year 2050.

The Church also guarantees a mortgage loan to a local development company for its purchase of real property in Dolton, IL. The outstanding balance on this loan was \$250,000 as of September 30, 2020 and January 31, 2020. The note is secured with a variable rate certificate in the principal amount of not less than \$200,000 and properties owned by the development company.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

6. COMMITMENTS AND CONTINGENCIES, continued:

COVENANT AGREEMENTS

The Church participates in sponsoring various "Covenant Agreements" with regional church conferences. These intentions to give are not recorded in the consolidated financial statements because they only constitute expressions of intent to give where all discretion to transfer the resources rests with the Church. The Covenant Agreements provide support for pastor salaries and benefits at various member churches. There are no commitments beyond fiscal year 2026. The Church's planned expenditures under existing Covenant Agreements are as follows for the years ending September 30:

2021	\$ 978,218
2022	593,821
2023	349,970
2024	205,685
2025	130,530
2026	<u>125,600</u>
	<u><u>\$ 2,383,824</u></u>

7. BENEFICIAL INTEREST OF GIFT INSTRUMENTS:

A source of funds to the Church is in the form of bequests from deceased church members and other parties. The Covenant Estate Planning Services, an affiliate of the Church, maintains information as to the estimated values of the Church's share of trusts and other estate planning mechanisms used by donors. Estimates of value as to the underlying assets of the trusts or other arrangements rely on quoted market prices in the case of stocks and other equity and traded debt securities, appraisal value (where available) for real property, and other reasonable estimates made by the trustees for specific assets.

Amounts related to irrevocable trusts for which the Church is named as beneficiary are reflected in the consolidated statements of financial position as Interest in Irrevocable Trusts. Trusts which name the Church as beneficiary, but which allow the beneficiary to be changed to a different Church-related entity at the discretion of the grantor, are not considered irrevocable for accounting purposes and, accordingly, have not been recorded in the consolidated financial statements. The Interest in Irrevocable Trusts becomes available to the Church upon death of the grantor. During the eight month period ended September 30, 2020 and year ended January 31, 2020, the Church was not the beneficiary of any new irrevocable trusts.

8. FEES AND EXPENSE REIMBURSEMENTS:

The Church charges fees for administrative and management services provided to other Covenant institutions and funds of the Church. Fees charged to related Covenant institutions and funds were \$2,601,221 and \$3,893,833 for the eight month period ended September 30, 2020 and year ended January 31, 2020, respectively. In addition, the Church recorded \$181,568 and \$315,471 for the eight month period ended September 30, 2020 and year January 31, 2020, respectively, as reimbursement of expenses incurred by the Church, which are reflected as a reduction of general administration expenditures in the consolidated statements of activities.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

9. PENSION TRUST FUND:

The Church participates in two multiemployer plans. The risks of participating in these multiemployer plans differ from single-employer plans in the following aspects:

- a) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employer.
- c) If the organization chooses to stop participating in the multiemployer plan, it may be required to pay to the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

All full-time ministers participate in the Covenant Pension Plan. This multiemployer plan, administered by the Board of Pensions and Benefits of the Evangelical Covenant Church, is noncontributory and provides defined benefits based on years of service and remuneration. Covenant ordained or licensed ministers serving full time in the denomination, in one of its conferences or in Covenant churches are required to participate in the Covenant Pension Plan. Full-time missionaries of the Covenant are also required to participate. The contribution rate is 12.5% of the annual compensation, including housing allowances, of participating personnel. Participants with five years of service are entitled to pension benefits upon retirement. Pension benefits are paid monthly and are based on length of service and compensation. Pension expense, representing the Church's required contribution to the Covenant Pension Plan, was \$403,438 and \$632,961 for the eight months and year ended September 30, 2020 and January 31, 2020, respectively. The contributions made by the Church represented approximately 5% and 7% of the total contributions made to the Covenant Pension Plan in 2020 and 2019, respectively. To the extent the Covenant Pension Plan is underfunded, future contributions to the Plan may increase.

The Covenant Pension Plan is not an Employee Retirement Income Security Act (ERISA) Plan and is not required to file Form 5500. The Covenant Pension Plan's fiscal year is January 1 to December 31.

Total contributions from all employers to the Plan for the years ended December 31, 2020 and 2019, are as follows:

<u>Pension Fund</u>	<u>FEIN</u>	<u>2020</u>	<u>2019</u>
Covenant Pension Plan	36-3065447	\$ 7,618,953	\$ 9,193,963

As of December 31, 2020, the Covenant Pension Plan's total net assets available for benefits were \$272,741,488 and the actuarial present value of accumulated plan benefits was \$256,243,955. As of December 31, 2019, the Covenant Pension Plan's total net assets available for benefits were \$265,389,915 and the actuarial present value of accumulated plan benefits was \$262,703,385. As of December 31, 2020, the Plan was 100% funded, based on the church plan assumptions utilized by management.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

9. PENSION TRUST FUND, continued:

Lay employees of the Church hired before May 2013 participate in The Evangelical Covenant Church Lay Pension Plan (the "Lay Plan"). This multiemployer plan, administered by the Church, is noncontributory and provides defined benefits based on years of service and remuneration near retirement. This Lay Plan was previously a part of The Evangelical Covenant Church Retirement Plan (the "Plan") and was administered by the Board of Benevolence of the Evangelical Covenant Church. The Lay Plan began operations on January 1, 2014.

Eligible employees are all lay employees of the Church and its related entities. Participants with five years of service are entitled to pension benefits upon retirement. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor annuities, including a lump-sum payment option if the earned benefit is less than \$10,000. Pension expense, representing the Church's required contribution to the Lay Plan, was \$353,199 and \$1,679,548 for the eight month period ended September 30, 2020 and year ended January 31, 2020. The contributions made by the Church represented approximately 63% and 72% of the total contributions made to the Lay Plan in 2020 and 2019, respectively. To the extent the Lay Plan is underfunded, future contributions to the Lay Plan may increase. Effective December 31, 2021, the Lay Plan was frozen.

The Lay Plan is a Church plan (not an ERISA Plan) and is not required to file Form 5500. The Plan's fiscal year is from January 1 to December 31.

Total contributions from all employers to the Lay Plan for the years ended December 31, 2020 and 2019, are as follows:

<u>Pension Fund</u>	<u>FEIN</u>	<u>2020</u>	<u>2019</u>
Evangelical Covenant Church Lay Pension Plan	46-4271385	\$ 556,659	\$ 2,317,491

As of December 31, 2020, the Lay Plan's total net assets available for benefits were \$11,506,542 and the actuarial present value of accumulated plan benefits was \$10,266,094. As of December 31, 2019, the Lay Plan's total net assets available for benefits were \$10,320,836 and the actuarial present value of accumulated plan benefits was \$9,982,610. As of December 31, 2020, the Plan was 100% funded, based on the Church Plan assumptions utilized by management.

Full-time employees hired in May 2013 or thereafter are covered under a 403(b) contributory plan. The Church contributed \$144,365 and \$95,403 to the 403(b) contributory plan in the eight month period ended September 30, 2020 and year ended January 31, 2020, respectively. As the 403(b) plan covers employees of other institutions, asset and benefit information applicable to the Church is not available.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

10. NET ASSETS:

Net assets at September 30, 2020 and January 31, 2020, consist of the following:

	<u>September 30,</u>	<u>January 31,</u>
Net assets without donor restrictions:		
Undesignated	\$ 16,052,173	\$ 17,197,065
Board designated for Financial Relief Initiative program	<u>6,446,062</u>	<u>-</u>
	<u>22,498,235</u>	<u>17,197,065</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Kingdom Builders Frontier Friends	322,601	319,904
Friends of World Mission	618,988	523,801
CovKids	287,988	245,205
Serve Globally	1,447,315	1,478,587
Covenant World Relief	557,332	1,165,709
Start & Strengthen Churches	258,605	480,884
Short-Term Missionaries	1,438,751	1,498,694
Make & Deepen Disciples	529,994	525,553
Sustaining Pastoral Excellence	354,878	332,873
Domestic Disaster Response	577,058	510,789
CovEnterprises	93,270	93,734
Annuity agreements	352,815	339,018
Other	<u>1,299,009</u>	<u>1,438,349</u>
	<u>8,138,604</u>	<u>8,953,100</u>
Subject to the passage of time:		
Irrevocable trusts	<u>809,528</u>	<u>837,107</u>
Subject to the Church's spending policy and appropriations:		
Term endowments:		
Start & Strengthen Churches	11,457,174	11,129,698
Covenant World Relief	2,248,629	2,315,671
Other	269,767	264,520
Endowment funds restricted in perpetuity	<u>2,220,797</u>	<u>2,236,520</u>
	<u>16,196,367</u>	<u>15,946,409</u>
Total net assets with donor restrictions	<u>25,144,499</u>	<u>25,736,616</u>
Total net assets	<u><u>\$ 47,642,734</u></u>	<u><u>\$ 42,933,681</u></u>

The Church's governing board, through specific action, has created self-imposed limits on net assets without donor restrictions. The board has set aside \$6,446,062 and \$0 for its Financial Relief Initiative program as of September 30, 2020 and January 31, 2020, respectively. These net assets can be drawn upon if the board approves such action.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

11. ENDOWMENT FUNDS:

The Church's endowment net assets consist of separate investment accounts established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Most of the Church's endowment funds required to be held in perpetuity are in the Covenant Endowment Trust (CET). CET is managed by the CTC as Trustee. It was created as a supporting organization to provide for the orderly investment and management of gifts with a permanent donor restriction to be consistent with the donor's charitable purposes and objectives for the benefit of the Church, all its churches and all organizations affiliated with it. While it contains gifts for the Church, the majority of the fund is for the benefit of other Covenant entities. The Church's endowment net assets also include invested funds held under term agreements for Start & Strengthen Churches and Covenant World Relief.

The Church has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor funds with a permanent restriction absent explicit donor stipulations to the contrary. As a result of this interpretation, the Church classifies as net assets restricted in perpetuity (a) the original value of gifts, (b) the original value of subsequent gifts, and (c) accumulations made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the fund with donor restrictions that is not classified in net assets restricted in perpetuity is classified as net assets restricted by purpose or time until those amounts are appropriated for expenditure by the Church in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- 1 The duration and preservation of the fund.
- 2 The purposes of the organization and the donor-restricted fund.
- 3 General economic conditions.
- 4 The possible effect of inflation and deflation.
- 5 The expected total return from income and appreciation of investments.
- 6 Other resources of the organization.
- 7 The investment policies of the organization.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

11. ENDOWMENT FUNDS, continued:

Changes in endowment net assets for the eight month period ended September 30, 2020:

	With Donor Restrictions			
	Perpetual Endowments	Term Endowments	Total With Donor Restrictions	Total Funds
Endowment net assets, beginning of year	\$ 2,236,520	\$ 13,709,889	\$ 15,946,409	\$ 15,946,409
Investment return, net	(27,746)	210,391	182,645	182,645
Contributions	12,023	1,160,790	1,172,813	1,172,813
Amounts appropriated for expenditures	-	(1,105,500)	(1,105,500)	(1,105,500)
	<u>(15,723)</u>	<u>265,681</u>	<u>249,958</u>	<u>249,958</u>
Endowment net assets, end of year	<u>\$ 2,220,797</u>	<u>\$ 13,975,570</u>	<u>\$ 16,196,367</u>	<u>\$ 16,196,367</u>

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

	With Donor Restrictions			
	Perpetual Endowments	Term Endowments	Total With Donor Restrictions	Total Funds
Endowment net assets, beginning of year	\$ 2,139,024	\$ 12,128,860	\$ 14,267,884	\$ 14,267,884
Investment return, net	97,161	756,659	853,820	853,820
Contributions	335	2,681,555	2,681,890	2,681,890
Amounts appropriated for expenditures	-	(1,857,185)	(1,857,185)	(1,857,185)
	<u>97,496</u>	<u>1,581,029</u>	<u>1,678,525</u>	<u>1,678,525</u>
Endowment net assets - end of year	<u>\$ 2,236,520</u>	<u>\$ 13,709,889</u>	<u>\$ 15,946,409</u>	<u>\$ 15,946,409</u>

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Church to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2020 and January 31, 2020.

Return Objectives and Risk Parameters: The Church has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the assets. Endowment net assets include those assets of donor-restricted funds that the Church must hold in perpetuity and those assets that the Church must hold for donor-specified periods or purposes along with related investment earnings.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

11. ENDOWMENT FUNDS, continued:

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Church relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy: Distributions are made from CET at the rate of 5% annually with payments being made quarterly. The distribution is made first from income and to the extent that income is insufficient, from principal.

12. SUPPLEMENTAL RETIREMENT BENEFITS:

Based on resolutions adopted by the Executive Board of the Church, the Church provides supplemental retirement benefit payments to several former employees. The Church has accrued a liability of \$575,308 and \$589,789 at September 30, 2020 and January 31, 2020, respectively, to fund these payments. The liability is estimated based on life expectancy of former employees and a discount rate of 7% at September 30, 2020 and January 31, 2020. During the years ended September 30, 2020 and January 31, 2020, the supplemental retirement benefit payments were \$59,928 and \$82,801, respectively.

13. ANNUITY AGREEMENTS:

The Church has an obligation to make payments under charitable gift annuity agreements. In accordance with various state regulations, the Church maintains separate trust funds as a reserve to meet the future payments under these agreements.

Annuity agreement information at September 30, 2020 and January 31, 2020 is as follows:

	<u>September 30,</u>	<u>January 31,</u>
Assets - investments designated for annuity agreements	<u>\$ 7,584,604</u>	<u>\$ 7,906,225</u>
Liabilities and net assets:		
Liabilities:		
Annuities payable	841,588	925,524
Due to other Covenant entities	<u>6,418,274</u>	<u>6,664,466</u>
Total Liabilities	<u>7,259,862</u>	<u>7,589,990</u>
Net assets:		
Without donor restrictions	(28,072)	(22,783)
With donor restrictions for annuity agreements	<u>352,815</u>	<u>339,018</u>
Total Net Assets	<u>324,743</u>	<u>316,235</u>
Total liabilities and net assets	<u><u>\$ 7,584,605</u></u>	<u><u>\$ 7,906,225</u></u>

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

14. FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing the various program services and supporting activities have been summarized below on a functional basis. Accordingly, certain costs have been allocated among the program services and supporting activities for the years ended September 30, 2020 and January 31, 2020. The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, travel, conferences and meetings, professional fees, board expense, and certain office expenses, which are allocated on the basis of estimates of time and effort, as well as certain occupancy costs, which are allocated on a square footage basis.

Eight Month Period Ended September 30, 2020

	Program Services					Supporting Activities				
	Start & Strengthen Churches	Make & Deepen Disciples	Develop Leaders	Love Mercy Do Justice	Serve Globally	General Mission	Total	Communications	Management & General	Total
Support to global and local partners	\$ 2,511,365	\$ 43,771	\$ 1,194,307	\$ 153,876	\$ 3,127,189	\$ 87,119	\$ 7,117,627	\$ -	\$ -	\$ -
Salaries and benefits	494,580	445,160	511,659	346,461	3,128,102	-	4,925,962	512,742	2,103,590	2,943,663
Travel	16,738	9,237	4,119	4,824	98,289	-	133,207	2,109	7,436	17,096
Office and occupancy	109,287	77,681	65,310	33,033	138,082	-	423,393	159,275	225,966	452,915
Publications, printing and publicity	182	3,941	1,036	1,287	35,043	-	41,489	52,702	18,395	91,742
Conferences and meetings	-	36,166	-	-	-	-	36,166	-	-	-
Professional fees	-	-	-	-	40,000	-	40,000	108,970	106,911	215,881
Board expense	887	889	697	498	3,914	-	6,885	441	17,533	24,859
Interest	-	-	-	-	-	-	-	-	87,170	87,170
Depreciation	-	-	-	-	-	-	-	-	173,323	173,323
Total Expenses	\$ 3,133,039	\$ 616,845	\$ 1,777,128	\$ 539,979	\$ 6,570,619	\$ 87,119	\$ 12,724,729	\$ 836,239	\$ 2,740,324	\$ 3,999,764

Year Ended January 31, 2020

	Program Services					Supporting Activities				
	Start & Strengthen Churches	Make & Deepen Disciples	Develop Leaders	Love Mercy Do Justice	Serve Globally	General Mission	Total	Communications	Management & General	Total
Support to global and local partners	\$ 3,240,902	\$ 274,794	\$ 1,779,275	\$ 500,275	\$ 5,722,752	\$ 266,551	\$ 11,784,549	\$ 300	\$ 248,513	\$ 248,813
Salaries and benefits	750,394	692,942	635,248	396,122	4,634,441	-	7,109,147	841,698	3,909,577	5,194,815
Travel	224,962	99,100	123,577	54,359	407,422	-	909,420	36,722	181,525	267,160
Office and occupancy	162,075	99,561	102,156	91,746	236,323	-	691,861	267,323	604,477	973,541
Publications, printing and publicity	11,070	41,820	12,126	18,295	148,363	-	231,674	67,707	65,171	176,579
Conferences and meetings	-	524,268	-	-	-	-	524,268	-	466,336	466,336
Professional fees	-	-	-	-	50,000	-	50,000	-	215,010	215,260
Board expense	10,494	11,327	47,058	10,943	17,348	-	97,170	7,856	186,195	194,051
Interest	-	-	-	-	-	-	-	-	142,525	142,525
Depreciation	-	-	-	-	-	-	-	-	261,424	261,424
Total Expenses	\$ 4,399,897	\$ 1,743,812	\$ 2,699,440	\$ 1,071,740	\$ 11,216,649	\$ 266,551	\$ 21,398,089	\$ 1,221,606	\$ 6,280,753	\$ 8,140,504

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

15. REAL ESTATE HELD FOR SALE:

Real estate at September 30, 2020 consists of property held under the Bezalel, LLC ministry, and real estate at January 31, 2020, consisted of property located in Westminster, Colorado and property held under the Bezalel, LLC ministry. Pursuant to an agreement with NCP and Colorado Ridge Covenant Church, the Church acquired title to real property in Westminster, CO costing \$1,172,240 and assumed the underlying loan with NCP. This property was sold in September 2020 for net proceeds totaling approximately \$816,000, resulting in a loss on sale totaling approximately \$356,000.

Bezalel Inc. purchased property in Dolton, IL to acquire and renovate homes for community families as part of the Church's initiative of community development. As of September 30, 2020 and January 31, 2020, the cost of the property was \$592,719 and \$543,445, respectively.

16. TRANSACTIONS WITH AFFILIATED ENTITIES:

In addition to the transactions with affiliated entities noted elsewhere, the following were also noted:

The Church gifted approximately \$667,000 and \$1,000,000 to an affiliated organization during the eight months and year ended September 30, 2020 and January 31, 2020, respectively. The Church also received approximately \$170,000 and \$255,000 from this affiliated organization for administrative and management services provided during the eight months and year ended September 30, 2020 and January 31, 2020, respectively.

The Church received \$7,000,000 and \$0 in contributions from an affiliated organization during the eight months and year ended September 30, 2020 and January 31, 2020, respectively, that was designated by the Church board for the Financial Relief Initiative program. The Church also received \$1,008,000 and \$1,512,000 from this affiliated organization for administrative and management services provided during the eight months and year ended September 30, 2020 and January 31, 2020, respectively.

The Church received \$0 and \$2,580,000 in contributions from an affiliated organization during the eight months and year ended September 30, 2020 and January 31, 2020, respectively. The Church also received approximately \$328,000 and \$484,000 from this affiliated organization for administrative and management services provided during the eight months and year ended September 30, 2020 and January 31, 2020, respectively.

The Church received \$40,000 and \$60,000 from an affiliated organization for administrative and management services provided during the eight months and year ended September 30, 2020 and January 31, 2020, respectively.

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

17. LIQUIDITY AND FUNDS AVAILABLE:

As part of the Church's liquidity management, it invests cash in excess of daily requirement in investments. There is an established fund designated by management with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the Church could also draw upon its \$2,500,000 operating line of credit (as further discussed in Note 5), of which \$1,200,000 and \$0 was outstanding at September 30, 2020 and January 31, 2020, respectively.

The following reflects the Church's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date. Amounts not available include amounts illiquid or not convertible to cash within one year, perpetual and term endowments and accumulated earnings subject to appropriation beyond one year, contractual or donor-imposed restrictions, or because the board has set aside funds for specific projects. These board designations could be drawn upon if the board approves that action.

	September 30, 2020	January 31, 2020
Financial assets:		
Cash and cash equivalents	\$ 3,232,647	\$ 1,891,153
Contributions and bequests receivable	-	142,440
Notes and accounts receivable	3,806,403	2,985,591
Investments	61,106,198	55,587,089
Investments whose use is limited	9,090,185	9,388,141
	<u>77,235,433</u>	<u>69,994,414</u>
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Board designated for Financial Relief Initiative program	(6,446,062)	-
Restricted by donor with time or purpose restrictions	(8,138,604)	(8,614,082)
Investments held in annuities	(7,584,604)	(7,906,225)
Investments pledged	(1,505,581)	(1,481,916)
Endowment funds restricted in perpetuity	(2,220,797)	(2,236,520)
Investments not convertible to cash within next 12 months	(4,548,237)	(4,723,074)
Term endowment funds, primarily for long-term investing	<u>(13,975,570)</u>	<u>(13,709,889)</u>
Financial assets available within one year to meet cash needs for general expenditures within one year	<u>\$ 32,815,978</u>	<u>\$ 31,322,708</u>

THE EVANGELICAL COVENANT CHURCH

Notes to Consolidated Financial Statements

September 30, 2020 and January 31, 2020

18. RISKS AND UNCERTAINTIES:

In March of 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Church for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

19. SUBSEQUENT EVENTS:

In May 2021, the Church purchased property from a local church for total consideration of approximately \$2,644,000. As part of this purchase, the Church assumed two loans with NCP with a combined remaining balance of approximately \$2,044,000, and paid cash for the remaining \$600,000. In June 2021, one of these assumed loans with a remaining balance of approximately \$552,000 was paid off.

Subsequent events have been evaluated through March 11, 2022, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTARY DATA

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY DATA**

To the Executive Board of
The Evangelical Covenant Church
Chicago, Illinois

We have audited the consolidated financial statements of The Evangelical Covenant Church as of and for the years ended September 30, 2020 and January 31, 2020, and our report thereon dated March 11, 2022, which expresses an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position on page 30 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Capin Crouse LLP

Naperville, Illinois
March 11, 2022

THE EVANGELICAL COVENANT CHURCH

Consolidating Statements of Financial Position

	September 30, 2020				January 31, 2020					
	The Evangelical Covenant Church	Bezalel, Inc.	CovScholars, LLC	Eliminations	Consolidated Totals	The Evangelical Covenant Church	Bezalel, Inc.	CovScholars, LLC	Eliminations	Consolidated Totals
ASSETS:										
Cash and cash equivalents	\$ 3,232,647	\$ -	\$ -	\$ -	\$ 3,232,647	\$ 1,891,153	\$ -	\$ -	\$ -	\$ 1,891,153
Contributions and bequests receivable	-	-	-	-	-	142,440	-	-	-	142,440
Prepaid expenses and other assets	123,580	-	-	-	123,580	103,832	-	-	-	103,832
Notes and accounts receivable:										
Churches and other affiliates, net	1,311,651	-	-	-	1,311,651	886,776	-	-	-	886,776
Other Covenant entities	2,187,302	-	-	-	2,187,302	1,700,442	-	-	-	1,700,442
Other	273,285	34,165	-	-	307,450	364,208	34,165	-	-	398,373
Real estate held for sale	-	592,719	-	-	592,719	1,172,240	543,445	-	-	1,715,685
Investments	61,106,198	-	-	-	61,106,198	55,587,089	-	-	-	55,587,089
Investments whose use is limited:										
Annuities	7,584,604	-	-	-	7,584,604	7,906,225	-	-	-	7,906,225
Investments pledged	1,505,581	-	-	-	1,505,581	1,481,916	-	-	-	1,481,916
Property and equipment, net	9,537,972	-	-	-	9,537,972	9,711,295	-	-	-	9,711,295
Interest in irrevocable trusts	809,528	-	-	-	809,528	837,107	-	-	-	837,107
Total Assets	\$ 87,672,348	\$ 626,884	\$ -	\$ -	\$ 88,299,232	\$ 81,784,723	\$ 577,610	\$ -	\$ -	\$ 82,362,333
LIABILITIES:										
Accounts payable and accrued expenses	\$ 2,380,917	\$ 6,804	\$ -	\$ -	\$ 2,387,721	\$ 2,578,944	\$ 6,804	\$ -	\$ -	\$ 2,585,748
Deferred income	1,750,758	-	-	-	1,750,758	1,878,996	-	-	-	1,878,996
Insurance payable	21,997,615	-	-	-	21,997,615	22,312,113	-	-	-	22,312,113
Lines of credit and notes payable	5,796,182	663,399	225,653	-	6,685,234	3,759,869	559,910	152,237	-	4,472,016
Supplemental retirement benefits payable	575,308	-	-	-	575,308	589,789	-	-	-	589,789
Annuities:										
Annuities payable	841,588	-	-	-	841,588	925,524	-	-	-	925,524
Due to other Covenant entities	6,418,274	-	-	-	6,418,274	6,664,466	-	-	-	6,664,466
Total Liabilities	\$ 39,760,642	\$ 670,203	\$ 225,653	\$ -	\$ 40,656,498	\$ 38,709,701	\$ 566,714	\$ 152,237	\$ -	\$ 39,428,652
NET ASSETS:										
Without donor restrictions	22,767,207	(43,319)	(225,653)	-	22,498,235	17,338,406	10,896	(152,237)	-	17,197,065
With donor restrictions	25,144,499	-	-	-	25,144,499	25,736,616	-	-	-	25,736,616
Total Net Assets	\$ 47,911,706	\$ (43,319)	\$ (225,653)	\$ -	\$ 47,642,734	\$ 43,075,022	\$ 10,896	\$ (152,237)	\$ -	\$ 42,933,681
Total Liabilities and Net Assets	\$ 87,672,348	\$ 626,884	\$ -	\$ -	\$ 88,299,232	\$ 81,784,723	\$ 577,610	\$ -	\$ -	\$ 82,362,333

See notes to consolidated financial statements