



THE
LUTHERAN CHURCH
Missouri Synod

Internal Audit Department



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INTERNAL AUDITOR'S REPORT

Board of Directors
Southeastern District of
The Lutheran Church—Missouri Synod
Alexandria, Virginia

Opinion

We have audited the accompanying financial statements of the Southeastern District of The Lutheran Church—Missouri Synod, which comprise the statement of financial position as of December 31, 2021 and 2020, 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 Southeastern District as of December 31, 2021 and 2020, 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 Southeastern 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 Southeastern 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 Southeastern 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 Southeastern 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

Joann P. Spotanski

St. Louis, Missouri
March 22, 2022

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Cash and Cash Equivalents	\$ 417,543	\$ 1,130,793
Accounts Receivable	3,285	7,501
Prepaid Expenses	31,136	36,438
Contributions Receivable (<i>Note E</i>)	163,045	76,739
Loan Receivable (<i>Note F</i>)	66,783	70,195
Property and Equipment - Net (<i>Note G</i>)	112,425	116,276
Beneficial Interests in Charitable Trusts Held by Others (<i>Note D</i>)	75,017	155,263
Long-Term Investments (<i>Note D</i>)	<u>3,530,003</u>	<u>3,109,795</u>
Total Assets	\$ <u>4,399,237</u>	\$ <u>4,703,000</u>
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 61,154	\$ 29,157
Grants Payable (<i>Note H</i>)	76,240	83,182
Deferred Revenue	18,336	15,902
Line of Credit (<i>Note I</i>)	-	70,195
Loan Payable - Paycheck Protection Program (<i>Note O</i>)	<u>-</u>	<u>264,971</u>
Total Liabilities	<u>155,730</u>	<u>463,407</u>
Net Assets:		
Without Donor Restrictions (<i>Note J</i>)	3,506,723	3,386,281
With Donor Restrictions (<i>Note K</i>)	<u>736,784</u>	<u>853,312</u>
Total Net Assets	<u>4,243,507</u>	<u>4,239,593</u>
Total Liabilities and Net Assets	\$ <u>4,399,237</u>	\$ <u>4,703,000</u>

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

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES, & OTHER ADDITIONS:</u>			
Support -			
District Congregations (<i>Note A</i>)	\$ 2,409,593	\$	\$ 2,409,593
Synod		23,400	23,400
Other	44,344	72,817	117,161
Revenues -			
Subscriptions	16,367		16,367
Conventions, Conferences, and Workshops	13,807		13,807
Net Investment Return (Loss)	293,365	295	293,660
Agreements with LCEF (<i>Note M</i>)	165,540		165,540
Other	66,043		66,043
Change in Value of Beneficial Interests in Charitable Trusts		(80,246)	(80,246)
Gain on Forgiveness of PPP Loan (<i>Note O</i>)	268,288		268,288
Net Assets Released from Restrictions (<i>Note K</i>)	<u>132,794</u>	<u>(132,794)</u>	<u>-</u>
Total Support, Revenues, & Other Additions	<u>3,410,141</u>	<u>(116,528)</u>	<u>3,293,613</u>
<u>EXPENSES:</u>			
Program Services -			
Mission Outreach	716,536		716,536
Preparing Church Workers	334,924		334,924
Congregational Services	676,439		676,439
Support Services -			
Synodical Budget	474,223		474,223
Mission and Ministry Support	619,452		619,452
Ecclesiastical and Program Administration	317,217		317,217
LCEF	<u>150,908</u>		<u>150,908</u>
Total Expenses	<u>3,289,699</u>	<u>-</u>	<u>3,289,699</u>
CHANGE IN NET ASSETS	120,442	(116,528)	3,914
NET ASSETS - Beginning of Year	<u>3,386,281</u>	<u>853,312</u>	<u>4,239,593</u>
NET ASSETS - End of Year	<u>\$ 3,506,723</u>	<u>\$ 736,784</u>	<u>\$ 4,243,507</u>

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

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES, & OTHER ADDITIONS:</u>			
Support -			
District Congregations (<i>Note A</i>)	\$ 2,436,782	\$	\$ 2,436,782
Assets from Disbanded Congregation	454,848		454,848
Synod		37,300	37,300
LCEF (<i>Note M</i>)		107,699	107,699
Other	24,674	159,202	183,876
Revenues -			
Subscriptions	16,756		16,756
Conventions, Conferences, and Workshops	31,393		31,393
Net Investment Return (Loss)	249,043	856	249,899
Agreements with LCEF (<i>Note M</i>)	174,060		174,060
Other	26,785		26,785
Change in Value of Beneficial Interests in Charitable Trusts		8,228	8,228
Net Assets Released from Restrictions (<i>Note K</i>)	314,059	(314,059)	-
	<u>3,728,400</u>	<u>(774)</u>	<u>3,727,626</u>
Total Support, Revenues, & Other Additions			
	<u>3,728,400</u>	<u>(774)</u>	<u>3,727,626</u>
<u>EXPENSES:</u>			
Program Services -			
Mission Outreach	693,729		693,729
Preparing Church Workers	220,531		220,531
Congregational Services	572,821		572,821
Support Services -			
Synodical Budget	479,436		479,436
Mission and Ministry Support	646,667		646,667
Ecclesiastical and Program Administration	326,701		326,701
LCEF	153,643		153,643
	<u>3,093,528</u>	<u>-</u>	<u>3,093,528</u>
Total Expenses			
	<u>3,093,528</u>	<u>-</u>	<u>3,093,528</u>
CHANGE IN NET ASSETS	634,872	(774)	634,098
NET ASSETS - Beginning of Year	2,751,409	854,086	3,605,495
NET ASSETS - End of Year	\$ <u>3,386,281</u>	\$ <u>853,312</u>	\$ <u>4,239,593</u>

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

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	PROGRAM SERVICES			SUPPORT SERVICES				TOTAL
	Mission Outreach	Preparing Church Workers	Congregational Services	Synodical Budget	Mission and Ministry Support	Ecclesiastical and Program Administration	LCEF	
Synodical Support	\$	\$	\$	\$ 474,223	\$	\$	\$	\$ 474,223
Mission Funding Within District	188,507	299,890	237,590			1,774		727,761
Mission Funding Outside of District	32,496							32,496
Salaries & Benefits	449,611		379,099		331,434	268,080	124,829	1,553,053
Conventions, Conferences, Workshops & Meetings		35,034	13,946		7,526	12,315	24,000	92,821
Travel	39,832		19,757		9,953	25,286	729	95,557
Communications, Publications & Promotions	6,031		7,743		35,954	1,500	1,350	52,578
Information Technology					86,993			86,993
Professional Fees & Insurance					54,408			54,408
Building & Office Expenses					66,310			66,310
Depreciation					18,306			18,306
Other	59		18,304		8,568	8,262		35,193
Total Expenses by Function	\$ <u>716,536</u>	\$ <u>334,924</u>	\$ <u>676,439</u>	\$ <u>474,223</u>	\$ <u>619,452</u>	\$ <u>317,217</u>	\$ <u>150,908</u>	\$ <u>3,289,699</u>

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

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	PROGRAM SERVICES			SUPPORT SERVICES				TOTAL
	Mission Outreach	Preparing Church Workers	Congregational Services	Synodical Budget	Mission and Ministry Support	Ecclesiastical and Program Administration	LCEF	
Synodical Support	\$	\$	\$	\$ 479,436	\$	\$	\$	\$ 479,436
Mission Funding Within District	155,204	214,206	180,572			2,006		551,988
Mission Funding Outside of District	30,000							30,000
Salaries & Benefits	441,388		347,756		318,604	294,831	122,935	1,525,514
Conventions, Conferences, Workshops & Meetings		6,325	30,111		1,455	5,268	24,000	67,159
Travel	54,205		10,118		3,244	15,568	5,358	88,493
Communications, Publications & Promotions	10,276		3,927		28,553	1,500	1,350	45,606
Information Technology					100,151			100,151
Professional Fees & Insurance					66,642			66,642
Building & Office Expenses					88,904			88,904
Depreciation					21,383			21,383
Other	<u>2,656</u>	<u></u>	<u>337</u>	<u></u>	<u>17,731</u>	<u>7,528</u>	<u></u>	<u>28,252</u>
Total Expenses by Function	\$ <u>693,729</u>	\$ <u>220,531</u>	\$ <u>572,821</u>	\$ <u>479,436</u>	\$ <u>646,667</u>	\$ <u>326,701</u>	\$ <u>153,643</u>	\$ <u>3,093,528</u>

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

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 3,914	\$ 634,098
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	18,306	21,383
Property from Disbanded Congregation	-	(434,848)
Change in Value of Beneficial Interests in Charitable Trusts	80,246	(8,228)
Net (Gain) Loss on Investments	(170,859)	(108,524)
(Gain) on Forgiveness of PPP Loan	(268,288)	-
(Increase) Decrease in Operating Assets:		
Accounts Receivable	4,216	(787)
Prepaid Expenses	5,302	17,725
Contributions Receivable	(86,306)	101,698
Beneficial Interests in Charitable Trusts Held by Others	-	(23,813)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	35,314	(8,645)
Grants Payable	(6,942)	19,731
Deferred Revenue	2,434	(11,235)
Net Cash Provided (Used) by Operating Activities	<u>(382,663)</u>	<u>198,555</u>
Cash Flows from Investing Activities:		
Purchases of Fixed Assets	(14,455)	(16,473)
Proceeds from Sale of Property Held for Sale	-	434,848
Proceeds from Sale of Investments	1,866,056	426,695
Purchases of Investments	(2,115,405)	(555,867)
Loan Receivable - Principal Repayments	3,412	2,733
Net Cash Provided (Used) by Investing Activities	<u>(260,392)</u>	<u>291,936</u>
Cash Flows from Financing Activities:		
PPP Loan Payable - Advances	-	264,971
Line of Credit - Repayments	(70,195)	(3,930)
Net Cash Provided (Used) by Financing Activities	<u>(70,195)</u>	<u>261,041</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(713,250)	751,532
Cash and Cash Equivalents - Beginning of Year	<u>1,130,793</u>	<u>379,261</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 417,543</u></u>	<u><u>\$ 1,130,793</u></u>
Supplemental Data:		
Noncash Investing and Financing Activities:		
Property Acquired from Disbanded Congregation	\$ -	\$ 434,848
Forgiveness of PPP Loan Principal	264,971	-
Forgiveness of PPP Loan Accrued Interest Payable	3,317	-
Interest Paid	2,076	3,052

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

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ORGANIZATION

The Southeastern District (the District), a religious not-for-profit organization, is one of 35 districts of The Lutheran Church–Missouri Synod (the Synod), encompassing 214 congregations in Delaware, The District of Columbia, Maryland (except Garrett County), Virginia, North Carolina, South Carolina, and York County, Pennsylvania. 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 \$2,409,593 and \$2,436,782 for the years ended December 31, 2021 and 2020, 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:

- *Mission Outreach* – Mission funding outside of the District includes the District's personalized world ministry support remitted to the Synod. Mission funding within the District includes but is not limited to 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* – Supports District congregational service efforts and includes but is not limited to activities such as Sunday School, confirmation, family life, day care, adult education, outdoor ministry, singles ministry, elementary and secondary education, youth services, worship, stewardship education, and related conferences and events.
- *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, and District/Synodical convention expenses.
- *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.
- *LCEF* – Includes the District's support of the national Lutheran Church Extension Fund (LCEF) efforts as discussed in Note M (Agreements with LCEF).

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ORGANIZATION (Continued)

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

The Southeastern 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.

NOTE B - 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 Southeastern 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.

Cash and Cash Equivalents

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.

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.

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 adequacy of the 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 write 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.

Property and Equipment

Property and equipment purchases of \$1,000 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 2 to 40 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.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2021 and 2020.

Subsequent Events

The District has evaluated subsequent events through March 22, 2022, the date the financial statements were available to be issued.

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 District 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.

NOTE C – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following represents the District's financial assets at December 31, 2021 and 2020, 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	
	2021	2020
Financial Assets:		
Cash and Cash Equivalents	\$ 417,543	\$ 1,130,793
Accounts Receivable	3,285	7,501
Contributions Receivable	163,045	76,739
Beneficial Interests in Charitable Trusts Held by Others	75,017	155,263
Long-Term Investments	3,530,003	3,109,795
Total Financial Assets at Year-End	4,188,893	4,480,091
Less Those Unavailable for General Expenditures Within One Year Due to:		
Donor-Imposed or Contractual Restrictions	(736,784)	(853,312)
Board Designations:		
Quasi Endowment Fund, for Long-Term Investing	(940,034)	(898,034)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ <u>2,512,075</u>	\$ <u>2,728,745</u>

The District's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$822,000). As part of its liquidity plan, excess cash is invested in short-term investments, including LCEF certificates and mutual funds. As disclosed in Note I, the District also has an unsecured line of credit with LCEF which is available to meet cash flow needs.

SOUTHEASTERN DISTRICT of
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NOTES TO FINANCIAL STATEMENTS

NOTE C – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

As shown in the above table, our board designated endowment totaled \$940,034 and \$898,034 at December 31, 2021 and 2020, respectively. Although these assets are shown in the table as unavailable for general expenditures within one year, the funds could be drawn upon if necessary in the event of financial distress or an immediate liquidity need; our intent, however, is not to spend from this board-designated endowment.

NOTE D - 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)

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

NOTE D - 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, 2021:

		Fair Value Measurements Using			Investments Measured at
	Total	Level 1	Level 2	Level 3	Cost or NAV
Long-Term Investments -					
Marketable Securities	\$ 2,948,592	\$ 2,948,592	\$	\$	\$
LCEF Notes	533,998				533,998
LCMS Foundation:					
Domestic Equity	38,057				38,057
International Equity	9,356				9,356
	<u>\$ 3,530,003</u>	<u>\$ 2,948,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 581,411</u>
Beneficial Interests in Charitable Trusts	<u>\$ 75,017</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,017</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, 2021:

	Balance 12/31/2020	Net New or (Matured) Gifts	Change in Value	Balance 12/31/2021
Charitable Trusts	<u>\$ 155,263</u>	<u>\$ -</u>	<u>\$ (80,246)</u>	<u>\$ 75,017</u>

(Continued)

SOUTHEASTERN DISTRICT of
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NOTES TO FINANCIAL STATEMENTS

NOTE D - 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, 2020:

		Fair Value Measurements Using			Investments Measured at
	Total	Level 1	Level 2	Level 3	Cost or NAV
Long-Term Investments -					
Marketable Securities	\$ 2,518,864	\$ 2,518,864	\$	\$	\$
LCEF Notes	533,775				533,775
LCMS Foundation:					
Fixed Income	32,589				32,589
Equity	11,412				11,412
Certificate of Deposit	13,155				13,155
	<u>\$ 3,109,795</u>	<u>\$ 2,518,864</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 590,931</u>
Beneficial Interests in					
Charitable Trusts	<u>\$ 155,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,263</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, 2020:

	Balance 12/31/2019	Net New or (Matured) Gifts	Change in Value	Balance 12/31/2020
Charitable Trusts	<u>\$ 123,222</u>	<u>\$ 23,813</u>	<u>\$ 8,228</u>	<u>\$ 155,263</u>

A significant portion of our long-term investments is classified within Level 1 because they comprise marketable securities with readily determinable fair values based on daily redemption values. The fair value of beneficial interests in charitable trusts is 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 standard and preference funds, which do not have readily determinable fair values. These investments in the LCMS Foundation are not classified within the fair value hierarchy as shown in the above tables. The Domestic Equity Fund is a moderate to high risk investment; the portfolio invests in common stock issued by domestic corporations and traded on domestic exchanges. The International Equity Fund is a higher risk investment; the portfolio invests in common stock issued by foreign corporations and traded on foreign exchanges in both developed

SOUTHEASTERN DISTRICT of
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NOTES TO FINANCIAL STATEMENTS

NOTE D - FAIR VALUE MEASUREMENTS (Continued)

and emerging markets. The Fixed Income Fund is a low to moderate risk investment focused on income generation; the portfolio holds a broad range of U.S. investment grade bonds (80%) and higher quality U.S. non-investment grade bonds (20%). The Equity Fund is a higher risk investment focused on long-term growth; the portfolio holds both U.S. stocks (60%) and international stocks (40%) in developed and emerging markets.

NOTE E - CONTRIBUTIONS RECEIVABLE

At December 31, 2021 and 2020, member congregations have unconditionally promised to give the District \$163,045 and \$76,739, respectively. These amounts were received within one month of the respective fiscal year-end.

NOTE F – LOAN RECEIVABLE

At December 31, 2021 and 2020, the District had a housing assistance loan receivable from an individual employee in the amount of \$66,783 and \$70,195, respectively. The interest rate is fixed at 4.125% and the stated maturity date is May 2026.

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consists of:

	December 31	
	2021	2020
Land	\$ 68,696	\$ 68,696
Office Building	492,884	492,884
Office Furnishings & Equipment	258,817	244,363
	<u>820,397</u>	<u>805,943</u>
Less: Accumulated Depreciation	<u>(707,972)</u>	<u>(689,667)</u>
Net Property and Equipment	<u>\$ 112,425</u>	<u>\$ 116,276</u>

NOTE H - GRANTS PAYABLE

The District has unconditionally promised to give to the Synod \$76,240 and \$83,182 at December 31, 2021 and 2020, respectively. These amounts were paid within one month after the respective fiscal year-end.

SOUTHEASTERN DISTRICT of
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NOTES TO FINANCIAL STATEMENTS

NOTE I – 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, 2021 and 2020, we had an unsecured line of credit with LCEF in the amount of \$542,703 and \$497,197, respectively. Borrowings under the line bear interest at the current rate of 3.875%. As of December 31, 2021, there were no borrowing against this line of credit. As of December 31, 2020, the District had borrowed \$70,195 against it; this amount was repaid in full in August 2021.

NOTE J – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	December 31	
	2021	2020
Undesignated	\$ 2,001,802	\$ 1,693,105
Invested in Property and Equipment	112,425	116,276
Designated by Board for:		
Mission Outreach	428,851	646,576
Preparing Church Workers	11,665	11,665
Mission and Ministry Support	11,946	20,625
Quasi-Endowment - Mission Outreach	940,034	898,034
	<u>1,392,496</u>	<u>1,576,900</u>
	<u>\$ 3,506,723</u>	<u>\$ 3,386,281</u>

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

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

	December 31	
	2021	2020
Purpose Restrictions:		
Mission Outreach	\$ 206,685	\$ 223,352
Preparing Church Workers	5,939	2,436
Congregational Services	260,792	282,425
Ecclesiastical and Program Administration	15,721	15,926
	<u>489,137</u>	<u>524,139</u>
Time Restrictions:		
Beneficial Interests in Charitable Trusts Held by Others	75,017	155,263
Pledges/Other	9,169	10,669
	<u>84,186</u>	<u>165,932</u>
Endowments:		
Corpus (Perpetual) - Preparing Church Workers	139,071	139,071
Net Investment Return Subject to Appropriation and Expenditure; Restricted by Donors for Preparing Church Workers	<u>24,390</u>	<u>24,170</u>
	<u>\$ 736,784</u>	<u>\$ 853,312</u>

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

	December 31	
	2021	2020
Satisfaction of Purpose Restrictions:		
Mission Outreach	\$ 47,014	\$ 140,937
Preparing Church Workers	16,622	36,415
Congregational Services	67,384	136,250
Ecclesiastical and Program Administration	274	457
	<u>131,294</u>	<u>314,059</u>
Expiration of Time Restrictions	<u>1,500</u>	<u>-</u>
	<u>\$ 132,794</u>	<u>\$ 314,059</u>

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE L - ENDOWMENT FUNDS

Our endowment consists of two individual funds established by donors to provide annual funding for preparing church workers. Our endowment also includes certain net assets without donor restrictions that have been designated for endowment by the Board of Directors for mission outreach.

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 District of Columbia's 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

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, 2021 and 2020.

Investment and Spending Policies – The District has adopted investment and spending policies for endowment assets that attempt to subject the fund to low investment risk and provide programs supported by its endowments with current income. Our board-designated endowment assets are invested in marketable securities. We have a policy of appropriating for expenditure each year at least 85% of the board-designated endowment fund's net earnings for the year; any undistributed income is added to the board-designated net asset balance at the end of each fiscal year. Our donor-restricted endowment assets are invested in LCEF notes. We generally expend all of the donor-restricted endowments investment income for program services during the fiscal year. This spending policy does not allow the donor-restricted endowment to grow as a result of investment returns. This is consistent with the District's objectives to provide current income for its programs and preserve donor-restricted endowment assets without subjecting them to substantial risk.

(Continued)

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

NOTE L - ENDOWMENT FUNDS (Continued)

As of December 31, 2021 and 2020, we had the following endowment net asset composition by fund type:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>December 31, 2021</u>			
Board-Designated Endowment Funds	\$ 940,034	\$	\$ 940,034
Donor-Restricted Endowment Funds:			
Amounts Required to be Maintained in Perpetuity		139,071	139,071
Accumulated Investment Return		24,390	24,390
	<u> </u>	<u> </u>	<u> </u>
Total Endowment	\$ <u>940,034</u>	\$ <u>163,461</u>	\$ <u>1,103,495</u>
 <u>December 31, 2020</u>			
Board-Designated Endowment Funds	\$ 898,034	\$	\$ 898,034
Donor-Restricted Endowment Funds:			
Amounts Required to be Maintained in Perpetuity		139,071	139,071
Accumulated Investment Return		24,170	24,170
	<u> </u>	<u> </u>	<u> </u>
Total Endowment	\$ <u>898,034</u>	\$ <u>163,241</u>	\$ <u>1,061,275</u>

Changes in the endowment net assets for the years ended December 31, 2021 and 2020, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Year Ended December 31, 2021</u>			
Endowment Net Assets - Beginning of Year	\$ 898,034	\$ 163,241	\$ 1,061,275
Net Investment Return	42,000	220	42,220
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment Net Assets - End of Year	\$ <u>940,034</u>	\$ <u>163,461</u>	\$ <u>1,103,495</u>

(Continued)

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE L - ENDOWMENT FUNDS (Continued)

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Year Ended December 31, 2020</u>			
Endowment Net Assets - Beginning of Year	\$ 898,034	\$ 162,596	\$ 1,060,630
Net Investment Return	-	645	645
Appropriation of Endowment Assets for Expenditure	<u>-</u>	<u>-</u>	<u>-</u>
Endowment Net Assets - End of Year	<u>\$ 898,034</u>	<u>\$ 163,241</u>	<u>\$ 1,061,275</u>

NOTE M – SUPPORT AND REVENUE FROM 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 year ended December 31, 2020, the District requested and received distributions of LCEF operating results totaling \$107,699. These distributions are reflected in the Statement of Activities as support from LCEF in net assets with donor restrictions.

Agreements with LCEF – In accordance with certain agreements, which are subject to renegotiation each July, LCEF agreed to compensate and reimburse the District for providing facilities and services to LCEF, as well as for promotion and coordination of church extension program activities within 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, 2021 and 2020, totaled \$165,540 and \$174,060, respectively, which is reported in the Statement of Activities as revenue in net assets without donor restrictions.

SOUTHEASTERN DISTRICT of
THE LUTHERAN CHURCH–MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

NOTE N – 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. We contribute a fixed percentage of each participant's salary to the CRP. Retirement plan expenses for the years ended December 31, 2021 and 2020, totaled \$109,013 and \$104,168, respectively.

There were no significant changes in the District's relationship to the CRP during fiscal 2021 or 2020. There were also no contingent liabilities associated with the CRP at December 31, 2021 or 2020. Currently, the District has no intention to withdraw from the CRP; the District's contributions and level of participation represent a small percentage of the CRP as a whole.

NOTE O – COVID-19 RELATED ACTIVITIES

PPP Loan – The District received an unsecured loan in the amount of \$264,971 from a Small Business Administration (SBA) approved partner under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan was subject to a note dated May 2, 2020 and, under the terms of the PPP, all or a portion of the principal and accrued interest was eligible to be forgiven if the loan proceeds were used for qualifying expenses as described in the CARES Act such as payroll costs, benefits, rent, and utilities. At December 31, 2020, we had recorded a PPP loan payable in the amount of \$264,971 and accrued interest payable of \$1,543. When the loan obligation was legally released by the SBA in September 2021, we recognized in the 2021 Statement of Activities a \$268,288 gain on the forgiveness of debt, which included principal of \$264,971 and accrued interest of \$3,317.

Soldiers of the Cross COVID-19 Response Initiative – As the COVID-19 crisis unfolded in 2020, many church workers found themselves with immediate unmet financial needs stemming from the spread of the pandemic. The District, in partnership with the Synod and LCEF, delivered mercy and human care in the form of benevolent support to church workers within the District through the Synod's Soldiers of the Cross COVID-19 Response Initiative program. During the year ended December 31, 2020, the District received \$36,400 from the Synod for this program and distributed grants of \$45,500 to meet the needs of impacted District church workers. During the year ended December 31, 2021, the District received an additional \$18,400 from the Synod for this program and distributed grants of \$23,000 to its impacted church workers.