

**THE MISSOURI DISTRICT OF  
THE LUTHERAN CHURCH-MISSOURI SYNOD**

Financial Statements  
with  
Independent Auditor's Report

**JUNE 30, 2020**



Missouri District

THE LUTHERAN CHURCH — MISSOURI SYNOD

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## **Independent Auditor's Report**

Board of Directors  
The Missouri District of the Lutheran Church-Missouri Synod  
St. Louis, Missouri

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Missouri District of the Lutheran Church-Missouri Synod (the "District"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and 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 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 District'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 District'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 Missouri District of the Lutheran Church-Missouri Synod as of June 30, 2020 and 2019, 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.

## **Emphasis of Matter**

In March 2020, the World Health Organization declared COVID-19 to constitute a “Public Health Emergency of International Concern.” As discussed in Note M to the financial statements, given the uncertainty of the situation, the duration of any business disruption and related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

*Brown Smith Wallace, LLP*

St. Louis, Missouri  
September 23, 2020

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Statements of Financial Position

June 30, 2020 and 2019

(See Independent Auditor's Report)

	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 735,541	\$ 809,259
Accounts receivable	3,207	3,421
Prepaid expenses	37,692	238,644
Split interest agreements receivable	168,364	134,393
Property held for sale, at fair value	441,750	743,298
Vehicles and equipment, net	81,263	27,854
Investments	2,878,674	2,711,211
<b>TOTAL ASSETS</b>	<b>\$ 4,346,491</b>	<b>\$ 4,668,080</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 95,148	\$ 97,086
Funds held in custody for others	27,944	7,400
Due to The Lutheran Church-Missouri Synod	16,102	39,417
Deferred revenue	165,484	383,841
Loans payable	518,767	399,053
<b>Total Liabilities</b>	<b>823,445</b>	<b>926,797</b>
<b>Net assets</b>		
Net assets without donor restrictions		
Undesignated	1,140,145	1,303,122
Investment in property held, land, buildings and equipment	260,822	372,099
Total net assets without donor restrictions	1,400,967	1,675,221
Net assets with donor restrictions	2,122,079	2,066,062
<b>Total Net Assets</b>	<b>3,523,046</b>	<b>3,741,283</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,346,491</b>	<b>\$ 4,668,080</b>

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

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Statement of Activities

Year ended June 30, 2020

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support, revenues, and gains</b>			
<b>Support:</b>			
District congregations	\$ 2,480,510	\$ -	\$ 2,480,510
Other	15,339	232,716	248,055
<b>Total support</b>	<b>2,495,849</b>	<b>232,716</b>	<b>2,728,565</b>
<b>Revenues and gains:</b>			
Conventions, conferences and workshops	382,125	-	382,125
Change in value of split interest agreements	-	136	136
Investment and other interest income, net	2,324	42,301	44,625
Cooperative ministries	223,367	-	223,367
Other revenue	(78,646)	-	(78,646)
<b>Total revenues and gains</b>	<b>529,170</b>	<b>42,437</b>	<b>571,607</b>
<b>Net assets released from restrictions</b>	<b>219,136</b>	<b>(219,136)</b>	<b>-</b>
<b>Total support, revenues, and gains</b>	<b>3,244,155</b>	<b>56,017</b>	<b>3,300,172</b>
<b>Expenses</b>			
<b>Program Services</b>			
Missions	810,030	-	810,030
LCEF	161,258	-	161,258
Ecclesiastical Services	201,957	-	201,957
Services to Congregations	679,357	-	679,357
Events	523,791	-	523,791
<b>Supporting Services</b>			
National Support	496,102	-	496,102
Management and General	450,404	-	450,404
Advancement	195,510	-	195,510
<b>Total expenses</b>	<b>3,518,409</b>	<b>-</b>	<b>3,518,409</b>
<b>Change in net assets</b>	<b>(274,254)</b>	<b>56,017</b>	<b>(218,237)</b>
<b>Net assets at beginning of year</b>	<b>1,675,221</b>	<b>2,066,062</b>	<b>3,741,283</b>
<b>Net assets at end of year</b>	<b>\$ 1,400,967</b>	<b>\$ 2,122,079</b>	<b>\$ 3,523,046</b>

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

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Statement of Activities

Year ended June 30, 2019

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support, revenues, and gains</b>			
<b>Support:</b>			
District congregations	\$ 2,597,083	\$ -	\$ 2,597,083
Other	111,446	78,865	190,311
<b>Total support</b>	<b>2,708,529</b>	<b>78,865</b>	<b>2,787,394</b>
<b>Revenues and gains:</b>			
Conventions, conferences and workshops	182,095	-	182,095
Change in value of split interest agreements	-	361	361
Investment and other interest income, net	25,282	94,890	120,172
Cooperative ministries	214,182	-	214,182
Other revenue	(245,319)	-	(245,319)
<b>Total revenues and gains</b>	<b>176,240</b>	<b>95,251</b>	<b>271,491</b>
<b>Net assets released from restrictions</b>	<b>208,955</b>	<b>(208,955)</b>	<b>-</b>
<b>Total support, revenues, and gains</b>	<b>3,093,724</b>	<b>(34,839)</b>	<b>3,058,885</b>
<b>Expenses</b>			
<b>Program Services</b>			
Missions	790,890	-	790,890
LCEF	160,381	-	160,381
Ecclesiastical Services	259,084	-	259,084
Services to Congregations	653,417	-	653,417
Events	327,077	-	327,077
<b>Supporting Services</b>			
National Support	519,417	-	519,417
Management and General	428,039	-	428,039
Advancement	163,856	-	163,856
<b>Total expenses</b>	<b>3,302,161</b>	<b>-</b>	<b>3,302,161</b>
<b>Change in net assets</b>	<b>(208,437)</b>	<b>(34,839)</b>	<b>(243,276)</b>
<b>Net assets at beginning of year</b>	<b>1,883,658</b>	<b>2,100,901</b>	<b>3,984,559</b>
<b>Net assets at end of year</b>	<b>\$ 1,675,221</b>	<b>\$ 2,066,062</b>	<b>\$ 3,741,283</b>

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

**THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD**

**Statement of Functional Expenses**

Year ended June 30, 2020

(See Independent Auditor's Report)

	Program Services					Total	Supporting Services			Total Expenses
	Missions	LCEF	Ecclesiastical Services	Services to Congregations	Events		National Support	Management and General	Advancement	
<b>Grants, Aid &amp; Support</b>	\$ 656,781	\$ -	\$ 13,711	\$ 158,202	\$ 500	\$ 829,194	\$ 496,102	\$ -	\$ -	\$ 1,325,296
<b>Salaries &amp; Benefits</b>	107,281	143,319	150,056	353,426	116,320	870,402	-	334,008	125,387	1,329,797
<b>Meals &amp; Planning</b>	1,504	-	8,048	3,743	378,143	391,438	-	1,441	1,066	393,945
<b>Travel</b>	1,200	-	3,969	56,242	2,792	64,203	-	5,496	3,963	73,662
<b>Properties, Rent &amp; Insurance</b>	7,842	7,800	10,969	60,910	8,503	96,024	-	24,415	9,165	129,604
<b>Data &amp; Technology</b>	2,453	5,111	7,312	8,080	2,668	25,624	-	24,466	27,363	77,453
<b>Professional Services</b>	32,598	5,028	7,892	35,779	6,655	87,952	-	39,138	-	127,090
<b>Other</b>	371	-	-	2,975	8,210	11,556	-	21,440	28,566	61,562
<b>Total expenses</b>	<u>\$ 810,030</u>	<u>\$ 161,258</u>	<u>\$ 201,957</u>	<u>\$ 679,357</u>	<u>\$ 523,791</u>	<u>\$ 2,376,393</u>	<u>\$ 496,102</u>	<u>\$ 450,404</u>	<u>\$ 195,510</u>	<u>\$ 3,518,409</u>

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



**THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD**

**Statement of Functional Expenses**

Year ended June 30, 2019

(See Independent Auditor's Report)

	Program Services					Total	Supporting Services			Total Expenses
	Missions	LCEF	Ecclesiastical Services	Services to Congregations	Events		National Support	Management and General	Advancement	
<b>Grants, Aid &amp; Support</b>	\$ 665,300	\$ -	\$ -	\$ 139,050	\$ -	\$ 804,350	\$ 519,417	\$ -	\$ -	\$ 1,323,767
<b>Salaries &amp; Benefits</b>	94,086	141,325	191,588	349,633	112,907	889,539	-	313,650	122,002	1,325,191
<b>Meals &amp; Planning</b>	1,276	-	28,006	40,705	196,976	266,963	-	-	-	266,963
<b>Travel</b>	5,346	-	13,523	20,751	1,272	40,892	-	13,488	2,257	56,637
<b>Properties, Rent &amp; Insurance</b>	6,683	7,200	13,604	65,664	8,017	101,168	-	22,272	8,663	132,103
<b>Data &amp; Technology</b>	4,848	-	9,873	18,017	5,818	38,556	-	16,163	6,287	61,006
<b>Professional Services</b>	7,752	-	-	9,692	-	17,444	-	28,200	22,284	67,928
<b>Other</b>	5,599	11,856	2,490	9,905	2,087	31,937	-	34,266	2,363	68,566
<b>Total expenses</b>	<u>\$ 790,890</u>	<u>\$ 160,381</u>	<u>\$ 259,084</u>	<u>\$ 653,417</u>	<u>\$ 327,077</u>	<u>\$ 2,190,849</u>	<u>\$ 519,417</u>	<u>\$ 428,039</u>	<u>\$ 163,856</u>	<u>\$ 3,302,161</u>

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

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Statements of Cash Flows

Years ended June 30, 2020 and 2019

(See Independent Auditor's Report)

	2020	2019
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (218,237)	\$ (243,276)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	28,734	28,380
Gain on disposal of assets	(7,765)	-
Realized and unrealized gains on investments	(8,260)	(77,075)
Change in value of split interest agreements receivable	(136)	(361)
Unrealized losses on property held for sale	202,250	350,702
Operating accounts	(55,735)	177,717
<b>Net cash provided by (used in) operating activities</b>	<b>(59,149)</b>	<b>236,087</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of vehicles	4,000	-
Purchase of vehicles and equipment	(78,378)	-
Proceeds from sale of building	99,298	-
Proceeds from sale of investments	66,635	259,786
Purchases of investments	(225,838)	(330,433)
<b>Net cash used in investing activities</b>	<b>(134,283)</b>	<b>(70,647)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from PPP loan	255,576	-
LCEF loans payable - principal repayments	(135,862)	(264,875)
<b>Net cash provided by (used in) financing activities</b>	<b>119,714</b>	<b>(264,875)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(73,718)</b>	<b>(99,435)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>809,259</b>	<b>908,694</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 735,541</b>	<b>\$ 809,259</b>
<b>Operating accounts:</b>		
Assets -		
Accounts receivable	\$ 214	\$ (109)
Loan receivable	-	222,979
Prepaid expenses	200,952	(199,608)
Split interest agreements receivable	(33,835)	(86)
Liabilities -		
Accounts payable and accrued expenses	(1,938)	(19,402)
Funds held in custody for others	20,544	1,731
Due to The Lutheran Church-Missouri Synod	(23,315)	(398)
Deferred revenue	(218,357)	172,610
	<b>\$ (55,735)</b>	<b>\$ 177,717</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	<b>\$ 12,756</b>	<b>\$ 16,674</b>

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

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements

June 30, 2020

(See Independent Auditor's Report)

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### Note A – Nature of Activities

The Missouri District of the Lutheran Church-Missouri Synod (the "District") is one of 35 districts of the Lutheran Church-Missouri Synod ("LCMS"), encompassing approximately 290 congregations in the state of Missouri. The District is a not-for-profit organization which relies on donations from congregations for most of its operating income. These donations are subject to fluctuations in the economic status of the area in which the congregation is located. No provisions have been made for changes in the economic environment.

The District's program and support services that reflect its activities include:

**Missions** – Mission endeavors within the boundaries of the state of Missouri. Included in this category are new mission starts, new ministry starts, and urban, ethnic and campus ministry. Also included in this category is the "Plus One" initiative which encourages each congregation and school in the Missouri District to begin at least one new outreach activity. The District employs staff and consultants to assist congregations in assessing ministry opportunities within their communities.

**Cooperative Ministries** – Activities where the District has entered into a long-term relationship to accomplish mission and ministry related endeavors within the boundaries of the state of Missouri with another like-minded organization. Included in this category is activity related to work done together with the Lutheran Church Extension Fund (LCEF). This cooperative work is done for the benefit of the congregations and church workers within the District. The LCEF work is funded mainly through an annual service agreement.

**Ecclesiastical Services** – As a member district of the Lutheran Church – Missouri Synod, the District has responsibilities for the oversight of ecclesiastical matters within member congregations and their workers. Ecclesiastical oversight is primarily the responsibility of the District President with assistance from the Vice-presidents and Circuit Visitors. The District office maintains relevant records for all rostered church workers and member congregations.

**Services to Congregations and Church Workers** – Support of congregations, schools and church workers through the office of the president, the vice presidents, the circuit counselors, the president's assistants for education, family life and youth, and worker and congregational health. It also includes expenses for student aid, and advance sites, reported as property held for sale.

**Conventions, Conferences and Workshops** – Costs related to the various gatherings sponsored by the District. Many of these gatherings and their related expenses are on the three-year cycle that coincides with the Lutheran Church – Missouri Synod convention and/or as specified by the bylaws of the District.

**National Support** – The District's support of the national synodical office in support of all the national and international initiatives of the LCMS, including international support of missionaries, partner churches, and world relief efforts.

**Supporting Services** – Administrative costs of the District and other general costs such as legal, audit and accounting. This category also includes the costs of fundraising.

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

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### Note B – Summary of Significant Accounting Policies

#### ***Basis of Accounting and Presentation***

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

#### ***Use of Estimates in Financial Statement Preparation***

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.

#### ***Revenue and Support***

Contributions are recognized as support when they are received or unconditionally pledged. Gifts of cash and other assets are reported as net assets with donor restrictions that are temporary in nature or net assets with donor restrictions that are perpetual in nature if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions that are temporary in nature are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

#### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the District considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, including currency, demand deposits, and liquid investments. However, cash and cash equivalents do not include investments the District has both the ability and intent to hold long-term.

The District maintains cash balances at several financial institutions in the St. Louis metropolitan and surrounding area. At times these balances may exceed federally insured limits.

#### ***Investments***

Investments are stated at fair market value in the statement of financial position. Realized and unrealized gains and losses are reflected in the statement of activities as increases or decreases in net assets with or without donor restrictions as appropriate based on donor restrictions. The fair value for debt securities and marketable equity securities are based on quoted market prices.

#### ***Vehicles and Equipment***

Vehicles and equipment are recorded at cost and depreciated over their estimated useful lives ranging from three to ten years, using the straight-line method.

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

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### Note B – Summary of Significant Accounting Policies (Continued)

#### ***Split Interest Agreements Receivable***

Split-interest agreements consist primarily of irrevocable charitable remainder trusts and beneficial interest in trusts. The assets associated with such agreements are held by the Lutheran Church-Missouri Synod Foundation. Contributions are recognized as either receivables or gift income when the District is notified of the agreements and are recorded at the present value of the estimated future benefits to be received when the assets are distributed to the District. The valuations of the agreements are initially calculated by the Foundation. The agreements are re-valued annually and any resulting actuarial gain or loss is reflected in the statement of activities as a change in value of split-interest agreements.

#### ***Property Held for Sale***

The District holds land held for resale in St. Peters, Missouri. The land is recorded at the amount the District expects to realize upon sale of the land. The valuation of this property is consistent with fair value measurement criteria and Level 3 classification under FASB ASC 820-10 (See Note E).

#### ***Paycheck Protection Program Loan***

The Small Business Administration Paycheck Protection Program ("PPP") loan obtained by the District is presented as a liability until forgiven or paid back. If any part of the loan is forgiven and legal release is received, the District will reduce the liability by the amounts forgiven and record a gain on extinguishment in the statement of activities.

#### ***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.

***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.

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

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### Note B – Summary of Significant Accounting Policies (Continued)

#### ***Functional Allocation of Expenses***

Costs have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated between program expenses and support services. Expenses that can be identified with a specific program and supporting service are allocated directly according to their natural expenditure classifications. Certain categories of expenses are attributed to more than one function; therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses allocated on the basis of estimates of time and effort include salaries and benefits, travel expenses, properties, rent, insurance, and data and technology.

#### ***Deferred Revenue***

The District assesses fees to congregations for certain conventions and conferences. The balance in the deferred revenue category consists of unused assessments and other conference revenues not yet recognized. The unused assessment balance will be used to reduce the assessment to congregations for future conventions and conferences.

#### ***Income Taxes***

The District constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

The District has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings and believes that no provision for income taxes is necessary, at this time, to cover any uncertain tax positions.

#### ***Subsequent Events***

The District has evaluated all subsequent events through September 23, 2020, the date the financial statements were available to be issued.

#### ***Change in Accounting Principles***

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to the District on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted under the modified prospective approach in fiscal year 2020. No restatement of prior amounts was recognized in the fiscal year 2020 financial statements.

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

### Note B – Summary of Significant Accounting Policies (Continued)

#### *Change in Accounting Principles (Continued)*

In June 2020, the FASB issued ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities, permitting private entities that have not yet issued their financial statements as of June 3, 2020, to adopt ASU 2014-09 Revenue from Contracts with Customers for annual reporting periods beginning after December 15, 2019. The District has chosen to adopt and implement ASU 2020-05 for the year ended June 30, 2020 permitting deferral of adoption of ASU 2014-09 Revenue from Contracts with Customers to the year ending June 30, 2021.

### Note C – Split Interest Agreements

The District is a named beneficiary of irrevocable deferred gifts and will receive the principal at some future date. These amounts are held by a third-party trustee and are included in restricted net assets by the District. These amounts have been discounted to net present value as follows:

	<u>2020</u>	<u>2019</u>
Market value	\$ 183,262	\$ 136,889
Less: present value component	<u>(14,898)</u>	<u>(2,496)</u>
	<u>\$ 168,364</u>	<u>\$ 134,393</u>

The maximum growth rate and discount rate utilized in calculating the present value of irrevocable deferred gifts as of June 30, 2020 and 2019, are 5.80% and 5.90%, respectively.

### Note D – Investments

Investments consist of the following at June 30, 2020 and 2019:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
LCEF Notes	\$ 733,274	\$ 733,274	\$ 530,873	\$ 530,873
LCMS Foundation - standard moderate balanced fund	<u>1,731,471</u>	<u>2,145,400</u>	<u>1,729,659</u>	<u>2,180,338</u>
	<u>\$ 2,464,745</u>	<u>\$ 2,878,674</u>	<u>\$ 2,260,532</u>	<u>\$ 2,711,211</u>

Investment fees were \$10,696 and \$9,766, respectively, for the years ended June 30, 2020 and 2019.

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

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### Note D – Investments (Continued)

As of June 30, 2020 and 2019, all investments at LCMS Foundation were held in a standard moderate balanced fund (60% stock/40% bonds).

LCEF notes are long-term and short-term investments held in money market and similar accounts that are reported as investments instead of cash because the District holds those funds as part of their endowments and for other long-term purposes.

### Note E – Fair Value Measurements

The District follows FASB ASC 820-10 Fair Value Measurements and Disclosures, which establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a fair value hierarchy used to disclose the measurement of fair value based on levels of observable or unobservable inputs.

#### Level 1

Observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market.

#### Level 2

Observable inputs based on quoted prices in non-active markets or in active markets for similar assets or liabilities. Inputs other than quoted prices that are observable, or inputs that are not directly observable, but are corroborated by observable market data.

#### 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 and reflect substantial management judgement or estimation utilizing available market data.

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 statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

LCEF Notes: Valued at cost of the investment.

LCMS Foundation – standard balanced funds: Valued using the net asset value (NAV) per share, or its equivalent, as a practical expedient for fair value.

Real Estate: Valued at the appraised value less estimated commission related expenses.



# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

### Note E – Fair Value Measurements (Continued)

Management determines the fair value measurement valuation policies and procedures, which are subject to Board of Directors assessment and approval. At least annually, management determines if the current valuation techniques used in fair value measurements are still appropriate.

The District recognized transfers, if any, between levels in the fair value hierarchy at the end of the reporting period. There were no transfers during the years ended June 30, 2020 and 2019.

Details of investments and fair values of assets measured on a recurring basis at June 30, 2020 and 2019, are as follows:

	2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Real Estate	\$ -	\$ -	\$ 441,750	\$ 441,750
LCEF Notes	-	-	-	733,274
LCMS Foundation	-	<u>2,145,400</u>	-	<u>2,145,400</u>
<b>Total</b>	<u>\$ -</u>	<u>\$ 2,145,400</u>	<u>\$ 441,750</u>	<u>\$ 3,320,424</u>

  

	2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Real Estate	\$ -	\$ -	\$ 743,298	\$ 743,298
LCEF Notes	-	-	-	530,873
LCMS Foundation	-	<u>2,180,338</u>	-	<u>2,180,338</u>
<b>Total</b>	<u>\$ -</u>	<u>\$ 2,180,338</u>	<u>\$ 743,298</u>	<u>\$ 3,454,509</u>

The following tables summarize investments measured at fair value based on NAV per share as of June 30, 2020 and 2019:

<u>Investment Name</u>	<u>Fair Value</u>		<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
	<u>2020</u>	<u>June 30, 2019</u>			
LCMS Foundation – standard moderate/aggressive balanced fund	\$ <u>2,145,400</u>	\$ <u>2,180,338</u>	\$ -	Daily to Monthly	Daily*
	<u>\$ 2,145,400</u>	<u>\$ 2,180,338</u>	<u>\$ -</u>		

## THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

### Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

#### Note E – Fair Value Measurements (Continued)

The following table sets forth the District's properties held for sale at fair value as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beginning Balance	\$ 743,298	\$ 1,094,000
Additions	-	-
Sales	(99,298)	-
Write-down	<u>(202,250)</u>	<u>(350,702)</u>
Ending Balance	<u>\$ 441,750</u>	<u>\$ 743,298</u>

#### Note F – Vehicles and Equipment

Vehicles and equipment at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Office equipment	\$ 55,980	\$ 113,317
Vehicles	<u>140,665</u>	<u>134,102</u>
	196,645	247,419
Less: accumulated depreciation	<u>115,382</u>	<u>219,565</u>
	<u>\$ 81,263</u>	<u>\$ 27,854</u>

Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$28,734 and \$28,380, respectively.

#### Note G – Agreements with Lutheran Church Extension Fund

Prior to 1992, the District operated a Church Extension Fund. Pursuant to an agreement between the District and Lutheran Church Extension Fund ("LCEF") dated June 1, 1992, the District transferred to LCEF, effective June 30, 1992, all rights, title and interest in its Church Extension Fund assets, subject to the debts and liabilities of the Fund. Under the terms of this agreement, the LCEF will continue church extension operations in the District on their behalf. The District agreed not to issue any investment obligations after June 1, 1992.

In accordance with agreements dated July 1, 1996 and 1995, the LCEF agreed to compensate the District for providing facilities and services to LCEF, as well as for promotion and coordination expenses for the church extension program. The agreements, which are subject to renegotiations each July 1, require LCEF to pay the District a fixed amount monthly. The amounts received by the District in connection with these agreements during the years ended June 30, 2020 and 2019 totaled \$223,367 and \$214,182, respectively. The agreements also require the LCEF to reimburse the District for certain other stipulated expenses and entitles the District to receive certain distributions of operating results from LCEF.

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

### Note G – Agreements with Lutheran Church Extension Fund (Continued)

During June 1992, the LCEF and the District entered into an agreement, which included LCEF providing an unsecured line-of-credit to the District equal to 5% of LCEF net assets attributable to the District, as determined by the LCEF. The line of credit has no maturity date, bears an interest rate of 3.88% and it had a balance of zero as of June 30, 2020 and 2019.

### Note H – Loans Payable

Long-term debt consists of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Note payable to Lutheran Church Extension Fund ("LCEF") with monthly principal and interest payments of \$4,110; interest rate of 4.25%; maturing June 11, 2029; collateralized by property.	\$ 263,191	\$ 399,053
Paycheck Protection Program ("PPP") note payable taken on April 16, 2020 from Midland States Bank; monthly principal and interest payments of \$14,383.05 starting November 16, 2020 and for the following 18 months; interest rate of 1.00%; maturing April 16, 2022; note is unsecured; under the PPP, this loan is forgivable if used to pay for qualified expenses incurred during the initial 24 weeks.	<u>255,576</u>	<u>-</u>
	<u>518,767</u>	399,053
Less current maturities	<u>(146,363)</u>	<u>(32,509)</u>
Total long-term debt, less current maturities	<u>\$ 372,404</u>	<u>\$ 366,544</u>

Future minimum principal payments are as follows:

<u>Year ended June 30,</u>	<u>LCEF Note</u>	<u>PPP Loan</u>	<u>Total</u>
2021	\$ 33,960	\$ 112,403	\$ 146,363
2022	35,476	143,173	178,649
2023	37,059	-	37,059
2024	38,714	-	38,714
2025	40,442	-	40,442
Thereafter	<u>77,540</u>	<u>-</u>	<u>77,540</u>
	<u>\$ 263,191</u>	<u>\$ 255,576</u>	<u>\$ 518,767</u>

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

### Note H – Loans Payable (Continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. The legislation includes provisions for expansion of the U.S. Small Business Administration's 7(a) Loan Program to support the new Paycheck Protection Program ("PPP"). The District applied and was awarded a loan in the amount of \$255,576 under the PPP.

Loans made under the PPP can be forgiven if certain conditions are met. As of June 30, 2020, the District had not received approval that the certain conditions were met, therefore no forgiveness has been recorded.

### Note I – Net Assets with Donor Restrictions

As of June 30, 2020 and 2019, net assets with donor restrictions were available for the following purposes:

	<u>2020</u>	<u>2019</u>
Missions	\$ 70,634	\$ 53,421
Services to congregations and church workers	473,430	468,833
Time restrictions	<u>38,931</u>	<u>5,099</u>
	<u>\$ 582,995</u>	<u>\$ 527,353</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Restricted net assets were released for the following purposes during the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Missions	\$ 98,215	\$ 69,706
Services to congregations and church workers	118,928	139,249
Development	<u>1,993</u>	<u>-</u>
	<u>\$ 219,136</u>	<u>\$ 208,955</u>

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

### Note I – Net Assets with Donor Restrictions (Continued)

Certain net assets are restricted to investment in perpetuity, the income of which can be used to support district activity. Perpetually held restricted funds are for the following purposes:

	<u>2020</u>	<u>2019</u>
Elementary education	\$ 85,628	\$ 85,628
Missions	269,284	269,045
Student aid	1,042,842	1,042,842
Other	<u>141,330</u>	<u>141,194</u>
	<u>\$ 1,539,084</u>	<u>\$ 1,538,709</u>

#### ***Endowment Funds***

The District follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) regarding endowment funds. The District invests endowment funds in LCMS Foundation and LCEF investment instruments.

From time to time, the fair value of assets associated with the endowments may fall below the level that the donor or UPMIFA requires the District to retain as a fund of perpetual duration.

#### ***Net Asset Classifications and Interpretation of Relevant Law***

The Board of Directors of the District has interpreted the relevant Missouri state law as requiring the preservation of the fair value of the original gift as of the gift date of the funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the District classifies as net assets with donor restrictions that are perpetual in nature (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts to the Endowment, and (c) additions to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Endowment.

The earnings of the donor-restricted endowment fund that is not classified in net assets with donor restrictions that are perpetual in nature are classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by the District in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the District considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the District, and (7) the District's investment policies.

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

### Note I – Net Assets with Donor Restrictions (Continued)

#### *Endowment Investment and Spending Policies*

The District has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a balanced fund, which is intended to result in a consistent inflation-protected rate of return. The District's policy allows for distributions up to 7% of the fund's value each year. During the years ended 2020 and 2019, the District has adhered to a 4% rate of distribution.

In general, the objective of the Investment Policy is the preservation and growth of capital. Preservation and conservation of principal is important, along with reasonable growth potential. Performance is evaluated relative to the appropriate financial benchmarks. The portfolio managers shall report any sales or purchases promptly to the District's Finance Committee. The District's Board of Directors, through its Finance Committee may exercise all rights, powers, and privileges with respect to the investments and the portfolio, including providing that certain investments be included or excluded in the portfolio.

Endowment net asset composition by type of fund as of June 30, 2020 and 2019:

<u>With Donor Restrictions</u>	<u>2020</u>	<u>2019</u>
Donor-restricted endowment funds		
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 1,539,084	\$ 1,538,709
Accumulated investment earnings	<u>275,881</u>	<u>332,696</u>
Total funds	<u>\$ 1,814,965</u>	<u>\$ 1,871,405</u>

The change in endowment funds for the years ended June 30, 2020 and 2019, are as follows:

<u>With Donor Restrictions</u>	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 1,871,405	\$ 1,885,068
Additions	375	1,934
Investment returns	42,301	94,890
Amounts appropriated for expenditure	<u>(99,116)</u>	<u>(110,487)</u>
Endowment net assets, end of the year	<u>\$ 1,814,965</u>	<u>\$ 1,871,405</u>

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

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### Note J – Defined Benefit Plan

The District participates in the Concordia Plans of the Synod. Substantially all full-time employees are covered by the Concordia Retirement Plan (CRP) and the Concordia Disability and Survivor Plan (CDSP). The CRP provides workers with income during retirement. All full-time workers (those employed more than 20 hours per week and more than 5 consecutive months a year) are eligible. Eligible members are vested after five years of creditable service. The CDSP provides a disability benefit (for the worker) and a pre-retirement lump-sum death benefit (for the worker and enrolled dependents). All full-time workers (those employed more than 20 hours per week and more than 5 consecutive months a year) must be offered the opportunity to enroll themselves and eligible dependents in the CDSP. The CDSP pays a monthly income benefit equal to 70% of an employee's monthly compensation when a worker becomes disabled due to a qualifying disability. The pre-retirement, lump-sum death benefit payment is equal to two times a worker's annual salary. The District contributes a fixed percentage of each participant's salary to the plans.

Total CRP and CDSP contributions as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Concordia Retirement Plan	\$ 84,715	\$ 84,189
Concordia Disability and Survivor Plan	<u>19,213</u>	<u>19,069</u>
	<u>\$ 103,928</u>	<u>\$ 103,258</u>

There were no significant changes in the District's relationships. There were also no contingent liabilities associated with the plans at June 30, 2020 and 2019. Currently, the District has no intention to withdraw from either plan; the contributions and level of participation are not significant to the Plan as a whole.

# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

### Note K – Long-Term Lease and Lease Amendment

In April 2000, the District entered into a lease agreement pertaining to office space with BCTN, Inc. expiring March 2010 with an option to renew for one additional ten-year period. In March 2010, the renewal option was exercised, and an additional 10-year renewal option was negotiated. The additional 10-year renewal option was exercised in March 2020. The annual lease amount is set at \$48,741 for 5 years followed by \$68,237 per year for the remainder of the term. The lease amendment contains an opt out clause in March 2025. Aggregate minimum future payments under the amended 10-year lease are scheduled as follows:

<u>Year ended June 30,</u>	
2021	\$ 48,741
2022	48,741
2023	48,741
2024	48,741
2025	53,615
2026	68,237
2027	68,237
2028	68,237
2029	68,237
2030	51,178

### Note L – Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 735,541	\$ 809,259
Accounts receivable	3,207	3,421
Investments	2,878,674	2,711,211
Less program restrictions	(390,148)	(333,338)
Less endowments included in investments and cash equivalents	(1,563,565)	(1,598,331)
	<u>\$ 1,663,709</u>	<u>\$ 1,592,222</u>

In addition to the above resources, the District also holds an unsecured line-of-credit with LCEF equal to 5% of LCEF net assets attributable to the District with total funds available in the amount of \$849,749 and \$801,485 as of June 30, 2020 and 2019, respectively. The line of credit has no maturity date. See Note H for more information on the line-of-credit.



# THE MISSOURI DISTRICT OF THE LUTHERAN CHURCH-MISSOURI SYNOD

## Notes to Financial Statements - Continued

June 30, 2020

(See Independent Auditor's Report)

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### Note M – Risk and Uncertainties

The District's financial performance, estimates, reserves, contracts, and operations in the next 12 months may be affected by the ongoing outbreak of the coronavirus disease ("COVID-19"), which was declared a pandemic by the World Health Organization. The full extent and duration of the impact of COVID-19 on the District's operations and financial performance is currently unknown and depends on uncertain and unpredictable developments.