

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

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

**YEARS ENDED
JANUARY 31, 2019 AND 2018**

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, 2019 and 2018, and the related statements of activities and of cash flows for the years then ended, the related statement of functional expenses for the year ended January 31, 2019, 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 Sierra Pacific Synod of the Evangelical Lutheran Church in America as of January 31, 2019 and 2018, 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, 2019

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

**STATEMENTS OF FINANCIAL POSITION
JANUARY 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 894,735	\$ 1,121,465
Prepaid expenses and other assets	<u>62,040</u>	<u>11,656</u>
Total current assets	956,775	1,133,121
NONCURRENT ASSETS:		
Investments	3,664,190	3,920,528
Property from disbanded congregations	2,595,000	2,230,000
Property and equipment, net of accumulated depreciation	<u>13,262</u>	<u>23,363</u>
TOTAL ASSETS	<u>\$ 7,229,227</u>	<u>\$ 7,307,012</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 2,062	\$ 104,078
Deferred trust accounts	113,493	138,944
Agency trust accounts	<u>32,186</u>	<u>82,285</u>
Total current liabilities	<u>147,741</u>	<u>325,307</u>
NET ASSETS:		
Without donor restrictions:		
General fund	285,060	216,042
Synod designated fund	<u>6,020,286</u>	<u>5,966,689</u>
Total without donor restrictions	6,305,346	6,182,731
With donor restrictions	<u>776,140</u>	<u>798,974</u>
Total net assets	<u>7,081,486</u>	<u>6,981,705</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,229,227</u>	<u>\$ 7,307,012</u>

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

**STATEMENTS OF ACTIVITIES
YEARS ENDED JANUARY 31, 2019 AND 2018**

NET ASSETS WITHOUT DONOR RESTRICTIONS:	<u>2019</u>	<u>2018</u>
REVENUES AND SUPPORT:		
Mission support from congregations	\$ 1,703,288	\$ 1,810,247
Synod assembly	107,100	107,739
Restart grants	77,300	61,800
ELCA campus ministry grants	50,890	55,131
Professional leadership conference	20,181	32,723
Rental income	31,700	32,100
Interest and dividends	113,383	105,824
Net realized and unrealized gain (loss) on investments	(237,451)	210,982
Other revenue	30,124	50,280
Net assets released from restriction	11,488	6,175
Total revenues and support	<u>1,908,003</u>	<u>2,473,001</u>
EXPENSES:		
Personnel	886,354	728,853
Administration	279,343	249,625
Ministry partners	621,478	904,358
Synod mission	231,163	251,068
Synod assembly and conferences	132,050	126,982
Total expenses	<u>2,150,388</u>	<u>2,260,886</u>
NET REVENUES AND EXPENSES	(242,385)	212,115
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Property obtained from disbanded congregations	<u>365,000</u>	<u> </u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>122,615</u>	<u>212,115</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Interest and dividends - Warner trust	11,165	6,446
Net realized and unrealized gain (loss) - Warner trust	(22,511)	29,831
Net assets released from restriction	<u>(11,488)</u>	<u>(6,175)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(22,834)</u>	<u>30,102</u>
INCREASE IN NET ASSETS	99,781	242,217
NET ASSETS, Beginning of Year	<u>6,981,705</u>	<u>6,739,488</u>
NET ASSETS, End of Year	<u>\$ 7,081,486</u>	<u>\$ 6,981,705</u>

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

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

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JANUARY 31, 2019**

	<u>Program Activities</u>				<u>Total Expenses</u>
	<u>Ministry Partners</u>	<u>Synod Mission</u>	<u>Synod Assembly and Conference</u>	<u>General and Administrative</u>	
Salaries, wages and benefits	\$ 193,510	\$ 237,503	\$ 230,552	\$ 232,973	\$ 894,538
Mission support	430,963				430,963
Grants given	190,515	195,644			386,159
Conferences, programs and workshops	211	35,390	135,204	211	171,016
Rent	11,843	24,184	25,377	29,054	90,458
Equipment and maintenance	6,466	10,159	13,853	15,799	46,277
Property expenses	714	25,247	714	7,581	34,256
Professional services	5,258	6,576	3,375	16,504	31,713
Communication	2,276	3,578	4,878	5,530	16,262
Depreciation	1,414	2,222	3,030	3,435	10,101
Insurance	1,353	1,939	2,524	2,817	8,633
Supplies	688	1,081	1,475	1,672	4,916
Postage and shipping	375	502	1,140	1,012	3,029
Miscellaneous	1,545	6,545	9,516	4,461	22,067
Total	<u>\$ 847,131</u>	<u>\$ 550,570</u>	<u>\$ 431,638</u>	<u>\$ 321,049</u>	<u>\$ 2,150,388</u>

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED JANUARY 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 99,781	\$ 242,217
Reconciliation to net cash used by operating activities:		
Depreciation	10,101	10,102
Net realized and unrealized (gain) loss on investments	259,962	(240,813)
Property obtained from disbanded congregations	(365,000)	
Changes in:		
Prepaid expenses and other assets	(50,384)	11,478
Accounts payable and accrued liabilities	(102,016)	15,514
Deferred trust accounts	(25,451)	(73,374)
Agency trust accounts	(50,099)	3,296
Net cash used by operating activities	<u>(223,106)</u>	<u>(31,580)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,500,421)	(500,000)
Proceeds from sale of investments	<u>1,496,797</u>	
Net cash used by investing activities	<u>(3,624)</u>	<u>(500,000)</u>
 DECREASE IN CASH AND CASH EQUIVALENTS	 (226,730)	 (531,580)
 CASH AND CASH EQUIVALENTS, Beginning of Year	 <u>1,121,465</u>	 <u>1,653,045</u>
 CASH AND CASH EQUIVALENTS, End of Year	 <u>\$ 894,735</u>	 <u>\$ 1,121,465</u>
 COMPOSITION OF CASH AND CASH EQUIVALENTS:		
Operating	\$ 385,718	\$ 533,468
Mission and Ministry Fund	498,373	578,118
Warner Trust	<u>10,644</u>	<u>9,879</u>
Total	<u>\$ 894,735</u>	<u>\$ 1,121,465</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, 2019 AND 2018

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. There are currently 180 congregations and 8 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 according to two classes of net assets based on the existence or absence of donor or grantor-imposed restrictions: net assets without donor restrictions and net assets with donor restrictions.

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 net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statements of activities as net assets released from restrictions 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 without restrictions.

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.

The Synod minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The Synod's financial institution provides insurance which covers each account up to \$250,000. The balance at times may exceed the institution's insured limits. The Synod has not experienced any losses in such accounts and management believes The Synod is not exposed to any significant credit risk related to cash.

Investments are stated at fair market value with the exception of certificates of deposit, which are stated at cost. Changes in market value are recorded as investment income or loss in the statements of activities.

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2019 AND 2018**

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.

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 \$2,500.

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.

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statement of functional expenses for the year ended January 31, 2019. Accordingly, the personnel and administration expenses reported on the statements of activities require allocation based on the estimated usage of resources. The expenses that are allocated include salaries and wages, which are allocated based on time and effort; payroll taxes and employee benefits, which are allocated based on salaries and wages; and rent, professional services, communication, insurance, supplies, and depreciation, which are allocated based on estimated usage.

Based on management’s estimates of employees’ time incurred and usage of resources, total program and supporting service expenses for the year ended January 31, 2018 were \$1,919,811 and \$341,075, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2019 AND 2018**

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).

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.

Recent accounting pronouncements – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and available resources, and the type of information provided about expenses and investment return. The Synod has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, with the exception of the statement of functional expenses and the liquidity disclosures, which have not been applied for the year ended January 31, 2018 as allowed by the transition guidance of this ASU.

Subsequent events have been reviewed through April 29, 2019, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since January 31, 2019, that requires recognition or disclosure in such financial statements.

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Synod’s financial assets available within one year of the statement of financial position date for general expenditure are as follows as of January 31, 2019:

Cash and cash equivalents	\$ 894,735
Investments	<u>3,664,190</u>
Total financial assets	4,558,925
Less amounts unavailable for general expenditures within one year:	
Deferred trust accounts	(113,493)
Agency trust accounts	(32,186)
Financial assets included in the designated Mission and Ministry Fund (see Note 3)	(3,425,286)
Net assets with donor restrictions (see Note 3)	<u>(776,140)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 211,820</u>

As part of the Synod liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Synod Council has the ability to approve transfers from its Mission and Ministry Fund to cover operating expenses if needed.

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2019 AND 2018**

3. NET ASSETS

Net assets with donor restrictions:

Net assets with donor restrictions represent unexpended contributions restricted by donors as follows:

	<u>2019</u>	<u>2018</u>
Purpose restrictions:		
Mission and Ministry Fund – Stockton new start	\$ 507,799	\$ 507,799
Gloria Dei – Bishop discretionary fund	28,219	29,307
Warner trust fund	38,399	60,145
Total purpose restrictions	574,417	597,251
Perpetual restrictions:		
Warner trust fund	201,723	201,723
Total net assets with donor restrictions	\$ 776,140	\$ 798,974

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 Sierra Pacific Synod Mission and Ministry Endowment Fund (Mission and Ministry Fund), for the purposes of establishing a congregation in Stockton at a future date. This balance is included in net assets with donor restrictions.

The Synod maintains a bequest from the estate of Charles and Mabel Warner totaling \$201,723 which is to be held in perpetuity. The endowment fund is held in the ELCA Endowment Fund which is not insured. Investment income from the trust 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, 2019 and 2018 totaled \$38,399 and \$60,145, respectively, and is included in net assets with donor restrictions. Interest and investment income (loss) in 2019 and 2018 was (\$11,346) and \$36,277, respectively, from the Warner trust fund.

Designated net assets

The Synod has designated a portion of unrestricted net assets as the Mission and Ministry 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.

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2019 AND 2018**

Mission and Ministry Fund and total Synod designated net assets consisted of the following as of January 31:

	<u>2019</u>	<u>2018</u>
Cash	\$ 498,373	\$ 578,118
Thrivent Financial		
– investments stated at market value		1,530,902
ELCA endowment fund pooled trust		
– investments stated at market value	2,934,580	1,637,637
Mission investment account		
– investments stated at market value	500,132	500,000
Property from disbanded congregations (Note 4)	2,595,000	2,230,000
Accounts payable and other liabilities	<u> </u>	<u>(2,169)</u>
Total Mission and Ministry Fund	6,528,085	6,474,488
Less: temporarily restricted net assets – Stockton new start	<u>(507,799)</u>	<u>(507,799)</u>
Total Synod designated net assets	<u>\$ 6,020,286</u>	<u>\$ 5,966,689</u>

4. 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 Mission and Ministry Fund. Synod management estimates the fair value of the properties annually based on outside appraisals or residential real estate listings for properties in the same geographical regions. 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. No change in fair value was identified or recorded for the years ended January 31, 2019 or 2018.

Property from disbanded congregations consists of the following:

	<u>2019</u>	<u>2018</u>
Richmond church property	\$ 1,040,000	\$ 1,040,000
Richmond residential property	550,000	550,000
Hilmar property	640,000	640,000
Sanger church property	<u>365,000</u>	<u> </u>
Total	<u>\$ 2,595,000</u>	<u>\$ 2,230,000</u>

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2019 AND 2018**

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 properties at January 31, 2019 and 2018 was based on appraisals conducted in March 2017, by outside appraisal firms.

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, 2019 and 2018 was based on an appraisal conducted in March 2017, by an outside appraisal firm.

Sanger property

On February 14, 2018, as a result of the dissolution of Bethlehem Lutheran Church of Sanger, the Synod took title to the real property and fixtures of the disbanded congregation. Management's estimate of the fair value at January 31, 2019 was based on an appraisal conducted in May 2018, by an outside appraisal firm.

5. INVESTMENTS

Investments consist of the following:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 125,255	\$ 34,905
Certificates of deposit	374,877	500,000
Pooled investments held by ELCA Foundation	3,164,058	1,889,626
Mutual funds		
Fixed Income		958,650
Stock – Large Cap		415,872
Stock – High Yield		76,944
Stock – International		44,531
	<hr/>	<hr/>
Total	<u>\$ 3,664,190</u>	<u>\$ 3,920,528</u>

The Synod participates in the ELCA Endowment Fund Pooled Trust of the ELCA Foundation. This investment is valued within level 2 of the fair value hierarchy as the value of its shares are based on the fair market value of the underlying holdings which consist of equities, fixed income securities, real estate and other alternative investments.

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

Certificates of deposit are valued at cost plus accrued interest.

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2019 AND 2018**

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 110,448	\$ 110,448
Office and computer equipment	73,992	73,992
Furniture and fixtures	53,834	53,834
Automobile	36,558	36,558
Total	274,832	274,832
Less accumulated depreciation	(261,570)	(251,469)
Property and equipment, net	\$ 13,262	\$ 23,363

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 \$49,199 and \$44,382 for the years ended January 31, 2019 and 2018, respectively.

8. OPERATING LEASES

The Synod leases office space in several locations in California and printer under operating lease agreements expiring at various times through January 2021. Lease expense for the years ended January 31, 2019 and 2018 was \$97,240 and \$109,463, respectively. Total future minimum payments under the lease agreements are as follows:

2020	\$ 100,572
2021	37,924
Total	\$ 138,496