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## INTERNAL AUDITOR'S REPORT

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

### **Opinion**

We have audited the accompanying financial statements of the Pacific Southwest District of The Lutheran Church—Missouri Synod, which comprise the statement of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Southwest District as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pacific Southwest District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pacific Southwest District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pacific Southwest District’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pacific Southwest District’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit

THE LUTHERAN CHURCH—MISSOURI SYNOD  
Internal Audit Department



St. Louis, Missouri  
June 6, 2024

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2023 and 2022

	2023	2022
Assets:		
Cash and Cash Equivalents	\$ 3,614,259	\$ 5,528,836
Accounts and Interest Receivable (Net of Allowance for Doubtful Loan Interest of \$17,178 in 2023 and 2022)	43,458	102,093
Prepaid Expenses and Inventories	40,351	71,072
Loans Receivable - Net (Note 5)	264,190	192,327
Property Held for Sale	15,290,485	19,440
Finance Lease Right-of-Use Assets - Net (Note 7)	43,357	13,614
Property and Equipment - Net (Note 6)	6,341,762	2,559,025
Long-Term Investments (Note 4)	14,236,832	12,999,546
Cash Surrender Value of Life Insurance Policies	132,584	226,538
Beneficial Interests in Charitable Trusts Held by Others (Note 4)	58,645	55,442
Beneficial Interests in Perpetual Trusts (Note 4)	39,735	36,115
	<u>\$ 40,105,658</u>	<u>\$ 21,804,048</u>
Total Assets		
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 378,762	\$ 226,361
Liabilities Assumed Due to Dissolution of Ministry	416,185	-
Grants Payable	34,067	50,521
Deferred Revenue	65,431	37,477
Agency Funds Held in Custody for Others	22,153	113,907
Finance Lease Liabilities (Note 7)	45,315	10,962
Loans Payable - Lutheran Church Extension Fund (Note 9)	3,878,851	-
	<u>4,840,764</u>	<u>439,228</u>
Total Liabilities		
Net Assets:		
Without Donor Restrictions (Note 10)	30,726,134	16,701,715
With Donor Restrictions (Note 11)	4,538,760	4,663,105
	<u>35,264,894</u>	<u>21,364,820</u>
Total Net Assets		
Total Liabilities and Net Assets	<u>\$ 40,105,658</u>	<u>\$ 21,804,048</u>

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

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH–MISSOURI SYNOD

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES, &amp; OTHER ADDITIONS:</u>			
Support -			
District Congregations (Note 1)	\$ 1,528,883	\$	\$ 1,528,883
Assets from Disbanded Congregations/Ministries	14,882,377		14,882,377
Synod		2,500	2,500
LCEF (Note 13)		102,704	102,704
Other	202,896	647,238	850,134
Revenues -			
Conventions, Conferences, and Workshops	518,299		518,299
Income on Cash and Cash Equivalents	37,168		37,168
Net Investment Return (Loss)	1,379,575	147,620	1,527,195
Agreements with LCEF (Note 13)	65,833		65,833
Rental Income	200,768		200,768
Tuition and Fees from LuTEC High School	51,917		51,917
Other	43,306		43,306
Change in Value of Beneficial Interests in Charitable Trusts		3,203	3,203
Change in Value of Beneficial Interests in Perpetual Trusts		3,620	3,620
Net Gain on Sale of Property	5,651		5,651
Net Assets Released from Restrictions (Note 11)	1,031,230	(1,031,230)	-
	<u>19,947,903</u>	<u>(124,345)</u>	<u>19,823,558</u>
<u>EXPENSES:</u>			
Program Services -			
World and National Missions	1,069,151		1,069,151
Preparing Church Workers	29,574		29,574
Congregational Services	2,076,368		2,076,368
LuTEC High School	420,751		420,751
Mission Training Center	115,956		115,956
Support Services -			
Synodical Budget	152,888		152,888
Mission and Ministry Support	1,467,984		1,467,984
Ecclesiastical and Program Administration	590,812		590,812
	<u>5,923,484</u>	<u>-</u>	<u>5,923,484</u>
CHANGE IN NET ASSETS	14,024,419	(124,345)	13,900,074
NET ASSETS - Beginning of Year	<u>16,701,715</u>	<u>4,663,105</u>	<u>21,364,820</u>
NET ASSETS - End of Year	<u>\$ 30,726,134</u>	<u>\$ 4,538,760</u>	<u>\$ 35,264,894</u>

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

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES, &amp; OTHER ADDITIONS:</u>			
Support -			
District Congregations (Note 1)	\$ 1,624,709	\$	\$ 1,624,709
Synod		3,200	3,200
LCEF (Note 13)		175,156	175,156
Other	198,480	627,320	825,800
Revenues -			
Conventions, Conferences, and Workshops	655,142		655,142
Income on Cash and Cash Equivalents	25,149		25,149
Net Investment Return (Loss)	(326,877)	(187,993)	(514,870)
Agreements with LCEF (Note 13)	63,504		63,504
Rental Income	152,123		152,123
Tuition and Fees from LuTEC High School	11,218		11,218
Other	43,908		43,908
Change in Value of Beneficial Interests in Charitable Trusts		(9,689)	(9,689)
Change in Value of Beneficial Interests in Perpetual Trusts		(9,339)	(9,339)
Revenue from CARES Act Employee Retention Credit	50,866		50,866
Net Gain on Sale of Property	10,723,289		10,723,289
Net Assets Released from Restrictions (Note 11)	<u>1,085,840</u>	<u>(1,085,840)</u>	<u>-</u>
Total Support, Revenues, & Other Additions	<u>14,307,351</u>	<u>(487,185)</u>	<u>13,820,166</u>
<u>EXPENSES:</u>			
Program Services -			
World and National Missions	1,099,977		1,099,977
Preparing Church Workers	31,225		31,225
Congregational Services	1,203,136		1,203,136
LuTEC High School	287,401		287,401
Mission Training Center	105,802		105,802
Support Services -			
Synodical Budget	162,471		162,471
Mission and Ministry Support	1,275,665		1,275,665
Ecclesiastical and Program Administration	<u>471,405</u>		<u>471,405</u>
Total Expenses	<u>4,637,082</u>	<u>-</u>	<u>4,637,082</u>
CHANGE IN NET ASSETS	9,670,269	(487,185)	9,183,084
NET ASSETS - Beginning of Year	<u>7,031,446</u>	<u>5,150,290</u>	<u>12,181,736</u>
NET ASSETS - End of Year	<u>\$ 16,701,715</u>	<u>\$ 4,663,105</u>	<u>\$ 21,364,820</u>

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

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH-MISSOURI SYNOD

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2023

	PROGRAM SERVICES					SUPPORT SERVICES			TOTAL
	World and National Missions	Preparing Church Workers	Congregational Services	LuTEC High School	Mission Training Center	Synodical Budget	Mission and Ministry Support	Ecclesiastical and Program Administration	
Salaries, Wages, and Employee Benefits	\$ 233,870		\$ 628,587	\$ 307,205	\$ 89,525		\$ 626,321	\$ 344,732	\$ 2,230,240
Subsidies, Grants, and Other Assistance	696,530	29,572	868,634	15,969		152,888		5,000	1,768,593
Building and Office Expenses	22,086		16,491	19,612	428		264,340	3,689	326,646
Communications, Publications, and Promotion			30,111	13,062	607		6,316	3,982	54,078
Conventions, Conferences, Workshops, and Meetings	49,658		198,535	5,063	1,685		177,603	13,887	446,431
Depreciation and Amortization	11,895		16,795	29,608			140,259	6,621	205,178
Equipment Purchases (non-capital) and Maintenance	11,037		91,167	4,707	118		35,863	4,088	146,980
Information Technology							38,071		38,071
Insurance	11,864		3,766				23,942	1,457	41,029
Interest							32,876		32,876
Professional and Contract Services	19,508		135,090	20,796	21,033		112,830	153,565	462,822
Travel	4,550		38,929	1,731	1,658		933	27,326	75,127
Other	8,153	2	48,263	2,998	902		8,630	26,465	95,413
<b>Total Expenses by Function</b>	<b>\$ 1,069,151</b>	<b>\$ 29,574</b>	<b>\$ 2,076,368</b>	<b>\$ 420,751</b>	<b>\$ 115,956</b>	<b>\$ 152,888</b>	<b>\$ 1,467,984</b>	<b>\$ 590,812</b>	<b>\$ 5,923,484</b>

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



PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH-MISSOURI SYNOD

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2022

	PROGRAM SERVICES					SUPPORT SERVICES			TOTAL
	World and National Missions	Preparing Church Workers	Congregational Services	LuTEC High School	Mission Training Center	Synodical Budget	Mission and Ministry Support	Ecclesiastical and Program Administration	
Salaries, Wages, and Employee Benefits	\$ 144,828		\$ 500,145	\$ 203,861	\$ 74,455		\$ 584,500	\$ 364,568	\$ 1,872,357
Subsidies, Grants, and Other Assistance	780,062	\$ 31,225	123,930	4,412		162,471		4,250	1,106,350
Bad Debt Expense							18,000		18,000
Building and Office Expenses	22,639		11,782	5,950	474		197,173	4,075	242,093
Communications, Publications, and Promotion			28,261	18,901	2,692		2,054	1,641	53,549
Conventions, Conferences, Workshops, and Meetings	12,845		180,174	1,352	3,675		234,657	8,512	441,215
Depreciation and Amortization	11,896		15,160	28,482			110,795	7,872	174,205
Equipment Purchases (non-capital) and Maintenance	20,782		128,677	3,966	232		41,859	7,870	203,386
Information Technology							28,891		28,891
Insurance	11,547		2,505				12,194	1,253	27,499
Interest							1,160		1,160
Professional and Contract Services	79,573		125,120	16,631	21,629		37,321	38,490	318,764
Travel	4,692		33,428	1,829	1,791		2,625	23,328	67,693
Other	11,113		53,954	2,017	854		4,436	9,546	81,920
<b>Total Expenses by Function</b>	<b>\$ 1,099,977</b>	<b>\$ 31,225</b>	<b>\$ 1,203,136</b>	<b>\$ 287,401</b>	<b>\$ 105,802</b>	<b>\$ 162,471</b>	<b>\$ 1,275,665</b>	<b>\$ 471,405</b>	<b>\$ 4,637,082</b>

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

PACIFIC SOUTHWEST DISTRICT of  
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2023 and 2022

	2023	2022
<b>Cash Flows from Operating Activities:</b>		
Change in Net Assets	\$ 13,900,074	\$ 9,183,084
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Lease Amortization Expense	205,178	174,205
Bad Debt Expense	-	18,000
Change in Value of Beneficial Interests in Charitable Trusts	(3,203)	9,689
Change in Value of Beneficial Interests in Perpetual Trusts	(3,620)	9,339
Net (Gain) Loss on Sale of Fixed Assets/Property	(5,651)	(10,723,289)
Net (Gain) Loss on Investments	(821,406)	880,450
Donated Property from Disbanded Congregations/Ministries	(18,991,045)	-
Capitalized Interest on LCEF Loan	14,180	-
(Increase) Decrease in Operating Assets:		
Accounts and Interest Receivable	58,635	(52,089)
Prepaid Expenses and Inventories	30,721	(11,687)
Cash Surrender Value of Life Insurance Policies	93,954	(71,672)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	152,401	(41,362)
Liabilities of Dissolved Ministry Assumed by District	416,185	-
Grants Payable	(16,454)	9,472
Deferred Revenue	27,954	(436,330)
Agency Funds Held in Custody for Others	(91,754)	92,014
Net Cash Provided (Used) by Operating Activities	(5,033,851)	(960,176)
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sale of Fixed Assets/Property	103,650	10,849,317
Purchases of Fixed Assets	(344,667)	(404,730)
Proceeds from Sale of Investments	289,908	199,336
Purchases of Investments	(705,788)	(10,735,129)
Loans Receivable - Advances	(110,000)	(42,000)
- Principal Repayments	38,137	-
Net Cash Provided (Used) by Investing Activities	(728,760)	(133,206)
<b>Cash Flows from Financing Activities:</b>		
Principal Repayments on Finance Leases	(16,637)	(13,068)
LCEF Loans Payable - Advances	3,878,813	-
- Principal Repayments	(14,142)	-
Net Cash Provided (Used) by Financing Activities	3,848,034	(13,068)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,914,577)	(1,106,450)
Cash and Cash Equivalents - Beginning of Year	5,528,836	6,635,286
Cash and Cash Equivalents - End of Year	\$ 3,614,259	\$ 5,528,836
<b>Supplemental Data -</b>		
Noncash Investing and Financing Activities:		
Right-of-Use and Fixed Assets Acquired with Debt -		
Increase in Finance Lease Right-of-Use / Fixed Assets	\$ (50,990)	\$ (30,296)
Increase in Finance Lease Liabilities / Accounts Payable	\$ 50,990	\$ 30,296
Interest Paid	\$ 18,696	\$ -

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

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

## 1. NATURE OF ORGANIZATION

The Pacific Southwest District (the District), a religious not-for-profit organization, is one of 35 districts of The Lutheran Church—Missouri Synod (the Synod), encompassing 265 congregations in the State of Arizona, southern counties of California, and the southern tip of Nevada. The Synod established its district offices to more effectively achieve its objectives and assist its congregations and their members in conserving and promoting the unity of the faith and in carrying out their mission and ministry.

The District relies on donations from its member congregations for a significant portion of its support. As shown in the Statement of Activities, support from District congregations totaled \$1,528,883 and \$1,624,709 for the years ended December 31, 2023 and 2022, respectively. These donations are subject to fluctuations in the economic status of the areas in which the congregations are located. No provisions have been made for changes in the economic environment. Any significant reduction in the level of this support, however, could have an effect on the District's program and supporting activities.

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

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

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

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

- *Synodical Budget* – Includes remittances to the Synod for synodical budget support.
- *Mission and Ministry Support* – Includes the District’s communication efforts, financial and general service activities, the operation/maintenance of District office facilities, District/Synodical convention expenses, and the District’s support of the national Lutheran Church Extension Fund (LCEF) efforts as discussed in Note 13 (Annual Agreements).
- *Ecclesiastical and Program Administration* – Includes activities of the president’s office, vice-presidents, circuit visitors, reconcilers, and related conferences and events, as well as support of the District Board of Directors and its related committees.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Accounting**

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

**Use of Estimates**

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

**Principles of Consolidation**

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

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

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

**Cash, Cash Equivalents, and Restricted Cash**

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

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

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

**Contributions Receivable**

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

**Loans Receivable**

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

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

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

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

**Property and Equipment**

Property and equipment purchases of \$5,000 or more with an estimated useful life greater than one year are capitalized and recorded at cost, or if donated, at fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the Statement of Activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed when incurred. Property held for sale is recorded at the lower of cost or estimated fair value.

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

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

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

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

**Beneficial Interests in Perpetual Trusts**

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

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

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

**Grants Payable**

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

**Net Assets**

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. These net assets may be subject to self-imposed limits by action of the governing board. These board-designated net assets may be earmarked for future programs, contingencies, purchase/construction of fixed assets, or for other uses.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions that are temporary in nature are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Contributions and Revenue Recognition**

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

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

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

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

**Functional Allocation of Expenses**

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

**Taxes**

We follow the accounting standards for contingencies in evaluating uncertain tax positions. This guidance requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit by the applicable regulatory authority, based on the technical merits of the position. These rules also provide guidance on measurement, recognition, classification, interest and penalties, transition, and disclosure requirements for uncertain tax positions. No liability has been recognized by the District for uncertain tax positions as of December 31, 2023 and 2022.

**Financial Instruments and Credit Risk**

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

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the 2023 financial statement presentation. These reclassifications, however, had no effect on the previously reported total net assets or total change in net assets.

**Subsequent Events**

The District has evaluated subsequent events through June 6, 2024, the date the financial statements were available to be issued.



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

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

The following represents the District’s financial assets at December 31, 2023 and 2022, that are available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Statement of Financial Position date:

	December 31	
	2023	2022
Financial Assets:		
Cash and Cash Equivalents	\$ 3,614,259	\$ 5,528,836
Accounts and Interest Receivable	43,458	102,093
Long-Term Investments	14,236,832	12,999,546
Beneficial Interests in Charitable Trusts Held by Others	58,645	55,442
Beneficial Interests in Perpetual Trusts	39,735	36,115
Total Financial Assets at Year-End	17,992,929	18,722,032
Less Those Unavailable for General Expenditures Within One Year Due to:		
Donor-Imposed or Contractual Restrictions	(4,538,760)	(4,663,105)
Agency Funds Held in Custody for Others	(22,153)	(113,907)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 13,432,016	\$ 13,945,020

The District’s goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$1,460,585). As part of its liquidity plan, excess cash is invested in short-term investments, including LCEF certificates and mutual funds. As disclosed in Note 8, the District also has an unsecured line of credit with LCEF which is available to meet cash flow needs.

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

**4. FAIR VALUE MEASUREMENTS**

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

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

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

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

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

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

(Continued)

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

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

The following table presents financial instruments that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall, as well as the non-leveled instruments at December 31, 2023:

	<u>Total</u>	<u>Fair Value Measurements Using</u>			<u>Investments Measured at Cost or NAV</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Long-Term Investments - LCMS Foundation:					
Moderate Balanced	\$ 12,427,392	\$	\$	\$	\$ 12,427,392
Aggressive Balanced	688,541				688,541
Domestic Equity	236,841				236,841
Cash Equivalents	604,106				604,106
LCEF Notes	279,952				279,952
	<u>\$ 14,236,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,236,832</u>
Beneficial Interests in - Charitable Trusts	<u>\$ 58,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,645</u>	<u>\$ -</u>
Perpetual Trusts	<u>\$ 39,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,735</u>	<u>\$ -</u>

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2023:

	<u>Balance</u> <u>12/31/2022</u>	<u>Net New or</u> <u>(Matured) Gifts</u>	<u>Change</u> <u>in Value</u>	<u>Balance</u> <u>12/31/2023</u>
Charitable Trusts	<u>\$ 55,442</u>	<u>\$ -</u>	<u>\$ 3,203</u>	<u>\$ 58,645</u>
Perpetual Trusts	<u>\$ 36,115</u>	<u>\$ -</u>	<u>\$ 3,620</u>	<u>\$ 39,735</u>

(Continued)

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

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

The following table presents financial instruments that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall, as well as the non-leveled instruments at December 31, 2022:

	<u>Total</u>	<u>Fair Value Measurements Using</u>			<u>Investments Measured at Cost or NAV</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Long-Term Investments -					
LCMS Foundation:					
Moderate Balanced	\$ 9,297,731	\$	\$	\$	\$ 9,297,731
Aggressive Balanced	618,717				618,717
Domestic Equity	196,403				196,403
Cash Equivalents	2,601,847				2,601,847
LCEF Notes	284,848				284,848
	<u>\$ 12,999,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,999,546</u>
Beneficial Interests in -					
Charitable Trusts	\$ 55,442	\$ -	\$ -	\$ 55,442	\$ -
Perpetual Trusts	\$ 36,115	\$ -	\$ -	\$ 36,115	\$ -

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2022:

	<u>Balance 12/31/2021</u>	<u>Net New or (Matured) Gifts</u>	<u>Change in Value</u>	<u>Balance 12/31/2022</u>
Charitable Trusts	\$ 65,131	\$ -	\$ (9,689)	\$ 55,442
Perpetual Trusts	\$ 45,454	\$ -	\$ (9,339)	\$ 36,115

(Continued)

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

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

The fair values of beneficial interests in charitable and perpetual trusts are based on the fair values of the trust investments as reported by the trustee, the LCMS Foundation. These are considered to be Level 3 measurements.

The District uses the net asset value (NAV) per share as a practical expedient to estimate the fair values of investments in LCMS Foundation common funds, which do not have readily determinable fair values. These investments totaling \$13,956,880 and \$12,714,698 at December 31, 2023 and 2022, respectively, are not leveled and classified within the fair value hierarchy as shown in the above tables.

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

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

The LCMS Foundation's Moderate Balanced Standard Fund is a moderate risk investment focused on providing modest income generation with a potential for growth; the portfolio holds both fixed income bonds (50%) and domestic and international securities (50%). The Aggressive Balanced Standard Fund is a moderate to higher risk investment focused on the potential for growth with limited income generation; the portfolio holds both fixed income (25%) and equity (75%) securities. The Domestic Equity Preference Fund is a moderate to high risk investment; the portfolio invests in common stock issued by domestic corporations and traded on domestic exchanges.

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

**5. LOANS RECEIVABLE**

At December 31, 2023 and 2022, the District had five loans receivable from two District employees, two other individuals, and an unrelated organization as follows:

	Interest Rates	Maturity Dates	December 31	
			2023	2022
Housing/Personal Loans to District Employees & Others	0% to 4.75%	Demand to 2/2033	\$ 325,690	\$ 263,827
Financial Assistance Loan to a Lutheran High School Association	0%	1/2024	18,000	18,000
			<u>343,690</u>	<u>281,827</u>
Less: Allowance for Loan Losses			<u>(79,500)</u>	<u>(89,500)</u>
			<u>\$ 264,190</u>	<u>\$ 192,327</u>

**6. PROPERTY AND EQUIPMENT**

Property and equipment consists of:

	December 31	
	2023	2022
Land	\$ 4,223,898	\$ 1,254,921
Office Building	1,213,513	1,213,513
Campus Center	278,427	278,427
Other Properties	2,585,437	1,722,885
Office Furnishings and Equipment	932,004	861,299
Vehicles	192,573	159,500
	<u>9,425,852</u>	<u>5,490,545</u>
Less: Accumulated Depreciation	<u>(3,084,090)</u>	<u>(2,931,520)</u>
Net Property and Equipment	<u>\$ 6,341,762</u>	<u>\$ 2,559,025</u>

**7. FINANCE LEASES**

We lease certain office equipment under long-term, non-cancelable finance lease agreements. One lease ended and a new lease began in March 2023; this new lease will expire in March 2027. The lease agreement provides for automatic renewal on a month-to-month basis unless we provide written notice of our intention to terminate the lease and return the equipment. This renewal option was not recognized as part of the right-of-use asset and lease liability at the lease commencement date.

PACIFIC SOUTHWEST DISTRICT of  
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NOTES TO FINANCIAL STATEMENTS

**7. FINANCE LEASES (Continued)**

Monthly lease payments in the amount of \$1,163 are required over the lease term. In addition, the finance lease agreement requires us to pay for taxes and insurance on the equipment.

The initial lease liability and right-of-use assets were measured at the present value of the lease payments, discounted using the risk-free rate of 4.50%. At December 31, 2023 and 2022, the equipment finance lease liabilities and related right-of-use assets are presented in the Statement of Financial Position as follows:

	December 31	
	2023	2022
Finance Lease Right-of-Use Assets:		
Cost	\$ 55,090	\$ 52,100
Less: Accumulated Amortization	(11,733)	(38,486)
Net	\$ 43,357	\$ 13,614
 Finance Lease Liabilities	 \$ 45,315	 \$ 10,962

For the years ended December 31, 2023 and 2022, total finance lease cost consisted of interest expense on the lease liabilities of \$2,178 and \$1,160, respectively, and amortization of the right-of-use assets in the amount of \$13,248 for fiscal 2023 and \$9,685 for fiscal 2022.

The future minimum lease payments under these two non-cancelable leases are as follows as of December 31, 2023:

Year Ending December 31	
2024	\$ 15,297
2025	15,297
2026	15,066
2027	3,488
 Total Lease Payments	 49,148
Less: Interest	(3,833)
 Present Value of Lease Liabilities	 \$ 45,315

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

**8. LINE OF CREDIT**

LCEF establishes a line of credit for each participating district based on the district's program performance; this line of credit is evaluated and adjusted by LCEF annually in July. As of and for the years ended December 31, 2023 and 2022, we had an unsecured line of credit with LCEF in the amount of \$309,614 and \$331,484, respectively. Borrowings under the line would bear interest at the current rate of 3.875%. As of and during the years ended December 31, 2023 and 2022, there were no borrowings against this line of credit.

**9. LOANS PAYABLE – LUTHERAN CHURCH EXTENSION FUND**

Details of loans payable to the LCEF are as follows:

	Interest Rates	Maturity Dates	December 31	
			2023	2022
Payoff Existing Mortgage of Disbanded Ministry	4.50%	Interest Only through 10/2026	\$ 3,782,993	\$ -
Housing Assistance Loan	4.75%	2/2033	<u>95,858</u>	<u>-</u>
			<u>\$ 3,878,851</u>	<u>\$ -</u>

Interest rates on these loans are periodically adjusted based on LCEF's cost of funds. For the year ended December 31, 2023, interest expense included in the Statement of Activities totaled \$30,698. Future minimum principal payments, based on present interest rates and refinancing periods, are as follows:

Year Ending <u>December 31</u>	
2024	\$ 5,840
2025	6,124
2026	3,789,414
2027	6,733
2028	7,060
Thereafter	<u>63,680</u>
Total Principal Payments	<u>\$ 3,878,851</u>



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

**10. NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions consist of the following:

	December 31	
	2023	2022
Undesignated	\$ 19,758,467	\$ 4,269,976
Designated by Board for:		
World and National Missions	10,756,923	12,189,278
Congregational Services	97,000	97,000
Mission and Ministry Support	113,744	145,461
Total Board Designated	10,967,667	12,431,739
	\$ 30,726,134	\$ 16,701,715

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

**11. NET ASSETS WITH DONOR RESTRICTIONS**

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

	December 31	
	2023	2022
Purpose Restrictions:		
World and National Missions	\$ 2,505,648	\$ 2,666,065
Preparing Church Workers	262,205	338,205
Congregational Services	424,530	447,237
LuTEC High School	63,886	-
Mission Training Center	86,047	105,000
Mission and Ministry Support	24,190	70,694
	3,366,506	3,627,201
Time Restrictions:		
Beneficial Interests in Charitable Trusts Held by Others	58,645	55,442
Endowments:		
Corpus (Perpetual) -		
General Use/Operations	278,959	278,959
World and National Missions	250,481	250,481
Preparing Church Workers	125,589	125,589
	655,029	655,029
Term Endowment -		
Preparing Church Workers	97,665	91,844
Net Investment Return Subject to Appropriation and Expenditure; Restricted by Donors for:		
General Use/Operations	122,529	70,980
World and National Missions	170,195	113,103
Preparing Church Workers	28,456	13,391
	321,180	197,474
Beneficial Interests in Perpetual Trusts	39,735	36,115
	\$ 4,538,760	\$ 4,663,105

(Continued)

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

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

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

	December 31	
	2023	2022
Satisfaction of Purpose Restrictions:		
World and National Missions	\$ 562,778	\$ 591,266
Preparing Church Workers	29,305	31,225
Congregational Services	182,024	120,864
LuTEC High School	130,612	251,247
Mission Training Center	80,626	72,292
Mission and Ministry Support	31,885	18,946
Ecclesiastical and Program Administration	14,000	-
	\$ 1,031,230	\$ 1,085,840

**12. ENDOWMENT FUNDS**

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

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

(Continued)

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

**12. ENDOWMENT FUNDS (Continued)**

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no underwater endowments as of December 31, 2023 and 2022.

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

As of December 31, 2023 and 2022, we had the following endowment net asset composition by fund type:

	<u>With Donor Restrictions</u>
<u>December 31, 2023</u>	
Donor-Restricted Endowment Funds:	
Amounts Required to be Maintained in Perpetuity	\$ 655,029
Term Endowment	97,665
Accumulated Investment Return	<u>321,180</u>
Total Endowment	<u>\$ 1,073,874</u>
 <u>December 31, 2022</u>	
Donor-Restricted Endowment Funds:	
Amounts Required to be Maintained in Perpetuity	\$ 655,029
Term Endowment	91,844
Accumulated Investment Return	<u>197,474</u>
Total Endowment	<u>\$ 944,347</u>

(Continued)

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

**12. ENDOWMENT FUNDS (Continued)**

Changes in the endowment net assets for the years ended December 31, 2023 and 2022, are as follows:

	<u>With Donor Restrictions</u>
<u>Year Ended December 31, 2023</u>	
Endowment Net Assets - Beginning of Year	\$ 944,347
Contributions	1,048
Net Investment Return (Loss)	146,648
Appropriation of Endowment Assets for Expenditure	<u>(18,169)</u>
Endowment Net Assets - End of Year	<u>\$ 1,073,874</u>
 <u>Year Ended December 31, 2022</u>	
Endowment Net Assets - Beginning of Year	\$ 1,149,794
Contributions	1,038
Net Investment Return (Loss)	(188,485)
Appropriation of Endowment Assets for Expenditure	<u>(18,000)</u>
Endowment Net Assets - End of Year	<u>\$ 944,347</u>

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

*Distribution of LCEF Operating Results* – Based on LCEF’s annual operating performance, earnings distributions are made available to its partner districts. LCEF operating results are restricted for specific mission and ministry programs of the respective district and are distributed upon request. During the years ended December 31, 2023 and 2022, the District requested and received distributions of LCEF operating results totaling \$102,704 and \$175,156, respectively. These distributions are reflected in the Statement of Activities as support from LCEF in net assets with donor restrictions.

*Annual Agreements* – In accordance with certain agreements, which are subject to renegotiation each July, LCEF agreed to compensate and reimburse the District for certain expenses incurred by us in connection with LCEF’s functions taking place at or through the District Office, through personnel employed by the District. The agreements require LCEF to pay the District a fixed amount on a monthly basis. The amounts received by the District in connection with these agreements during the years ended December 31, 2023 and 2022, totaled \$65,833 and \$63,504, respectively, which is reported in the Statement of Activities as revenue in net assets without donor restrictions.

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

**14. DEFINED BENEFIT PLAN**

The District participates in the worker benefit plans of the Synod, including the Concordia Retirement Plan (CRP). The CRP provides individuals with post-retirement benefits. Substantially all full-time employees (those employed more than 20 hours per week and at least five months per year) are covered by the CRP. Employees are vested after five years of creditable service. The District contributes a fixed percentage of each participant's salary to the CRP. Retirement plan expenses for the years ended December 31, 2023 and 2022, totaled \$138,245 and \$115,871, respectively.

There were no significant changes in the District's relationship to the CRP during fiscal 2023 or 2022. There were also no contingent liabilities associated with the CRP at December 31, 2023 or 2022. Currently, the District has no intention to withdraw from the CRP.