

**SIERRA PACIFIC SYNOD
OF THE EVANGELICAL
LUTHERAN CHURCH
IN AMERICA**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
JANUARY 31, 2016 AND 2015**

INDEPENDENT AUDITOR'S REPORT

**Synod Council
Sierra Pacific Synod of the Evangelical
Lutheran Church in America
Sacramento, California**

We have audited the accompanying financial statements of Sierra Pacific Synod of the Evangelical Lutheran Church in America, which comprise the statements of financial position as of January 31, 2016 and 2015, and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sierra Pacific Synod of the Evangelical Lutheran Church in America as of January 31, 2016 and 2015, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

April 29, 2016

**SIERRA PACIFIC SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

**STATEMENTS OF FINANCIAL POSITION
JANUARY 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 671,914	\$ 785,928
Prepaid expenses and other assets	<u>27,048</u>	<u>13,803</u>
Total current assets	698,962	799,731
NONCURRENT ASSETS:		
Investments	2,316,512	2,448,825
Property from disbanded congregations	5,776,000	5,776,000
Property and equipment, net of accumulated depreciation	<u>43,806</u>	<u>29,894</u>
TOTAL ASSETS	<u>\$ 8,835,280</u>	<u>\$ 9,054,450</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 116,143	\$ 27,740
Agency trust accounts	63,257	51,752
Deferred trust accounts	198,758	158,472
Loan payable, current portion	<u>5,204</u>	<u> </u>
Total current liabilities	383,362	237,964
LOAN PAYABLE, Net	<u>20,378</u>	<u> </u>
Total liabilities	<u>403,740</u>	<u>237,964</u>
NET ASSETS:		
Unrestricted:		
Undesignated	(127,322)	47,871
Council designated New and Renewing Fund	<u>7,800,003</u>	<u>7,972,719</u>
Total unrestricted	7,672,681	8,020,590
Temporarily restricted	557,136	594,173
Permanently restricted	<u>201,723</u>	<u>201,723</u>
Total net assets	<u>8,431,540</u>	<u>8,816,486</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,835,280</u>	<u>\$ 9,054,450</u>

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

**SIERRA PACIFIC SYNOD OF THE
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**STATEMENTS OF ACTIVITIES
YEARS ENDED JANUARY 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS:		
REVENUES AND SUPPORT:		
Mission support from congregations	\$ 1,808,773	\$ 1,738,244
Interest and dividends	78,271	74,347
Shared staff income	15,000	58,709
ELCA campus ministry grants	50,890	50,890
Synod assembly	106,872	102,251
Professional leadership conference	28,190	22,199
Rental income	30,400	34,836
Net realized and unrealized gain (loss) on investments	(131,740)	51,331
Other revenue	3,424	27,749
Net assets released from restriction	52,225	116,570
Total revenues and support	<u>2,042,305</u>	<u>2,277,126</u>
EXPENSES:		
Ministry partners	1,018,597	1,214,280
Personnel	809,931	845,039
Administration	273,192	239,391
Synod mission	159,467	165,299
Synod assembly and conferences	129,027	128,401
Total expenses	<u>2,390,214</u>	<u>2,592,410</u>
NET REVENUES AND EXPENSES	(347,909)	(315,284)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Property obtained from disbanded congregations		570,000
Change in fair value of property from disbanded congregations		(32,710)
Loss on sale of property from disbanded congregations		(14,298)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(347,909)</u>	<u>207,708</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Interest and dividends - Warner trust fund	15,188	10,020
Net assets released from restriction	(52,225)	(116,570)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(37,037)</u>	<u>(106,550)</u>
INCREASE (DECREASE) IN NET ASSETS	(384,946)	101,158
NET ASSETS, Beginning of Year	<u>8,816,486</u>	<u>8,715,328</u>
NET ASSETS, End of Year	<u>\$ 8,431,540</u>	<u>\$ 8,816,486</u>

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

**SIERRA PACIFIC SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

**STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (384,946)	\$ 101,158
Reconciliation to net cash used by operating activities:		
Depreciation	14,220	17,748
Net realized and unrealized (gain) loss on investments	131,740	(51,331)
Property obtained from disbanded congregations		(570,000)
Change in fair value of property from disbanded congregations		32,710
Loss on sale of property from disbanded congregations		14,298
Loss on disposal of equipment and property	4,399	
Changes in:		
Prepaid expenses and other assets	(13,245)	(2,500)
Accounts payable and accrued liabilities	88,403	(32,513)
Agency trust accounts	11,505	(19,958)
Deferred trust accounts	40,286	45,611
Net cash used by operating activities	<u>(107,638)</u>	<u>(464,777)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	205,363	
Proceeds from sale of investments	(204,790)	
Proceeds on sale of property from disbanded congregations		771,041
Purchases of property and equipment	(36,558)	
Proceeds from disposal of property and equipment	4,027	
Net cash provided (used) by investing activities	<u>(31,958)</u>	<u>771,041</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of loan payable	27,714	
Repayments on loans payable	(2,132)	(102,015)
Net cash provided (used) by financing activities	<u>25,582</u>	<u>(17,133)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(114,014)	204,249
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>785,928</u>	<u>581,679</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 671,914</u>	<u>\$ 785,928</u>
COMPOSITION OF CASH AND CASH EQUIVALENTS:		
Operating	\$ 244,501	\$ 318,762
New and Renewing Fund	417,501	461,048
Warner Trust	9,912	6,118
Total	<u>\$ 671,914</u>	<u>\$ 785,928</u>

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

SIERRA PACIFIC SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS JANUARY 31, 2016 AND 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Sierra Pacific Synod (Synod) of the Evangelical Lutheran Church in America (ELCA) was organized in 1986 as a California nonprofit religious corporation, to promote the Christian religion according to the tenets of faith set forth in the constitution of the ELCA. According to the ELCA 2014 Trend Report available on the ELCA's website, there are currently 182 congregations and 3 missions in the Synod's jurisdiction which includes 48 counties in Northern California and 13 counties in Nevada.

The Synod maintains relationships with several ELCA affiliated institutions and agencies within its territory. These relationships may include the appointment of institution and agency board members by the Synod Council, the governing body of the Synod.

Basis of presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Synod reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – The Synod receives monthly mission support from congregations within its jurisdiction. Support from congregations is recorded as revenue in full when received. Unremitted pledges from congregations are not included as receivables and revenue as of the Synod's fiscal year-end because they are conditional upon the congregations' ability and choice to fulfill the pledge.

Other contributions, including real estate from disbanded congregations, are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statements of activities as net assets released from restriction, when the time restrictions expire or the contributions are used for the restricted purpose. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted.

Cash and cash equivalents – The Synod considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents, unless designated for long-term purposes.

Investments include mutual funds which are stated at fair market value as of January 31, 2016 and 2015. Changes in market value are recorded as investment income or loss in the statements of activities.

Property from disbanded congregations is recorded at fair value as of the date the property rights are transferred to the Synod. Subsequent changes in fair value are recorded as income or loss in the statements of activities.

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Property and equipment are stated at cost. Assets are depreciated using the straight-line method over the estimated useful lives of the assets. The Synod capitalizes all expenditures for property and equipment in excess of \$1,000.

Agency and deferred trust accounts – The Synod receives funds from congregations to be disbursed to various designated agencies and institutions. When the funds are received, the Synod recognizes liabilities in the agency trust or deferred trust accounts. These liability accounts are reduced when the funds are disbursed to the recipient organizations.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the asset or liability.

Income taxes – The Synod is exempt from taxation under the Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). The Synod has applied the accounting principles related to the accounting for uncertainty in income taxes and has determined there is no material impact on the financial statements. With some exceptions, the Synod is no longer subject to U.S. federal and State income tax examinations by tax authorities for years prior to 2012.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Significant estimates included in these financial statements are management's estimate of the useful life of property and equipment, the valuation of property from disbanded congregations, and the allocation of functional expenses. Accordingly, actual results could differ from those estimates.

Subsequent events have been reviewed through April 29, 2016, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since January 31, 2016, that requires recognition or disclosure in such financial statements.

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**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2016 AND 2015**

Reclassification – Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

2. NET ASSETS

Temporarily restricted net assets

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Sierra Pacific Synod Fund – Stockton new start	\$ 507,799	\$ 507,799
Gloria Dei grant for congregational assistance	6,663	45,934
Gloria Dei – Bishop discretionary fund	29,307	32,399
Warner trust fund	<u>13,367</u>	<u>8,041</u>
Total temporarily restricted net assets	<u>\$ 557,136</u>	<u>\$ 594,173</u>

In 2002 the Synod received \$507,799 from the sale of Faith Lutheran Church property in Stockton. In accordance with the desire of the Stockton congregation, the proceeds are maintained in the New and Renewing Fund for the purposes of establishing a congregation in Stockton at a future date. This balance is included in temporarily restricted net assets.

Interest income in 2016 and 2015 was \$15,188 and \$10,020, respectively, from the Warner Trust Fund.

Designated net assets

The Synod has designated a portion of unrestricted net assets as the New and Renewing Congregations and Innovative Ministries Fund (New and Renewing Fund). This fund has been designated to support the outreach ministry of the Synod, including, but not limited to the establishment of new congregations, fresh starts, redeveloping of and/or strengthening of existing ministries within the Synod, and the leadership development of lay and clergy members.

In 2005, the Synod received a bequest from the estate of Bernice M. Woock. Those funds have been designated to support congregations and rostered leaders experiencing crises in their ministries. There were no expenditures of these funds in 2016 and 2015. Undistributed income at January 31, 2016 and 2015 amounted to \$3,757, and is included in the designated net assets balance.

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New and Renewing Fund net assets consisted of the following as of January 31:

	<u>2016</u>	<u>2015</u>
Cash	\$ 417,501	\$ 461,048
Thrivent financial for Lutherans funds		
– investments stated at market value	1,386,461	1,447,804
ELCA endowment fund pooled trust		
– investments stated at market value	724,881	795,343
Property from disbanded congregations (Note 3)	5,776,000	5,776,000
Accounts payable	<u>(798)</u>	<u>(3,434)</u>
Total New and Renewing Fund	8,304,045	8,476,761
Add: Woock fund	3,757	3,757
Less: temporarily restricted net assets – Stockton new start	<u>(507,799)</u>	<u>(507,799)</u>
Total Synod designated net assets	<u>\$ 7,800,003</u>	<u>\$ 7,972,719</u>

Permanently restricted net assets

The Synod maintains a bequest from the estate of Charles and Mabel Warner totaling \$201,723. The endowment fund is held in an ELCA Mission Investment Fund which is not insured. Interest income from the trust (3.94% in 2016 and 2015) is used for grants to specific programs and ministries of the Synod and institutions and agencies in accordance with the provisions of the bequest. The Synod Council has established a trust committee which oversees the distribution of the income. Undistributed income at January 31, 2016 and 2015 totaled \$13,367 and \$8,041, respectively, and is included in temporarily restricted net assets.

3. PROPERTY FROM DISBANDED CONGREGATIONS

The Synod holds title to real property and fixtures it receives from congregations that dissolved and were disbanded. The properties are stated at their fair value and are designated in the Synod's New and Renewing Fund. In 2015, Synod management estimated the fair value of the properties utilizing third-party appraisals and residential real estate listings for properties in the same geographical regions. In 2016, Synod management estimated the fair value of the properties to approximate the fair values recorded at January 31, 2015 based on review of residential real estate listings for properties in the same geographical regions. Therefore, no change in fair value has been recorded for the year ending January 31, 2016. The properties are classified within Level 2 of the fair value hierarchy because the valuation methods are based on observable market data, for comparable properties within the respective regions.

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Property from disbanded congregations consists of the following:

	<u>2016</u>	<u>2015</u>
San Lorenzo property	\$ 2,120,000	\$ 2,120,000
Cupertino property	1,750,000	1,750,000
Richmond church property	940,000	940,000
Richmond residential property	396,000	396,000
Hilmar property	<u>570,000</u>	<u>570,000</u>
Total	<u>\$ 5,776,000</u>	<u>\$ 5,776,000</u>

San Lorenzo property

On February 21, 2008, as a result of the dissolution of Christ Evangelical Lutheran Church of San Lorenzo, the Synod took title to the real property and fixtures of the disbanded congregation. Management's estimate of the fair value at January 31, 2016 and 2015 was based on an appraisal conducted in February 2015 by an outside appraisal firm.

Cupertino property

On April 5, 2007, as a result of the dissolution of Redeemer Lutheran Church of Cupertino (Redeemer), the Synod took title to the real property and fixtures of the disbanded congregation. The transaction was based on a November 15, 2006 agreement between Redeemer and Synod. Management's estimate of the fair value at January 31, 2016 and 2015 was based on an appraisal conducted in February 2015 by an outside appraisal firm.

Richmond property

On July 5, 2012, as a result of the dissolution of Life Lutheran Church of Richmond, the Synod took title to the real property and fixtures of the disbanded congregation, which included the Church itself and a residential property owned by the Church. Management's estimate of the fair value of the Church property at January 31, 2016 and 2015 was based on an appraisal conducted in February 2015 by an outside appraisal firm.

Hilmar property

On April 21, 2014, as a result of the dissolution of Berea Evangelical Lutheran Church of Hilmar, the Synod took title to the real property and fixtures of the disbanded congregation. Management's estimate of the fair value at January 31, 2016 and 2015 was based on an appraisal conducted in February 2015 by an outside appraisal firm.

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**NOTES TO FINANCIAL STATEMENTS
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Hollister property

On September 29, 2010, as a result of the dissolution of Trinity Lutheran Church of Hollister, the Synod took title to the real property and fixtures of the disbanded congregation. In addition to the title of the property, the Synod assumed a loan payable to the ELCA for \$157,594. Refer to Note 6 for further details of the loan. The Synod sold the Hollister property in July 2014 for \$815,000. The excess of the recorded value of the property over the sale proceeds, net of closing costs, resulted in a loss of \$14,298. Through escrow, a portion of the sales proceeds were used to repay the related loan in full.

4. INVESTMENTS

Investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets for identical assets.

Investments consist of the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 240,075	\$ 34,905
Mutual funds:		
Fixed Income	1,667,344	1,961,287
Stock – Large Cap	305,957	330,755
Stock – High Yield	69,662	82,363
Stock – International	<u>33,474</u>	<u>39,515</u>
Total	<u>\$ 2,316,512</u>	<u>\$ 2,448,825</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 110,448	\$ 110,448
Office and computer equipment	73,992	73,992
Automobile	36,558	33,702
Furniture and fixtures	<u>53,834</u>	<u>53,834</u>
Total	274,832	271,976
Less accumulated depreciation	<u>(231,026)</u>	<u>(242,082)</u>
Property and equipment, net	<u>\$ 43,806</u>	<u>\$ 29,894</u>

**SIERRA PACIFIC SYNOD OF THE
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**NOTES TO FINANCIAL STATEMENTS
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6. LOANS PAYABLE

During 2011, in connection with the receipt of property from the disbanded congregation of Trinity Lutheran Church of Hollister, the Synod assumed a loan payable to the ELCA with an outstanding principal balance as of January 31, 2011 of \$157,594. The loan was payable monthly and set to mature on July 1, 2018. The loan carried an adjustable interest rate, which was 4.125% during the year ended January 31, 2015, and incurred interest expense of \$1,284. As further discussed in Note 3, this loan was repaid in full during the year ended January 31, 2015.

The Synod entered into a loan for the purchase of a vehicle in September 2015. The loan is secured by the vehicle and requires monthly payments of \$509, including interest at 3.90%, through August 28, 2020. Interest on the loan totaled \$413 for the year ending January 31, 2016.

Future principal payments on the vehicle loan for years ending January 31 are as follows:

2017	\$ 5,204
2018	5,410
2019	5,625
2020	5,848
2021	<u>3,495</u>
Total	<u>\$ 25,582</u>

7. PENSION PLAN

Eligible employees participate in a defined contribution pension plan offered by the ELCA. The Synod makes contributions to this plan equal to 10% -12% of salaries of eligible employees. The contributions are fully vested when paid and totaled \$58,811 and \$56,413 for 2016 and 2015, respectively.

8. OPERATING LEASE

The Synod leases office space in several locations in California under operating lease agreements expiring at various times through January 2018. Rental expense for the years ended January 31, 2016 and 2015 was \$67,381 and \$74,462, respectively. Total future minimum payments under the lease agreements are as follows:

2017	\$ 70,918
2018	<u>72,529</u>
Total	<u>\$ 143,447</u>

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**NOTES TO FINANCIAL STATEMENTS
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9. FUNCTIONAL CLASSIFICATION OF EXPENSES

Certain costs have been allocated between the functional areas based on management's estimates of employees' time incurred and on resource usage. Total expenses consist of program expenses of \$1,777,367 for 2016 and \$1,986,306 for 2015. Supporting services expenses were \$612,847 for 2016 and \$606,104 for 2015.