



THE  
LUTHERAN CHURCH  
Missouri Synod

Internal Audit Department



## **TABLE OF CONTENTS**

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	<b>Page</b>
<b>INTERNAL AUDITOR'S REPORT</b>	1
<b>AUDITED FINANCIAL STATEMENTS:</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9

## INTERNAL AUDITOR'S REPORT

Board of Directors  
Pacific Southwest District of  
The Lutheran Church—Missouri Synod  
Irvine, California

### **Opinion**

We have audited the accompanying financial statements of the Pacific Southwest District of The Lutheran Church—Missouri Synod, which comprise the statement of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Southwest District as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the Pacific Southwest District 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 audit opinion.

### **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 the Pacific Southwest District's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 the Pacific Southwest District'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 the Pacific Southwest District'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

THE LUTHERAN CHURCH—MISSOURI SYNOD  
Internal Audit Department

*Joann P. Spotanski*

St. Louis, Missouri  
April 6, 2022

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2021 and 2020

	2021	2020
Assets:		
Cash and Cash Equivalents	\$ 6,635,286	\$ 4,970,297
Accounts and Interest Receivable (Net of Allowance for Doubtful Loan Interest of \$17,178 in 2021 and 2020)	50,004	32,691
Prepaid Expenses	59,385	44,187
Contributions Receivable (Note 5)	-	79,000
Loans Receivable - Net (Note 6)	168,327	168,327
Property Held for Sale	145,468	145,468
Property and Equipment - Net (Note 7)	2,311,818	2,242,057
Long-Term Investments (Note 4)	3,344,203	3,143,499
Cash Surrender Value of Life Insurance Policies	154,866	147,278
Beneficial Interests in Charitable Trusts Held by Others (Note 4)	65,131	64,823
Beneficial Interests in Perpetual Trusts (Note 4)	45,454	41,281
Total Assets	\$ 12,979,942	\$ 11,078,908
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 241,527	\$ 145,575
Grants Payable	41,049	31,403
Deferred Revenue	473,807	438,902
Agency Funds Held in Custody for Others	21,893	23,243
Capital Lease Obligation	19,930	31,877
Total Liabilities	798,206	671,000
Net Assets:		
Without Donor Restrictions (Note 9)	7,031,446	7,347,221
With Donor Restrictions (Note 10)	5,150,290	3,060,687
Total Net Assets	12,181,736	10,407,908
Total Liabilities and Net Assets	\$ 12,979,942	\$ 11,078,908

The accompanying notes are an integral part of these financial statements.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH–MISSOURI SYNOD

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES, &amp; OTHER ADDITIONS:</u>			
Support -			
District Congregations (Note 1)	\$ 1,463,197	\$	\$ 1,463,197
Synod		20,800	20,800
Other	152,738	2,674,508	2,827,246
Revenues -			
Conventions, Conferences, and Workshops	276,260		276,260
Income on Cash and Cash Equivalents	18,388		18,388
Net Investment Return (Loss)	183,842	148,556	332,398
Agreements with LCEF (Note 12)	211,763		211,763
Rental Income	161,214		161,214
Other	33,248		33,248
Change in Value of Beneficial Interests in Charitable Trusts		308	308
Change in Value of Beneficial Interests in Perpetual Trusts		4,173	4,173
Gain on Fixed Asset Disposals	14,596		14,596
Net Assets Released from Restrictions (Note 10)	758,742	(758,742)	-
	<u>3,273,988</u>	<u>2,089,603</u>	<u>5,363,591</u>
Total Support, Revenues, & Other Additions			
<u>EXPENSES:</u>			
Program Services -			
World and National Missions	1,019,919		1,019,919
Preparing Church Workers	30,777		30,777
Congregational Services	901,073		901,073
Mission Training Center	127,449		127,449
Support Services -			
Synodical Budget	146,320		146,320
Mission and Ministry Support	999,403		999,403
Ecclesiastical and Program Administration	364,822		364,822
	<u>3,589,763</u>	<u>-</u>	<u>3,589,763</u>
Total Expenses			
CHANGE IN NET ASSETS	(315,775)	2,089,603	1,773,828
NET ASSETS - Beginning of Year	<u>7,347,221</u>	<u>3,060,687</u>	<u>10,407,908</u>
NET ASSETS - End of Year	<u>\$ 7,031,446</u>	<u>\$ 5,150,290</u>	<u>\$ 12,181,736</u>

The accompanying notes are an integral part of these financial statements.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH–MISSOURI SYNOD

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES, &amp; OTHER ADDITIONS:</u>			
Support -			
District Congregations (Note 1)	\$ 1,446,133	\$	\$ 1,446,133
Synod		108,400	108,400
Other	140,897	700,557	841,454
Revenues -			
Conventions, Conferences, and Workshops	165,457		165,457
Income on Cash and Cash Equivalents	44,129		44,129
Net Investment Return (Loss)	186,808	108,930	295,738
Agreements with LCEF (Note 12)	254,249		254,249
Rental Income	175,015		175,015
Other	23,796		23,796
Change in Value of Beneficial Interests in Charitable Trusts		3,136	3,136
Change in Value of Beneficial Interests in Perpetual Trusts		5,624	5,624
Gain on Forgiveness of PPP Loan (Note 14)	271,000		271,000
Gain on Fixed Asset Disposals	9,000		9,000
Net Assets Released from Restrictions (Note 10)	832,745	(832,745)	-
	<u>3,549,229</u>	<u>93,902</u>	<u>3,643,131</u>
Total Support, Revenues, & Other Additions			
<u>EXPENSES:</u>			
Program Services -			
World and National Missions	1,456,773		1,456,773
Preparing Church Workers	26,420		26,420
Congregational Services	839,409		839,409
Support Services -			
Synodical Budget	144,613		144,613
Mission and Ministry Support	987,391		987,391
Ecclesiastical and Program Administration	377,042		377,042
	<u>3,831,648</u>	<u>-</u>	<u>3,831,648</u>
Total Expenses			
CHANGE IN NET ASSETS	(282,419)	93,902	(188,517)
NET ASSETS - Beginning of Year	<u>7,629,640</u>	<u>2,966,785</u>	<u>10,596,425</u>
NET ASSETS - End of Year	<u>\$ 7,347,221</u>	<u>\$ 3,060,687</u>	<u>\$ 10,407,908</u>

The accompanying notes are an integral part of these financial statements.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2021

	PROGRAM SERVICES				SUPPORT SERVICES			TOTAL
	World and National Missions	Preparing Church Workers	Congregational Services	Mission Training Center	Synodical Budget	Mission and Ministry Support	Ecclesiastical and Program Administration	
Salaries, Wages, and Employee Benefits	\$ 47,174	\$	\$ 426,093	\$ 93,588	\$	\$ 638,467	\$ 317,079	\$ 1,522,401
Subsidies, Grants, and Other Assistance	887,337	30,777	88,445		146,320		1,000	1,153,879
Building and Office Expenses	16,892		9,211	474		122,784	3,596	152,957
Communications, Publications, and Promotion			2,689	803		2,509	39	6,040
Conventions, Conferences, Workshops, and Meetings	4,006		124,247	594		1,832	10,418	141,097
Depreciation	11,421		15,160			110,733	7,872	145,186
Equipment Purchases (non-capital) and Maintenance	3,344		82,039	1,852		37,160	3,630	128,025
Information Technology						31,488		31,488
Insurance	12,389		1,735			11,091	868	26,083
Professional and Contract Services	32,007		79,439	26,065		34,123	1,742	173,376
Travel	2,053		26,835	2,256		2,157	10,181	43,482
Other	3,296		45,180	1,817		7,059	8,397	65,749
Total Expenses by Function	<u>\$ 1,019,919</u>	<u>\$ 30,777</u>	<u>\$ 901,073</u>	<u>\$ 127,449</u>	<u>\$ 146,320</u>	<u>\$ 999,403</u>	<u>\$ 364,822</u>	<u>\$ 3,589,763</u>

The accompanying notes are an integral part of these financial statements.



PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2020

	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL
	World and National Missions	Preparing Church Workers	Congregational Services	Synodical Budget	Mission and Ministry Support	Ecclesiastical and Program Administration	
Salaries, Wages, and Employee Benefits	\$ 72,322	\$	\$ 504,494	\$	\$ 694,641	\$ 326,500	\$ 1,597,957
Subsidies, Grants, and Other Assistance	1,306,781	24,720	119,526	144,613		300	1,595,940
Building and Office Expenses	15,391		5,801		85,339	2,919	109,450
Communications, Publications, and Promotion			3,423		2,402		5,825
Conventions, Conferences, Workshops, and Meetings	4,825	1,700	64,111		893	10,062	81,591
Depreciation	10,565		15,159		96,824	7,872	130,420
Equipment Purchases (non-capital) and Maintenance	1,667		6,557		34,305	2,401	44,930
Information Technology					25,275		25,275
Insurance	12,330		2,855		8,943	1,451	25,579
Professional and Contract Services	27,522		76,149		32,974	7,505	144,150
Travel	149		10,297		108	14,011	24,565
Other	5,221		31,037		5,687	4,021	45,966
<b>Total Expenses by Function</b>	<b>\$ 1,456,773</b>	<b>\$ 26,420</b>	<b>\$ 839,409</b>	<b>\$ 144,613</b>	<b>\$ 987,391</b>	<b>\$ 377,042</b>	<b>\$ 3,831,648</b>

The accompanying notes are an integral part of these financial statements.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

	2021	2020
<b>Cash Flows from Operating Activities:</b>		
Change in Net Assets	\$ 1,773,828	\$ (188,517)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	145,186	130,420
Change in Value of Beneficial Interests in Charitable Trusts	(308)	(3,136)
Change in Value of Beneficial Interests in Perpetual Trusts	(4,173)	(5,624)
(Gain) Loss on Sale of Fixed Assets/Property	(14,596)	(9,000)
Net (Gain) Loss on Investments	(98,874)	(213,787)
(Gain) on Forgiveness of PPP Loan	-	(271,000)
(Increase) Decrease in Operating Assets:		
Accounts and Interest Receivable	(17,313)	13,309
Prepaid Expenses	(15,198)	11,099
Contributions Receivable	79,000	2,250
Cash Surrender Value of Life Insurance Policies	(7,588)	(4,220)
Beneficial Interests in Charitable Trusts	-	1,381
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	95,952	15,517
Grants Payable	9,646	(13,903)
Deferred Revenue	34,905	161,787
Agency Funds Held in Custody for Others	(1,350)	1,227
Net Cash Provided (Used) by Operating Activities	1,979,117	(372,197)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sale of Fixed Assets/Property	44,004	9,000
Purchases of Fixed Assets	(244,355)	(44,211)
Proceeds from Sale of Investments	125,520	22,901
Purchases of Investments	(227,350)	(77,608)
Net Cash Provided (Used) by Investing Activities	(302,181)	(89,918)
<b>Cash Flows from Financing Activities:</b>		
Principal Repayments on Capital Lease	(11,947)	(10,975)
PPP Loan Proceeds	-	271,000
Net Cash Provided (Used) by Financing Activities	(11,947)	260,025
Net Increase (Decrease) in Cash and Cash Equivalents	1,664,989	(202,090)
Cash and Cash Equivalents - Beginning of Year	4,970,297	5,172,387
Cash and Cash Equivalents - End of Year	\$ 6,635,286	\$ 4,970,297
 Supplemental Data -		
Noncash Investing and Financing Activities:		
Forgiveness of PPP Loan Principal	\$ -	\$ 271,000

The accompanying notes are an integral part of these financial statements.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

## 1. NATURE OF ORGANIZATION

The Pacific Southwest District (the District), a religious not-for-profit organization, is one of 35 districts of The Lutheran Church—Missouri Synod (the Synod), encompassing 300 congregations in the State of Arizona, southern counties of California, and the southern tip of Nevada. The Synod established its district offices to more effectively achieve its objectives and assist its congregations and their members in conserving and promoting the unity of the faith and in carrying out their mission and ministry.

The District relies on donations from its member congregations for a significant portion of its support. As shown in the Statement of Activities, support from District congregations totaled \$1,463,197 and \$1,446,133 for the years ended December 31, 2021 and 2020, respectively. These donations are subject to fluctuations in the economic status of the areas in which the congregations are located. No provisions have been made for changes in the economic environment. Any significant reduction in the level of this support, however, could have an effect on the District's program and supporting activities.

The costs of providing various program and other supporting services have been summarized on a functional basis in the Statement of Activities as follows:

- *World and National Missions* – World missions includes the District's personalized world ministry support remitted to the Synod. National missions includes but is not limited to North American new mission work, campus ministries, deaf ministries, ethnic ministries, urban ministries, congregational subsidy, evangelism efforts, human care ministries, and related conferences and events.
- *Preparing Church Workers* – Includes financial aid provided to students normally attending one of the six universities or two seminaries of the Synod.
- *Congregational Services* – The District provides resources and support for District congregations and schools. Resources include Consultation Services, Strategic Planning (Vision, Mission and Goal Development), Workshops and Seminars. Lay Leadership Program provides training and development for Lay Leaders. School Ministries provides leadership and staff for all District Schools by providing educational and training resources and workshops for Educators, Boards and Principals. School Ministries offers support in the call process for commissioned ministers and consultation services in areas of accreditation, special education, curriculum and assessment. Youth Ministries provides leadership and support for Congregational DCEs, District youth programs and gatherings.
- *Mission Training Center* – Develops people for God's mission through training opportunities centered in the Bible and taught through the lens of God's mission. Participants confidently and competently reach into the community with appropriate and contextual proclamation and disciple-making ministry, as well as train and develop other apostolic disciples for God's mission.
- *Synodical Budget* – Includes remittances to the Synod for synodical budget support.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**1. NATURE OF ORGANIZATION** (Continued)

- *Mission and Ministry Support* – Includes the District’s communication efforts, financial and general service activities, and the operation/maintenance of District office facilities, District/Synodical convention expenses, and the District’s support of the national Lutheran Church Extension Fund (LCEF) efforts as discussed in Note 12 (Annual Agreements).
- *Ecclesiastical and Program Administration* – Includes activities of the president’s office, vice-presidents, circuit visitors, reconcilers, and related conferences and events, as well as support of the District Board of Directors and its related committees.

All of these program and support services include the related program and administration expense associated with that particular function.

The Pacific Southwest District of the Synod is an organization described in Section 501(c) (3) of the Internal Revenue Code (IRC) and, by virtue of a group tax-exempt ruling to the Synod and its component parts, is exempt from federal income taxes. However, any unrelated business income may be subject to taxation. In addition, the District qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified by the Internal Revenue Service as an organization other than a private foundation.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed by the District are described below:

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting.

**Use of Estimates**

We use estimates and assumptions in preparing financial statements in conformity with generally accepted accounting principles (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates, and those differences could be material.

**Principles of Consolidation**

The accompanying financial statements include all administrative and program offices or departments of the Pacific Southwest District. They do not include the assets, liabilities, and operations of the congregations, schools, and other separately administered operations of the Synod within the District’s geographic area.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents**

For financial statement purposes, we consider all cash and highly liquid financial instruments with original maturities of three months or less, which are not held for or restricted by donors for long-term purposes (e.g., for building projects, perpetual endowments), to be cash and cash equivalents.

**Investments and Net Investment Return/(Loss)**

We record investment purchases at cost, or if donated, at fair value on the date of receipt. Thereafter, investments are reported at their fair values in the Statement of Financial Position. Net investment return/(loss) consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses; it is reported in the Statement of Activities based on the existence or absence of donor-imposed restrictions.

**Contributions Receivable**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected after one year are initially recorded at fair value using present value techniques, incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contributions/support in the Statement of Activities. We determine the allowance for uncollectible promises to give based on historical experience, an assessment of current economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible.

**Loans Receivable**

Loans receivable are carried at unpaid principal balances, less a potential allowance for loan losses. The allowance for loan losses is increased by a charge to bad debt expense and decreased by loans written off, net of any recoveries. Management periodically evaluates the need for an allowance based on current economic conditions, the District's past loan loss experience, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and other pertinent factors. Past due status is determined based on the contractual terms of each loan. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. It is the District's policy to charge off any loan or portion of a loan when the loan is determined to be uncollectible.

Interest income on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

**Property and Equipment**

Property and equipment purchases of \$5,000 or more with an estimated useful life greater than one year are capitalized and recorded at cost, or if donated, at fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment (Continued)**

lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the Statement of Activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred. Property held for sale is recorded at the lower of cost or estimated fair value.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from its use and eventual disposition. When considered impaired, an impairment loss is recognized in the Statement of Activities to the extent carrying value exceeds the fair value of the asset.

**Beneficial Interests in Charitable Trusts Held by Others**

We have been named as an irrevocable beneficiary of several charitable trusts. These trusts were created independently by donors and are administered by outside agents designated by the donors. Therefore, we have neither possession nor control over the assets of the trusts; the assets are being held by the Lutheran Church—Missouri Synod Foundation (LCMS Foundation). At the date we receive notice of a beneficial interest, a contribution with donor restrictions is recorded in the Statement of Activities and a beneficial interest in charitable trusts held by others is recorded in the Statement of Financial Position at fair value, as determined/calculated by the LCMS Foundation. The trust agreements are re-valued annually by the LCMS Foundation and any resulting actuarial gain or loss is reflected in the Statement of Activities as a change in value of beneficial interests in charitable trusts.

Upon receipt of trust distributions, and when any purpose restrictions have been met, net assets with donor-imposed time or purpose restrictions are released to net assets without donor restrictions. Trust distributions with donor-imposed restrictions that are perpetual in nature are transferred to a specific endowment, in which case, net assets with donor restrictions are not released.

**Beneficial Interests in Perpetual Trusts**

We have been named as an irrevocable beneficiary of several perpetual trusts held and administered by the LCMS Foundation. Perpetual trusts provide for the distribution of the net income of the trusts to the District; however, we will never receive the assets of the trusts. At the date we receive notice of a beneficial interest, a contribution with donor restrictions of a perpetual nature is recorded in the Statement of Activities and a beneficial interest in perpetual trust is recorded in the Statement of Financial Position at the fair value of the underlying trust assets, as determined/calculated by the LCMS Foundation. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the Statement of Financial Position, with trust distributions and changes in fair value recognized in the Statement of Activities.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Grants Payable**

Unconditional promises to give which have been authorized and communicated to the recipient are reported as liabilities and expenses in the period in which the notification to the recipient occurs. If at the time the promise is made, the District expects to make payment in one year or less, the payable is recorded at net settlement value. Unconditional promises that the District expects to pay in more than one year are reported at fair value, which is measured as the present value of the amounts to be paid.

**Net Assets**

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-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 restrictions. These net assets may be subject to self-imposed limits by action of the governing board. These board-designated net assets may be earmarked for future programs, contingencies, purchase/construction of fixed assets, or for other uses.

*Net Assets With Donor Restrictions* – Net assets subject to donor-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. Donor-imposed restrictions that are temporary in nature are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Contributions and Revenue Recognition**

Contributions are recognized as support in the Statement of Activities when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire long-lived assets are reported as support in net assets with donor restrictions. Absent explicit donor restrictions about how long those long-lived assets must be maintained, we report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Conditional promises to give are not included as support until the conditions on which they depend have been substantially met and the promises become unconditional. Donated services are reported as support in the Statement of Activities at fair value when those services (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Revenue is recognized when earned. Program and supporting activity fees and payments received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Functional Allocation of Expenses**

The costs of program and supporting service activities have been summarized on a functional basis in the Statement of Activities. The Statement of Functional Expenses presents the natural classification detail of expenses by function. The financial statements include certain categories of expenses that are attributable to more than one program and supporting function. Therefore, these expenses require allocation to the programs and supporting services benefited on a basis that is reasonable and consistently applied. The expenses that are allocated include compensation and benefits, which are allocated based on estimates of time and effort.

**Taxes**

We follow the accounting standards for contingencies in evaluating uncertain tax positions. This guidance requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit by the applicable regulatory authority, based on the technical merits of the position. These rules also provide guidance on measurement, recognition, classification, interest and penalties, transition, and disclosure requirements for uncertain tax positions. No liability has been recognized by the District for uncertain tax positions as of December 31, 2021 and 2020.

**Financial Instruments and Credit Risk**

We manage deposit concentration risk by placing cash and financial instruments with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in LCEF notes, money market mutual funds, etc. To date, we have not experienced losses in any of these accounts. Credit risk associated with accounts and contributions receivable is limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from our member congregations or other agencies of the Synod who are supportive of our mission. Investment performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation from year-to-year, we believe the investment policies and guidelines are prudent for the long-term welfare of the organization.

**Subsequent Events**

The District has evaluated subsequent events through April 6, 2022, the date the financial statements were available to be issued.



PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following represents the District's financial assets at December 31, 2021 and 2020, that are available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date:

	December 31	
	2021	2020
Financial Assets:		
Cash and Cash Equivalents	\$ 6,635,286	\$ 4,970,297
Accounts and Interest Receivable	50,004	32,691
Contributions Receivable	-	79,000
Long-Term Investments	3,344,203	3,143,499
Beneficial Interests in Charitable Trusts Held by Others	65,131	64,823
Beneficial Interests in Perpetual Trusts	45,454	41,281
Total Financial Assets at Year-End	10,140,078	8,331,591
Less Those Unavailable for General Expenditures Within One Year Due to:		
Donor-Imposed or Contractual Restrictions	(5,150,290)	(3,060,687)
Agency Funds Held in Custody for Others	(21,893)	(23,243)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 4,967,895	\$ 5,247,661

The District's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$883,000). As part of its liquidity plan, excess cash is invested in short-term investments, including LCEF certificates and mutual funds. As disclosed in Note 8, the District also has an unsecured line of credit with LCEF which is available to meet cash flow needs.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**4. FAIR VALUE MEASUREMENTS**

We report certain assets and liabilities at fair value in the accompanying financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. We consider observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

A fair value hierarchy is used to disclose the measurement of fair value based on the levels of observable or unobservable inputs as follows:

Level 1 Inputs – Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 Inputs – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. Level 2 inputs include assets or liabilities for which quoted prices are available but traded less frequently and assets or liabilities that are fair valued using similar assets or liabilities, the parameters of which can be directly observed.

Level 3 Inputs – Assets or liabilities have little to no pricing observability as of the measurement date. These items are measured using management’s best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

In some cases, the inputs used to measure the fair value of an asset or liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to our assessment of the quality, perceived risk, or liquidity profile of the asset or liability.

(Continued)

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**4. FAIR VALUE MEASUREMENTS (Continued)**

The following table presents financial instruments that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall, as well as the non-leveled instruments at December 31, 2021:

	Total	Fair Value Measurements Using			Investments Measured at Cost or NAV
		Level 1	Level 2	Level 3	
Long-Term Investments - LCMS Foundation:					
Moderate Balanced	\$ 1,989,745	\$	\$	\$	\$ 1,989,745
Aggressive Balanced	792,486				792,486
Domestic Equity	243,841				243,841
Cash Equivalents	2,050				2,050
LCEF Notes	277,732				277,732
Mutual Funds	38,349	38,349			
	<u>\$ 3,344,203</u>	<u>\$ 38,349</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,305,854</u>
Beneficial Interests in - Charitable Trusts	<u>\$ 65,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,131</u>	<u>\$ -</u>
Perpetual Trusts	<u>\$ 45,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,454</u>	<u>\$ -</u>

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2021:

	Balance 12/31/2020	Net New or (Matured) Gifts	Change in Value	Balance 12/31/2021
Charitable Trusts	<u>\$ 64,823</u>	<u>\$ -</u>	<u>\$ 308</u>	<u>\$ 65,131</u>
Perpetual Trusts	<u>\$ 41,281</u>	<u>\$ -</u>	<u>\$ 4,173</u>	<u>\$ 45,454</u>

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**4. FAIR VALUE MEASUREMENTS** (Continued)

The following table presents financial instruments that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall, as well as the non-leveled instruments at December 31, 2020:

	Total	Fair Value Measurements Using			Investments Measured at Cost or NAV
		Level 1	Level 2	Level 3	
Long-Term Investments -					
LCMS Foundation:					
Moderate Balanced	\$ 1,886,916	\$	\$	\$	\$ 1,886,916
Aggressive Balanced	717,919				717,919
Conservative Balanced	16,948				16,948
Domestic Equity	190,436				190,436
Cash Equivalents	2,035				2,035
LCEF Notes	289,829				289,829
Mutual Funds	39,416	39,416			
	<u>\$ 3,143,499</u>	<u>\$ 39,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,104,083</u>
Beneficial Interests in -					
Charitable Trusts	<u>\$ 64,823</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,823</u>	<u>\$ -</u>
Perpetual Trusts	<u>\$ 41,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,281</u>	<u>\$ -</u>

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2020:

	Balance 12/31/2019	Net New or (Matured) Gifts	Change in Value	Balance 12/31/2020
Charitable Trusts	<u>\$ 63,068</u>	<u>\$ (1,381)</u>	<u>\$ 3,136</u>	<u>\$ 64,823</u>
Perpetual Trusts	<u>\$ 35,657</u>	<u>\$ -</u>	<u>\$ 5,624</u>	<u>\$ 41,281</u>

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**4. FAIR VALUE MEASUREMENTS** (Continued)

A small portion of our long-term investments is classified within Level 1 because they comprise mutual funds with readily determinable fair values based on daily redemption values. The fair values of beneficial interests in charitable and perpetual trusts are based on the fair values of the trust investments as reported by the trustee, the LCMS Foundation. These are considered to be Level 3 measurements.

The District uses the net asset value (NAV) per share as a practical expedient to estimate the fair values of investments in LCMS Foundation common funds, which do not have readily determinable fair values. These investments totaling \$3,028,122 and \$2,814,254 at December 31, 2021 and 2020, respectively, are not leveled and classified within the fair value hierarchy as shown in the above tables.

The LCMS Foundation carries out its investment management services through various common funds to invest the assets entrusted to it. A common fund pools the assets of numerous smaller accounts to provide for greater diversification and ease of investment management. Holders of a common fund are called participants; the District is such a participant. Participants buy and sell units of the common fund asset. In order to determine the price per unit of a common fund, all assets held by the common fund (which can include individual securities or units of other common funds) are valued as of the end of the month (the valuation date). This value is divided by the total number of units held by the participants in the common fund to determine the per-unit value. Transactions in the common fund (either purchases or redemptions) are calculated based on the per-unit value on the valuation date.

During the valuation process, the common funds accrue income and expenses for the valuation period. The net income to the fund is divided by the total number of units held by participants for the valuation period to establish the income per unit factor. Each participant receives an allocation of the net income determined by multiplying the income per unit factor times the number of units held by the participant of the common fund. Net realized and termination gains in LCMS Foundation common funds are also calculated and distributed annually to the participants.

The LCMS Foundation Moderate Balanced Fund is a moderate risk, blended portfolio that holds both fixed income (50%) and equity (50%) securities; it provides modest income generation and potential for growth. The Aggressive Balanced Fund is a moderate to higher risk investment focused on the potential for growth with limited income generation; the portfolio holds both fixed income (25%) and equity (75%) securities. The Conservative Balanced Fund is a low to moderate risk investment focused primarily on income generation with a limited potential for growth; the portfolio holds both fixed income (75%) and equity (25%) securities. The Domestic Equity Preference Fund is a moderate to higher risk investment in common stock issued by domestic corporations and traded on domestic exchanges.

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**5. CONTRIBUTIONS RECEIVABLE**

At December 31, 2020, donors had unconditional promised to give the District \$79,000. These contributions were received during the year ended December 31, 2021.

**6. LOANS RECEIVABLE**

At December 31, 2021 and 2020, the District had three unsecured loans receivable from two District employees and one other individual as follows:

	Interest Rates	Maturity Dates	December 31	
			2021	2020
Housing/Personal Loans to District Employees & Others	0%	Demand	\$ 249,827	\$ 259,827
Less: Allowance for Loan Losses			<u>(81,500)</u>	<u>(91,500)</u>
			<u>\$ 168,327</u>	<u>\$ 168,327</u>

**7. PROPERTY AND EQUIPMENT**

Property and equipment consists of:

	December 31	
	2021	2020
Land	\$ 1,254,921	\$ 1,254,921
Office Building	1,213,513	1,153,474
Campus Centers	278,427	265,917
Other Properties	1,334,218	1,212,634
Office Furnishings and Equipment	867,040	861,161
Vehicles	159,500	156,675
	<u>5,107,619</u>	<u>4,904,782</u>
Less: Accumulated Depreciation	<u>(2,795,801)</u>	<u>(2,662,725)</u>
Net Property and Equipment	<u>\$ 2,311,818</u>	<u>\$ 2,242,057</u>

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**8. LINE OF CREDIT**

LCEF establishes a line of credit for each participating district based on the district's program performance; this line of credit is evaluated and adjusted by LCEF annually in July. As of and for the years ended December 31, 2021 and 2020, we had an unsecured line of credit with LCEF in the amount of \$521,812 and \$473,654, respectively. Borrowings under the line would bear interest at the current rate of 3.875%. As of and during the years ended December 31, 2021 and 2020, there were no borrowings against this line of credit.

**9. NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions consist of the following:

	December 31	
	2021	2020
Undesignated	\$ 2,394,832	\$ 2,443,300
Invested in Property and Equipment (net of related debt)	2,291,888	2,210,180
Designated by Board for:		
World and National Missions	2,102,265	2,446,656
Congregational Services	97,000	97,000
Mission and Ministry Support	145,461	150,085
	2,344,726	2,693,741
	\$ 7,031,446	\$ 7,347,221

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**10. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods:

	December 31	
	2021	2020
Purpose Restrictions:		
World and National Missions	\$ 2,823,673	\$ 945,418
Preparing Church Workers	351,672	375,359
Congregational Services	489,047	496,421
Mission Training Center	110,468	-
Mission and Ministry Support	113,669	127,812
Fundraising/Gift Planning	1,382	1,382
	3,889,911	1,946,392
Time Restrictions:		
Beneficial Interests in Charitable Trusts Held by Others	65,131	64,823
Endowments:		
Corpus (Perpetual) -		
General Use/Operations	278,959	278,959
World and National Missions	250,481	250,481
Preparing Church Workers	125,589	125,589
	655,029	655,029
Term Endowment -		
Preparing Church Workers	119,946	106,671
Net Investment Return Subject to Appropriation and Expenditure; Restricted by Donors for:		
General Use/Operations	142,430	99,214
World and National Missions	198,966	127,162
Preparing Church Workers	33,423	20,115
	374,819	246,491
Beneficial Interests in Perpetual Trusts	45,454	41,281
	\$ 5,150,290	\$ 3,060,687

(Continued)



PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**10. NET ASSETS WITH DONOR RESTRICTIONS** (Continued)

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purpose, or by occurrence of the passage of time or other events specified by donors as follows:

	December 31	
	2021	2020
Satisfaction of Purpose Restrictions:		
World and National Missions	\$ 477,653	\$ 671,103
Preparing Church Workers	30,777	24,370
Congregational Services	174,935	122,272
Mission Training Center	67,634	-
Mission and Ministry Support	7,743	15,000
	\$ 758,742	\$ 832,745

**11. ENDOWMENT FUNDS**

Our endowment consists of five individual funds established by donors to provide annual funding for specific activities including world and national missions, preparing church workers, and general operations. The District classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions until the Board of Directors appropriates amounts for expenditure and any purpose restrictions have been met. Our Board has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds, as of the gift date, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, we retain in perpetuity (a) the original value of initial and subsequent gifts donated to the endowment and (b) any accumulations to the endowment that are required to be maintained in perpetuity in accordance with the applicable donor gift instrument. Donor-restricted amounts not retained in perpetuity are subject to appropriation and expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the District
- The investment policies of the District

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**11. ENDOWMENT FUNDS** (Continued)

measures required under law. There were no underwater endowments as of December 31, 2021 and 2020.

*Investment and Spending Policies* – The District’s investment and spending policies for endowment assets attempt to subject the fund to low investment risk and provide programs supported by its endowments with current income. Endowment assets are invested primarily in LCMS Foundation common funds.

As of December 31, 2021 and 2020, we had the following endowment net asset composition by fund type:

	<u>With Donor Restrictions</u>
<u>December 31, 2021</u>	
Donor-Restricted Endowment Funds:	
Amounts Required to be Maintained in Perpetuity	\$ 655,029
Term Endowment	119,946
Accumulated Investment Return	<u>374,819</u>
Total Endowment	<u><u>\$ 1,149,794</u></u>
 <u>December 31, 2020</u>	
Donor-Restricted Endowment Funds:	
Amounts Required to be Maintained in Perpetuity	\$ 655,029
Term Endowment	106,671
Accumulated Investment Return	<u>246,491</u>
Total Endowment	<u><u>\$ 1,008,191</u></u>

(Continued)

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**11. ENDOWMENT FUNDS** (Continued)

Changes in the endowment net assets for the years ended December 31, 2021 and 2020, are as follows:

	<u>With Donor Restrictions</u>
<u>Year Ended December 31, 2021</u>	
Endowment Net Assets - Beginning of Year	\$ 1,008,191
Net Investment Return (Loss)	147,437
Appropriation of Endowment Assets for Expenditure	<u>(5,834)</u>
Endowment Net Assets - End of Year	<u>\$ 1,149,794</u>
 <u>Year Ended December 31, 2020</u>	
Endowment Net Assets - Beginning of Year	\$ 908,757
Net Investment Return (Loss)	107,434
Appropriation of Endowment Assets for Expenditure	<u>(8,000)</u>
Endowment Net Assets - End of Year	<u>\$ 1,008,191</u>

**12. AGREEMENTS WITH THE LUTHERAN CHURCH EXTENSION FUND**

*Annual Agreements* – In accordance with certain agreements, which are subject to renegotiation each July, LCEF agreed to compensate and reimburse the District for providing facilities and services to LCEF, as well as for promotion and coordination of church extension program activities within the District. The agreements require LCEF to pay the District a fixed amount on a monthly basis. The amounts received by the District in connection with these agreements during the years ended December 31, 2021 and 2020, totaled \$211,763 and \$254,249, respectively, which is reported in the Statement of Activities as revenue in net assets without donor restrictions.

(Continued)

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**12. AGREEMENTS WITH THE LUTHERAN CHURCH EXTENSION FUND (Continued)**

*Loan Workout Agreement* – In June 2012, a Loan Workout Agreement was entered into by and between the District and LCEF. Per this Agreement, the District agreed to transfer to LCEF all real property it receives from dissolved congregations and schools within the District beginning on the effective date of the Agreement (June 28, 2012) and continuing until the earlier of (a) 10 years from the effective date or (b) the date upon which the total of the LCEF net sale proceeds equals \$9 million. LCEF has sole discretion as to the timing and sales price/terms for sale of said property; LCEF agreed to use its best efforts to maximize the value and sales price of the property and to complete the sale within 12 months after it is transferred to LCEF. The District will receive 50% of the actual or estimated net sales proceeds from LCEF upon sale of the property or after a 12-month holding period. There were no property sales related to disbanded congregations during 2021 and 2020.

**13. DEFINED BENEFIT PLAN**

The District participates in the worker benefit plans of the Synod, including the Concordia Retirement Plan (CRP). The CRP provides individuals with post-retirement benefits. Substantially all full-time employees (those employed more than 20 hours per week and at least five months per year) are covered by the CRP. Employees are vested after five years of creditable service. The District contributes a fixed percentage of each participant's salary to the CRP. Retirement plan expenses for the years ended December 31, 2021 and 2020, totaled \$91,442 and \$91,154, respectively.

There were no significant changes in the District's relationship to the CRP during fiscal 2021 or 2020. There were also no contingent liabilities associated with the CRP at December 31, 2021 or 2020. Currently, the District has no intention to withdraw from the CRP; the District's contributions and level of participation represent a small percentage of the CRP as a whole.

**14. COVID-19 RELATED ACTIVITIES**

*PPP Loan* – The District received an unsecured loan in the amount of \$271,000 from a Small Business Administration (SBA) approved partner under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan was subject to a note dated April 28, 2020 and, under the terms of the PPP, all or a portion of the principal and accrued interest was eligible to be forgiven if the loan proceeds were used for qualifying expenses as described in the CARES Act such as payroll costs, benefits, rent, and utilities. In April 2020, we recorded a note payable in the amount of \$271,000. When the loan obligation was legally released by the SBA in December 2020, we recognized in the 2020 Statement of Activities a \$271,000 gain on forgiveness of debt.

*Soldiers of the Cross COVID-19 Response Initiative* – As the COVID-19 crisis unfolded in 2020, many church workers found themselves with immediate unmet financial needs stemming from the spread of the pandemic. The District, in partnership with the Synod and LCEF, delivered mercy and human care in the form of benevolent support to church workers within the District through the

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD  
NOTES TO FINANCIAL STATEMENTS

**14. COVID-19 RELATED ACTIVITIES** (Continued)

Synod's Soldiers of the Cross COVID-19 Response Initiative program. During the year ended December 31, 2020, the District received \$102,400 from the Synod for this program and distributed grants of \$129,000 to meet the needs of impacted District church workers. During the year ended December 31, 2021, we received an additional \$20,800 from the Synod for this program and distributed grants of \$22,000 to our impacted church workers.

*COVID-19 Emergency Assistance Grants* – District congregations and schools also experienced financial emergencies during the pandemic. During the years ended December 31, 2021 and 2020, we distributed \$30,000 and \$161,500, respectively, of emergency assistance grants to several of our member congregations and schools based on financial need.