

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT

JANUARY 31, 2019

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Synod Council
Southwest California Synod of the
Evangelical Lutheran Church In America

We have audited the accompanying financial statements of Southwest California Synod of the Evangelical Lutheran Church In America (a nonprofit corporation), which comprise the statement of financial position as of January 31, 2019, and the related statements of activities and cash flows for the year 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 upon our audit. We conducted our audit 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 Southwest California Synod of the Evangelical Lutheran Church In America as of January 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

May 20, 2019

Members: California Society of Certified Public Accountants • American Institute of Certified Public Accountants • Division of CPA Firms / PCPS

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
STATEMENT OF FINANCIAL POSITION

January 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<u>ASSETS</u>			
Current Assets			
Cash in Checking Accounts	\$ 1,007,247	\$ 220,857	\$ 1,228,104
Money Market Accounts		100,062	100,062
Certificates of Deposit	534,241		534,241
ELCA Endowment Pooled Trust		8,707,895	8,707,895
Other Receivables	(4,717)		(4,717)
Loans Receivable	10,500		10,500
Prepaid Expense	500		500
Total Current Assets	<u>1,547,771</u>	<u>9,028,814</u>	<u>10,576,585</u>
Fixed Assets			
Property and Equipment, net	5,899		5,899
Other Assets			
Real Estate of Disbanded Churches	10,885,000		10,885,000
Lutheran Center, Glendale, CA	5,900,000		5,900,000
Notes Receivable, long-term	40,209	2,468	42,677
Inter-Fund Loans Due To/From	(630,476)	630,476	-
Total Other Assets	<u>16,194,733</u>	<u>632,944</u>	<u>16,827,677</u>
TOTAL ASSETS	<u>\$ 17,748,403</u>	<u>\$ 9,661,758</u>	<u>\$ 27,410,161</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable and Accrued Expenses	\$ 61,968		\$ 61,968
Agency Trust Funds	25,732		25,732
Security Deposit	10,661		10,661
Mortgages Payable, current	17,224		17,224
Total Current Liabilities	<u>115,585</u>		<u>115,585</u>
Long-term Liabilities			
Mortgages Payable	188,130		188,130
Total Long-term Liabilities	<u>188,130</u>		<u>188,130</u>
TOTAL LIABILITIES	303,715	-	303,715
<u>NET ASSETS</u>	<u>17,444,688</u>	<u>9,661,758</u>	<u>27,106,446</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,748,403</u>	<u>\$ 9,661,758</u>	<u>\$ 27,410,161</u>

The accompanying notes are an integral part of these statements

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
STATEMENT OF ACTIVITIES
Year Ended January 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<u>SUPPORT AND REVENUE</u>			
Support:			
Mission Support, Congregations	\$ 981,119	\$ -	\$ 981,119
Support to Synod	135,378	(135,378)	
Other Support	141,093		141,093
Contributions		81,793	
Interest	11,662	5,497	17,159
Dividends		329,354	329,354
Administration of Churches		268,397	268,397
Fiscal Agent Payroll Funding - ELCA		376,276	376,276
Church of Finland Ministry Support		207,785	207,785
Revenue:			
Registration Fees		15,240	15,240
Unrealized (Loss) on Investments		(843,484)	(843,484)
Synod Owned Property			
Faith Lutheran Church, Long Beach	325,000		325,000
Loss on Sale of Christ the King	(157,740)		(157,740)
Net Assets Released from Restrictions	1,328,331	(1,328,331)	
Total Support and Revenue	<u>2,764,843</u>	<u>(1,022,851)</u>	<u>1,817,939</u>
<u>EXPENSES</u>			
Mission Support Churchwide ELCA	495,801		495,801
General Administrative	134,449		134,449
Personnel	811,357		811,357
Leadership, Support and Program	67,567		67,567
Lutheran Center Operation	203,213		203,213
Program Services - Other	130,307		130,307
Grants	23,175		23,175
Temp Funds Released from Restrictions			
Grants	179,792		179,792
Church Administration Costs	381,981		381,981
Travel	54,111		54,111
Fiscal Agent Shared Staff	443,680		443,680
Programs and Conferences	97,384		97,384
Managed Payroll	171,159		171,159
Other	224		224
Total Expenses	<u>3,194,200</u>	<u>-</u>	<u>3,194,200</u>
INCREASE (DECREASE) IN NET ASSETS	(429,357)	(1,022,851)	(1,452,208)
NET ASSETS - Beginning of Year	17,874,045	10,684,609	28,558,654
NET ASSETS - End of Year	<u>\$ 17,444,688</u>	<u>\$ 9,661,758</u>	<u>\$ 27,106,446</u>

The accompanying notes are an integral part of these statements

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
STATEMENT OF CASH FLOWS
Year Ended January 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

(Decrease) in Net Assets		\$ (1,452,208)
Adjustments to Reconcile Increase in Net Assets to		
Net Cash (Used) by Operating Activities:		
Unrealized Loss on Investments	\$ 843,484	
Depreciation	7,954	
Synod Owned Church Property - Faith Lutheran Church, Long Beach	(325,000)	
Loss on Sale of Christ the King	157,740	
Security Deposit Liability Forgiven	(10,000)	
(Increase) Decrease in Other Receivables	3,026	
(Increase) Decrease in Prepaid Expense	4,715	
(Increase) Decrease in Interest Receivable	46,981	
(Decrease) Increase in Accounts Payable and Accrued Expenses	46,007	
(Decrease) Increase in Mission Support Churchwide Accrued	(222,427)	
(Decrease) Increase in Agency Trust Accounts Payable	5,551	
Total Adjustments		558,031
Net Cash (Used) by Operating Activities		(894,177)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from Sale of Christ the King	2,416,823	
Deposit Received	5,000	
Principal Loaned on Note Receivable	(7,175)	
Principal Collected on Notes Receivable	39,624	
Principal Loaned on Loans Receivable	(10,500)	
Principal of Loans Receivable Forgiven	1,919	
Net Cash Provided by Investing Activities		2,445,691

CASH FLOWS FROM FINANCING ACTIVITIES:

Capital Expenditures		
Principal Payments on Mortgages	(16,394)	
Net Cash (Used) by Financing Activities		(16,394)

(DECREASE) IN CASH AND CASH EQUIVALENTS 1,535,120

CASH AND CASH EQUIVALENTS - Beginning of Year 327,287

CASH AND CASH EQUIVALENTS - End of Year \$ 1,862,407

Supplemental Disclosures of Cash Flow Information:

Cash Paid During the Year For:	
Interest	\$11,638
Income Taxes	None

The accompanying notes are an integral part of these statements

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
January 31, 2019

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Southwest California Synod of the Evangelical Lutheran Church in America (Synod) was incorporated as a nonprofit organization in May 1986. The Synod is affiliated with the Evangelical Lutheran Church in America (ELCA) and is responsible for the oversight and the life and mission of the ELCA in the counties of Los Angeles, San Luis Obispo, Santa Barbara, Kern, and Ventura in the state of California. The Synod is supported primarily through contributions received from member congregations.

Significant Accounting Policies

Basis of Accounting

The financial statements of the Synod have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

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

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in ASU 2016-14. Accordingly, net assets, revenue, expenses, gains and losses are classified based on donor-imposed restrictions. Net assets of the Synod and changes therein are classified and reported as follows:

Without Donor Restrictions – Those resources not subject to donor-imposed restrictions. Resources not subject to donor-imposed restrictions include those net assets that the Synod has set aside for a particular purpose.

With Donor Restrictions – Those resources subject to donor-imposed restrictions that will be satisfied by action of the Synod or by the passage of time, and permanently restricted net assets that are subject to donor-imposed restrictions which never lapse.

Donated Services

The Synod receives services donated by individuals involved in the Synod's missions. The services provided generally involve the contribution of time to various Synod committees. No amounts for contributed services have been reflected in the financial statements since the services do not meet accounting standards for recognition. The criteria require that donated services create or enhance financial assets, require specialized skills which would be purchased if not donated, and have an objective basis for measurement.

Leases

Leases are evaluated and classified as capital or operating in accordance with generally accepted accounting principles

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
January 31, 2019

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Significant Accounting Policies (Continued)

Income Taxes

The Synod is included in a group ruling issued by IRS to the ELCA and therefore is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Cash Equivalents

Cash consists of checking and savings deposits with banks.

Investments and Credit Risks

Investments consist primarily of funds invested with the ELCA Endowment Fund. Investments in the ELCA Endowment Fund are stated at fair value based on amounts reported to the Synod by the management of the Fund. Realized and unrealized gains and losses are reflected in the statement of activities. Investments in the ELCA Endowment Fund are not protected by SIPC (Security Investor Protection Corporation). The uninsured investment balance in the ELCA Endowment Fund was \$8,707,895 as of January 31, 2019.

Disclosures About Fair Value of Assets and Liabilities

The Synod has adopted FASB ASC 820-19, which defines fair value, establishes a framework of measuring fair value, and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy, which requires the Synod to maximize the use of observable inputs and minimize the use of unobservable inputs, when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1

Quoted prices in active markets for identical assets or liabilities.

Level 2

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
January 31, 2019

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Disclosures About Fair Value of Assets and Liabilities (Continued)

Cash and Cash Equivalents - The carrying amount approximates fair value.

Investments - Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows (Level 2). Where Level 1 and Level 2 inputs are not available, investments are classified within Level 3 hierarchy. Because market activity for the ELCA Endowment Fund investment is not active, the Synod's investment in the Fund is classified as Level 3.

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
ELCA Endowment Fund	<u>\$ 8,707,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,707,895</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>ELCA End Fund</u>
January 31, 2018	\$9,291,379
Additional amount invested	260,000
Unrealized (loss) on investment	(843,484)
January 31, 2019	<u>\$8,707,895</u>

Functional Allocation of Expenses

The costs of providing various programs and other activities have been presented on a functional basis at Note M, where expenses have been allocated among the programs and supporting services benefited.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximately fair value at the date of donation. The Synod depreciates assets using the straight-line method over the useful lives of the assets of 5 and 7 years.

Subsequent Events

Subsequent events have been evaluated through May 20, 2019, which is the date the financial statements were available to be used.

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
 January 31, 2019

NOTE B - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following as of January 31, 2019:

Operating Fund	\$ (1,472,525)
Property Fund	5,899
Lutheran Center, Glendale	5,900,000
Churches Under Administration	10,885,000
Designated Net Assets	<u>2,126,314</u>
	<u>\$17,444,688</u>

NOTE C – NET ASSETS WITHOUT DONOR RESTRICTIONS - DESIGNATED FUNDS

Net assets without donor restrictions which have been designated by Synod Council consist of the following as of January 31, 2019:

Vehicle Fund	\$ 45,000
Sabbatical	2,250
Synod Sold Churches Fund	61,883
Christ the King, Van Nuys	1,633,784.
Twin Valley Mission Fund	<u>383,397</u>
Total	<u>\$2,126,314</u>

NOTE D – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at January 31, 2019:

Temporarily Restricted Net Assets	\$ 9,405,657
Permanently Restricted Net Assets	<u>256,101</u>
Total	<u>\$ 9,661,758</u>

NOTE E – NET ASSETS WITH DONOR RESTRICTIONS - TEMPORARILY RESTRICTED FUNDS

Net assets with donor restrictions - Temporarily Restricted Funds at January 31, 2019 consist of the following:

Ministry in Aging	\$10,355
Bishop's Colloquy	635
Rostered Ministries	500
Seminary Scholarships	2,356
First Call Theol. Education	4,069
Special Needs Retirement Fund	227
Candidacy Applications	1,000
Burnford Worship Fund	756
LC/LA Peace & Justice Award	4,800
DEM Travel	(1,974)
African Descent Strategy	2,817
Labyrinth	1,496
Mission Fund	1,750
Ventures in Growing Stewards	1,309

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS

January 31, 2019

NOTE E – NET ASSETS WITH DONOR RESTRICTIONS - TEMPORARILY RESTRICTED FUNDS
(Continued)

Miscellaneous Events	2,481
Church of Finland	300
Church of Finland Ministry Support	173,869
Church of Finland Travel Fund	37,528
World Hunger Grant	2,929
Global Mission Event	263
Hong Kong	724
Tansania	4,130
Lutheran Musician	620
El Salvador	4,449
Youth	4,944
Justice Team	9,316
Guardian Angel	10,106
Equipping Leaders for Mission (ELM)	5,889
Book of Faith	363
Latino Lay Mission School	4,512
Living the Resurrection	8,485
Assembly Offering Lay Ministry	9,466
Good Samaritan Fund	183
Campus Ministries	679
Young Adult Project	7,764
Bishop's Fund	7,229
Fiscal Agent Managed Payroll Fund	(43,829)
Mission & Ministry Funds	2,774,464
Warner Endowment Income Fund	12,070
Pfundstein Campership Income Fund	(580)
BLP Enhancement Income Fund	1,012
First Lutheran Los Angeles Fund	6,401,274
Churches under Synod Administration	(65,079)
Total Temporarily Restricted	<u>\$ 9,405,657</u>

Temporarily restricted funds with negative balances have pending funding which will restore the balances.

NOTE F – ASSETS WITH DONOR RESTRICTIONS - TEMPORARILY RESTRICTED ASSETS

MISSION AND MINISTRY FUNDS

At the 1997 Synod Assembly, a resolution was adopted creating a Mission and Ministry Fund. The fund's purpose is to receive gifts and bequests to be used for the Mission Outreach of the Synod and the ELCA and their successor bodies. The Mission and Ministry Fund is held in two accounts: the Endowment and the Discretionary. As directed by Synod Council, during the year ended January 31, 2008, \$1,540,264 of the proceeds from the sale of Shepherd of the Valley, West Covina was placed in the Mission and Ministry Fund. A transfer of \$1,026,843 was made to the Endowment account, and a transfer of \$513,421 was made to the Discretionary account. As of January 31, 2019 the accounts are comprised of the following:

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
January 31, 2019

NOTE F – ASSETS WITH DONOR RESTRICTIONS - TEMPORARILY RESTRICTED ASSETS
(Continued)

MISSION AND MINISTRY FUNDS (Continued)

	<u>Endowment</u>	<u>Discretionary</u>
ELCA Endowment Pooled Fund		
Cost	\$ 1,711,212	\$ 670,157
Unrealized gains	<u>97,055</u>	<u>9,632</u>
Market Value	1,808,267	679,789
Mission & Ministry Checking	92,968	
Bishop's Discretionary Checking		27,082
Note Receivable from Trinity – San Gabriel		5,130
Loan Receivable from Operating Fund		100,000
Receivable from Operating Fund	<u>3,900</u>	<u>57,328</u>
	<u>\$ 1,905,135</u>	<u>\$ 869,329</u>

The following summarizes the activity in the accounts:

	<u>Endowment</u>	<u>Discretionary</u>
Balances, January 31, 2018	\$ 2,072,217	\$ 914,384
Interest	116	59
St. Johns Interest Adjustment		(1,707)
Dividends from ELCA Pooled Fund	70,810	20,219
Unrealized (loss) ELCA Pooled Fund	(177,384)	(55,964)
Grants paid	(60,453)	(7,630)
Other expenses	<u>(172)</u>	<u>(33)</u>
Balances, January 31, 2019	<u>\$ 1,905,135</u>	<u>\$ 869,329</u>

At its September 2012 meeting, the Synod Endowment Committee voted to sell sufficient shares in the ELCA Endowment Pool Fund held by the Mission and Ministry Discretionary Fund to purchase from the General Fund its \$260,000 loan to St. John Lutheran Church, Cerritos. The General Fund had provided St. Johns Lutheran Church, Cerritos with emergency financial assistance to pay substantial financial obligations of the congregation, in order to sustain its ministry. On October 1, 2011 a promissory note and deed of trust were executed by St. John Lutheran Church, Cerritos to secure repayment of amounts advanced by the Synod. The promissory note secured by deed of trust calls for monthly payments of \$990 per month or more, and interest at the rate of 5% per annum. The General Fund's loan to St. John Lutheran Church, Cerritos was originally financed with a loan from the First Lutheran Los Angeles Fund. The purchase of the loan by the Mission and Ministry Discretionary Fund allowed the General Fund to repay its loan from the First Lutheran Los Angeles Fund. St. John Lutheran Church, Cerritos had not made any payments on the note as of January 31, 2018. Unpaid interest on the loan has been recorded as a receivable. In May 2018, the church property was sold and the principal amount of the loan and a compromised portion of accrued interest was collected through the sales escrow.

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS

January 31, 2019

NOTE F – ASSETS WITH DONOR RESTRICTIONS - TEMPORARILY RESTRICTED ASSETS
(Continued)

MISSION AND MINISTRY FUNDS (Continued)

At its September 2012 meeting, the Synod Endowment Committee voted to sell sufficient shares in the ELCA Endowment Pool Fund held by the Mission and Ministry Discretionary Fund to pay the Operating Fund \$100,000 in order to restore to the Operating Fund amounts it had expended on behalf of Fe y Esperanza, a church under administration. The payment was made to the Operating Fund in the form of a loan which is to be repaid to the Mission and Ministry Discretionary Fund from sales proceeds should there be a sale of the house on the Fe y Esperanza church property owned by the Synod.

FIRST LUTHERAN LOS ANGELES FUND

Final worship services were held at First Lutheran Church, Los Angeles on April 23, 2006. Upon closing of the congregation, the Synod assumed responsibility for administration of the Church property. The sale of the Church property was concluded in December 2007. The congregation's "Resolution for Congregation Closing" provided for the sales proceeds to be used (a) to pay a tithe to the Synod for use in its operations; (b) to fund the endowment of a chair at Pacific Lutheran Theological Seminary; and (c) to create a restricted First Lutheran Los Angeles Fund to be administered by the Synod to serve the Gospel.

In January 2008, an endowment of \$1,500,000 was funded at Pacific Lutheran Theological Seminary, and \$718,262 was transferred to an unrestricted, designated fund referred to as the "First LA Synod (Tithe) Fund". The \$718,262 amount represented the net operating profits from administration of the Church prior to sale and the Synod Tithe, as computed at the time. In 2013, the First LA Synod (Tithe) Fund was combined with the Mt. Olivet and CCOL Bakersfield New Mission Fund.

Synod Council voted that principal of the restricted First Lutheran Los Angeles Fund may be invaded only with the recommendation of the Executive Committee and with the approval of a two-thirds majority of the Synod Council. Synod Council also voted that one-third of the income from the restricted First Lutheran Los Angeles Fund is designated to meet the mission needs of the Synod, and two-thirds of the income of the Fund is to be used for the following programs:

- (a) The planting and support of new congregations, including such things as contributions toward the mission developer's salary and benefits, purchase of equipment, and acquisition of property for housing the new ministry;
- (b) The support of congregations in transition or transformation, including support of a new or full-time pastor and resources that would support new ministry and outreach;
- (c) The support of candidates for rostered ministry; and
- (d) The support of agencies and institutions important for the life and mission of Christ as lived out through the Southwest California Synod.

SOUTHWEST CALIFORNIA SYNOD
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS

January 31, 2019

NOTE F – ASSETS WITH DONOR RESTRICTIONS - TEMPORARILY RESTRICTED ASSETS
(Continued)

FIRST LUTHERAN LOS ANGELES FUND (Continued)

The following summarizes the activity in the temporarily restricted First Lutheran Los Angeles Funds during the year ended January 31, 2019:

	<u>Total</u>	<u>Principal</u>	<u>Income</u>	
			<u>(2/3)</u>	<u>(1/3)</u>
Balances, January 31, 2018	\$6,998,159	\$7,001,558	\$(2,805)	\$(595)
Interest income	30		20	10
ELCA Endow Fund dividend income	237,384		158,256	79,128
Grants and scholarships	(104,266)		(104,266)	
Synod Support – Operating Fund	(135,378)		(56,250)	(79,128)
Unrealized (loss) on investments	<u>(594,655)</u>	<u>(594,655)</u>		
Balances, January 31, 2019	<u>\$6,401,274</u>	<u>\$6,406,903</u>	<u>\$ (5,044)</u>	<u>\$ (585)</u>

As of January 31, 2019 The First Los Angeles Funds are invested as follows:

	<u>Total</u>	<u>Principal</u>	<u>Income</u>	
			<u>(2/3)</u>	<u>(1/3)</u>
Cash in checking	\$ 50,599	\$ 50,599	\$	\$
Loan to Operating Fund	292,061	292,061		
Payable to Operating Fund	(3,400)	2,229	(5,044)	(585)
ELCA Endowment Pooled Fund (FMV)	<u>6,062,014</u>	<u>6,062,014</u>		
	<u>\$6,401,274</u>	<u>\$6,406,903</u>	<u>\$ (5,044)</u>	<u>\$ (585)</u>

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS - PERMANENTLY RESTRICTED FUNDS

Permanently restricted assets at January 31, 2019 consist of the following:

	<u>Pfundstein</u>	<u>B.L. Price</u>	<u>Warner</u>	<u>Total</u>
Balances, January 31, 2018	\$18,000	\$81,630	\$151,436	\$251,066
Unrealized Gain			5,035	5,035
Balances, January 31, 2019	<u>\$18,000</u>	<u>\$81,630</u>	<u>\$156,471</u>	<u>\$256,101</u>

PFUNDSTEIN CAMBERSHIP FUND

In September 2002, the Synod received a bequest from the estates of Wayne and Helen Pfundstein. The Synod had been instructed to place the bequest of \$18,000 in an endowment fund, and the income from the investment of the funds is to provide camperships for children in the Lutheran Outdoor Ministry Programs of the Synod. The Pfundstein Campership Fund at January 31, 2019 is invested in a Mission Plus Account.

BARBARA L. PRICE ENHANCEMENT FUND

Barbara L. Price Enhancement Fund was established in 1999 upon the retirement of Barbara Price, assistant to the Bishop. The fund was formed to augment low income pastor salaries, with initial contributions of \$59,789. By terms of the endowment, up to one-half of the interest earned from the investment of the endowment can be expended, until the account reaches \$1 million. When the fund reaches \$1 million, all subsequent income is available for use. At January 31, 2019 the fund is invested in a Mission Plus account.

SOUTHWEST CALIFORNIA SYNOD
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NOTE G – NET ASSETS WITH DONOR RESTRICTIONS - PERMANENTLY RESTRICTED FUNDS
(Continued)

WARNER TRUST BEQUEST

Southwest California Synod, as the surviving corporation of the Pacific Southwest Synod, received a bequest from the estate of Charles and Mabel Warner in 1990 and 1994 totaling \$697,349. Distributions of the bequest were made to the other Synods of Region 2 on the basis of their baptized memberships at the time of the merger. Southwest California Synod's portion was \$163,286, which has been invested in the ELCA Endowment Fund Pooled Trust. Any appreciation of the investment is added to the principal of the permanently restricted fund. Any reduction in value of the investment reduces the principal of the permanently restricted fund. Dividend income received from the investment is treated as income, which is held in the Warner Trust Income Account. A trust committee oversees grants paid from the income fund.

At January 31, 2019, the permanently restricted Warner Trust Fund is held as follows:

ELCA Endowment Pooled Fund	
Original Bequests	\$ 163,286
Realized gains and (losses)	(32,368)
Unrealized gains	<u>25,553</u>
Balance	\$ <u>156,471</u>

NOTE H - PROPERTY AND EQUIPMENT

Property and equipment at January 31, 2019 consist of the following:

Leasehold Improvements	\$ 406,756
Equipment	145,787
Vehicles	34,555
Accumulated Depreciation	<u>(581,198)</u>
Total	\$ <u>5,899</u>

NOTE I – SYNOD OWNED CHURCH PROPERTIES

The Synod owns properties of six disbanded congregations. Such real estate properties owned by the Synod as of January 31, 2019 are as follows:

Iglesia Luterana Fe y Esperanza, South Gate 6165 Lincoln Avenue, South Gate, CA	\$ 540,000
La Iglesia Luterana San Pablo, North Hollywood 7400 Tujunga Avenue, North Hollywood, CA	3,900,000
Iglesia Evangelica Luterano Pueblo de Dios, Compton 804 E. Rosecrans Avenue, Compton, CA	2,500,000
Messiah Lutheran Church Pasadena 570 E. Orange Grove Blvd, Pasadena, CA	2,120,000
Holy Shepherd Lutheran Church of Chatsworth, 10347 Madison Ave, Chatsworth, CA	1,500,000
Faith Lutheran Church, Long Beach 3040 Santa Fe Ave, Long Beach, CA	325,000
Total	\$ <u>10,885,000</u>

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January 31, 2019

NOTE I – SYNOD OWNED CHURCH PROPERTIES (Continued)

Iglesia Luterana Fe y Esperanza, South Gate --- In 2000, Faith Lutheran Church, South Gate was disbanded. Under provisions of the ELCA model constitution for congregations, the Church property was transferred to the Synod. In 2001, the Hispanic Ministry of the former Faith Lutheran Church organized worship services at the Church and was recognized as a congregation of the ELCA as Iglesia Luterana Fe y Esperanza, South Gate. Ownership of the Church property was transferred to the congregation. In 2009, the congregation was in default on its mortgage and property tax obligations, and under provisions of the ELCA model constitution for congregations, the Synod took back ownership of the property. The transfer of title to the property to the Synod has not been fully completed. In November 2010 title to only the house on the Church property was transferred to the Synod. Because transfer of title to the entire property has not been completed, only the house has been recorded as an asset of the Synod. A note payable to Lutheran Credit Union, which was secured by the house on the property, matured in December 2015 and was refinanced with a note payable to Mission Investment Fund in the amount of \$100,000 (See Note L). As of January 31, 2019, the property is valued at \$540,000 based upon an appraisal prepared in March 2018.

La Iglesia Luterana San Pablo, North Hollywood --- In 2002, Valley Lutheran Church, North Hollywood was disbanded. Since that time, the Synod has maintained and administered the property that has provided a home for the New Mission congregation, La Iglesia Luterana San Pablo, North Hollywood. In December 2012 title to the Church property was transferred to the Synod. As of January 31, 2019, the property is valued at \$3,900,000, based upon an appraisal prepared in March 2018.

Iglesia Evangelica Luterano Pueblo de Dios, Compton -- In 1999, First Lutheran Church, Compton was disbanded. Since that time, the Synod has maintained and administered the property that has provided a home for the New Mission congregation, Iglesia Evangelica Luterano Pueblo de Dios, Compton. In July 2011 title to the Church property was transferred to the Synod. As of January 31, 2019, the property is valued at \$2,500,000, based upon an appraisal prepared in March 2018.

Messiah Lutheran Church Pasadena --- In May 2015, Messiah Lutheran Church Pasadena was disbanded. The following week, a new multicultural, multilingual ministry of ELCA, Reformation Pasadena, began utilizing the property. In January 2016, a grant deed was recorded that transferred ownership of the property to the Synod. The property is valued at \$2,120,000, based upon an appraisal prepared in June 2017.

Holy Shepherd Lutheran Church of Chatsworth --- In October 2015, the final worship service of Holy Shepherd Lutheran Church of Chatsworth was held, and the congregation was dissolved. The Synod obtained title to the Church Property in July 2016. The property is valued at \$1,500,000, based upon an appraisal prepared in May 2017.

Faith Lutheran Church, Long Beach --- This is a property that has been vacant for several years. The Synod obtained title to the property in February 2018. A market value appraisal of the property was prepared in August 2018. The appraisal placed a value of \$480,000 on the property, taking into consideration an estimate of necessary deferred maintenance costs of approximately \$45,000. Subsequently, professional inspectors estimated the deferred maintenance work necessary in order to place the property in working condition to be a substantially greater amount. Taking the higher estimates into consideration, the property has been recorded with value of \$325,000.

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NOTE J – LUTHERAN CENTER, GLENDALE, CALIFORNIA

In February 2016, the property located at 1230 East Colorado Street, Glendale, California, was deeded to the Synod by First Lutheran Church, Glendale. The property had been the site of First Lutheran Church, Glendale which was disbanded in April 2016. The Synod Offices are located on the property, as was First Lutheran School, a Pre-School through 8th Grade School through the 2017/2018 school year, and other offices are rented to tenants. The property is valued at \$5,900,000, based upon an appraisal in May 2017.

NOTE K - NOTES RECEIVABLE WITHOUT DONOR RESTRICTION

In November 2011, the Synod loaned \$62,500 to Lutheran Church of the Good Shepherd, Los Angeles. The loan is evidenced by a promissory note secured by deed of trust dated November 1, 2011. The note calls for monthly payments of \$412.47 including interest at the rate of 5% per annum. The balance of the note at January 31, 2019 is

\$ 39,796

In December 2018, the Synod loaned \$7,175 to Our Savior’s Evangelical Lutheran Church, Oxnard. The loan is evidenced by an unsecured promissory note. The note calls for monthly payments of \$300.00 per month including interest at the rate of 3% per annum. The balance of the note at January 31, 2019 is

6,893

Total Notes Receivable

46,689

Current Portion

6,480

Net Long Term Notes Receivable

\$ 40,209

NOTE L - MORTGAGES PAYABLE

Luterana Fe y Esperanza Mortgage --- On November 19, 2010, the Synod borrowed \$117,562 from America’s Christian Credit Union. The Synod had taken title to the house on the Church property of Iglesia Luterana Fe y Esperanza, South Gate, and the purpose of the loan was to refinance in the Synod’s name the congregation’s mortgage loan on the house. The Synod’s mortgage loan with America’s Christian Credit Union was secured by the house. The loan matured December 1, 2015. The outstanding balance of the loan when it matured was \$107,736. The Synod paid the principal balance down to \$100,000 and obtained a new loan for \$100,000 with Mission Investment Fund to pay off the balance. The terms of the loan call for interest at 5.5%, and monthly payments of \$1,085.00 for 10 years. As of January 31, 2019 the balance of the new Mission Investment Fund loan is as follows:

Mortgage balance, January 31, 2019	\$ 75,789
less: Current Portion	<u>(9,076)</u>
Long-term Portion	<u>\$ 66,713</u>

Maturities of the debt for the next five years are as follows:

<u>Year Ending</u>	
January 31, 2020	\$ 9,076
January 31, 2021	9,588
January 31, 2022	10,129
January 31, 2023	10,700
January 31, 2024	11,941
Thereafter	<u>24,355</u>
	<u>\$75,789</u>

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 January 31, 2019

NOTE L - MORTGAGES PAYABLE (Continued)

Lutheran Center Loan --- When the Synod obtained ownership of the Lutheran Center property, the property was subject to a mortgage payable of \$149,478. Shortly after taking title to the property, the Synod refinanced the mortgage loan with Mission Investment Fund of the Evangelical Lutheran Church of America. The original balance of the loan was \$150,000. The terms of the loan call for interest at 4.375% and monthly payments of \$1,138.00. Monthly payments are to be made for 7 years, at which time the unpaid balance of the note will be due. As of January 31, 2019, the balance of the mortgage is as follows:

Mortgage balance, January 31, 2019	\$ 129,565
less: Current Portion	(8,148)
Long-term Portion	<u>\$ 121,417</u>

Maturities of the debt for the next five years are as follows:

<u>Year Ending</u>	
January 31, 2020	\$ 8,148
January 31, 2021	8,512
January 31, 2022	8,891
January 31, 2023	9,288
January 31, 2024	94,726
	<u>\$129,565</u>

NOTE M – FUNCTIONAL PRESENTATION OF EXPENSES

The following presents the expenses of the operating fund on a Functional Basis.

<u>General Administration</u>	
Office Supplies	\$ 16,130
Insurance - Liability	1,721
Audit	27,000
Legal	11,304
Hospitality	5,070
Postage and Delivery	12,087
Copier Lease	7,847
Maintenance and Repair	13,358
Telephone	9,976
Printing	2,672
Information Technology	18,594
Office Equipment	90
Interest/Finance Charges	648
Depreciation	7,954
General Administrative	134,449
Lutheran Center Operation	<u>203,213</u>
Total	<u>\$ 337,662</u>

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NOTE M – FUNCTIONAL PRESENTATION OF EXPENSES (Continued)

<u>Personnel</u>	
Bishop, Staff and Support Staff Compensation	\$ 562,182
Pensions, Medical and Disability	198,135
Payroll Taxes	39,520
Continuing Education	1,232
Workers Compensation	<u>10,288</u>
Total	<u>\$ 811,357</u>
 <u>Leadership, Support, and Program</u>	
Council	\$ 2,304
Staff Expenses	<u>65,263</u>
Total	<u>\$ 67,567</u>
 <u>Program Services</u>	
Planning Giving	\$ 84,081
Synodical Ministries	12,248
Bishop's Colloquy	1,064
Mission Teams	22,842
Synod Assembly	<u>10,072</u>
Program Services – Other	130,307
Mission Support Churchwide ELCA	<u>495,801</u>
Total	<u>\$ 626,108</u>

NOTE N – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Synod's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at January 31, 2019	
Checking, Money Market and Certificates of Deposit	\$ 1,862,407
ELCA Endowment Pooled Trust	<u>8,707,895</u>
Total	12,570,302
 Less those financial assets unavailable for general Expenditures within one year, due to:	
Donor-imposed to maintain as an endowment	(256,101)
Donor-imposed for specified purposes	
Mission & Ministry Funds	(2,774,464)
First Lutheran Los Angeles Funds	(6,021,654)
Other Temporarily Restricted Funds	<u>(613,182)</u>
 Financial assets available to meet cash needs for general expenditure within one year	 <u>\$ 2,904,901</u>

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NOTE O – RETIREMENT PLAN

The Synod participates in a defined contribution retirement plan with Portico Benefit Services. The plan covers substantially all employees, and contributions are immediately fully vested and funded. The Synod's total contribution to the plan was \$91,347 for the year ended January 31, 2019.

NOTE P - COMMITMENTS AND CONTINGENCIES

In December 2018, the Synod entered into a 60 month lease for a Konica Minolta C658 multifunction printer/copier. The lease calls for monthly payments of \$576.26. The lease is an operating lease and not capital. The Synod's future obligations under the lease total \$33,999, which are payable as follows:

<u>Year Ending</u>	<u>Amount</u>
January 31, 2019	\$ 6,915
January 31, 2020	6,915
January 31, 2021	6,915
January 31, 2022	6,915
January 31, 2023	<u>6,339</u>
Total	<u>\$33,999</u>