



Gilbert Associates, Inc.
CPAs and Advisors

May 19, 2009

Synod Council
Sierra Pacific Synod of the Evangelical Lutheran Church in America
Oakland, California

The accompanying audited financial statements and footnotes of Sierra Pacific Synod of the Evangelical Lutheran Church in America (Synod) as of January 31, 2009 are in draft form and are not final. However, our audit fieldwork is essentially complete except that management has not yet received documentation of the fair market value of real estate properties it holds in Cupertino and San Lorenzo.

Once the property valuations are received, the Synod has made appropriate adjustments to its accounting records for the valuations, and we have an opportunity to test those valuations, the final audit report will be issued.

David E. Ljung
Shareholder

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

**STATEMENT OF FINANCIAL POSITION
JANUARY 31, 2009**

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$ 879,534
Prepaid expenses and other assets	<u>52,933</u>
Total current assets	932,467

NONCURRENT ASSETS:

Investments	1,304,590
Notes receivable, net	1,824,289
Real estate from disbanded congregations	<u>4,337,000</u>
Property and equipment, net of accumulated depreciation	<u>37,829</u>

TOTAL ASSETS \$ 8,436,175

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 162,947
Agency trust accounts	222,080
Deferred trust accounts	69,763
Loan payable, current portion	<u>3,260</u>
Total current liabilities	458,050

LOAN PAYABLE, Net 18,011

Total liabilities 476,061

NET ASSETS:

Unrestricted:	
Undesignated	365,353
Council designated outreach fund	<u>6,785,952</u>
Total unrestricted	7,151,305
Temporarily restricted	607,086
Permanently restricted	<u>201,723</u>
Total net assets	<u>7,960,114</u>

TOTAL LIABILITIES AND NET ASSETS \$ 8,436,175

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

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

**STATEMENT OF ACTIVITIES
YEAR ENDED JANUARY 31, 2009**

UNRESTRICTED NET ASSETS:

REVENUES AND SUPPORT:

Proportionate share from congregations	\$ 2,306,581
Property from disbanded congregations	[REDACTED]
Investment income (loss)	(487,651)
Interest and dividends	145,032
Synod assembly registration	72,794
Shared staff income	42,471
Professional leadership conference	18,769
Gain (loss) on sale of equipment and property	<u>2,074</u>
Total revenues and support	<u>2,100,070</u>

EXPENSES:

Program services:

Institutions and agencies	1,367,545
Ministry development	328,534
Synod's mission	266,652
Synod assembly and conferences	86,059
Woock fund	47,626
Synod outreach	<u>29,494</u>
Total program services	<u>2,125,910</u>

Supporting services:

General and administrative	<u>497,624</u>
Total expenses	<u>2,623,534</u>

DECREASE IN UNRESTRICTED NET ASSETS (523,464)

TEMPORARILY RESTRICTED NET ASSETS:

Interest and investment income - Warner trust fund	<u>9,494</u>
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DECREASE IN NET ASSETS (513,970)

NET ASSETS, Beginning of Year 8,474,084

NET ASSETS, End of Year \$ 7,960,114

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

**STATEMENT OF CASH FLOWS
YEAR ENDED JANUARY 31, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES:

Decrease in net assets	\$ (513,970)
Reconciliation to net cash and equivalents used by operating activities:	
Depreciation and amortization	9,530
Net realized and unrealized loss on investments	487,651
Gain from real estate from disbanded congregations	[REDACTED]
Donations of real estate from disbanded congregations	[REDACTED]
Impairment loss on real estate from disbanded congregations	[REDACTED]
Gain on sale of equipment and property	(2,074)
Changes in:	
Prepaid expenses and other assets	12,426
Notes receivable	(77,423)
Accounts payable and accrued liabilities	(3,443)
Agency trust accounts	17,362
Deferred trust accounts	(34,695)
Net cash and equivalents used by operating activities	<u>(104,636)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(40,774)
Proceeds from sale of property and equipment	<u>7,025</u>
Net cash and equivalents used by investing activities	<u>(33,749)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of loan payable	22,825
Repayment of loan payable	<u>(1,552)</u>
Net cash and equivalents provided by financing activities	<u>21,273</u>

DECREASE IN CASH AND EQUIVALENTS (117,112)

CASH AND EQUIVALENTS, Beginning of Year 996,646

CASH AND EQUIVALENTS, End of Year \$ 879,534

COMPOSITION OF CASH AND EQUIVALENTS:

Operating	\$ 586,462
Outreach	283,085
Warner Trust	<u>9,987</u>
	<u><u>\$ 879,534</u></u>

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

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2009**

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Sierra Pacific Synod (Synod) of the Evangelical Lutheran Church in America (ELCA) was organized in 1986 as a California nonprofit religious corporation, to promote the Christian religion according to the tenets of faith set forth in the constitution of the ELCA. There are currently 205 congregations and 6 missions in the Synod's jurisdiction which includes 48 counties in Northern California and 12 counties in Nevada.

The Synod maintains relationships with several ELCA affiliated institutions and agencies within its territory. These relationships may include the appointment of institution and agency board members by the Synod Council, the governing body of the Synod.

Basis of presentation – The financial statements are presented in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Synod reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Revenue recognition – The Synod receives monthly mission support from congregations within its jurisdiction. Support from congregations is recorded as revenue in full when received, in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Pledges from congregations are not included as receivables and revenue because they are conditional upon the congregations' ability and choice to fulfill the pledge.

Other contributions, including real estate from disbanded congregations, are recognized in full when received or unconditionally promised, in accordance with SFAS No. 116. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the *Statement of Activities* as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purpose. Temporarily restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted.

Cash and equivalents – The Synod considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents unless designated for long-term purposes.

Concentration of cash – The Synod maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Synod has not experienced any losses in such accounts. Management believes the Synod is not exposed to any significant credit risk related to cash.

Investments consist of mutual funds which are stated at fair market value as of January 31, 2009. Changes in fair value and realized gains and losses are included in investment income.

**SIERRA PACIFIC SYNOD
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Property and equipment are stated at cost. Assets are depreciated using the straight-line method over the estimated useful lives of the assets. The Synod capitalizes all expenditures for property and equipment in excess of \$500.

Agency trust and deferred trust accounts – The Synod receives funds from congregations to be disbursed to various designated agencies and institutions. When the funds are received, the Synod recognizes liabilities in the agency trust or deferred trust accounts. These liability accounts are reduced when the funds are disbursed to the recipient organizations.

Recent accounting pronouncements – In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The adoption of SFAS 157 for financial assets and liabilities on January 1, 2008 did not have a material impact on the Synod's statement of financial position or the related statements of activities and of cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of SFAS 159 for financial assets and liabilities on January 1, 2008 did not have a material impact on the Synod's statement of financial position or the related statements of activities and of cash flows.

Fair value measurements – Assets and liabilities measured at fair value are recorded in accordance with SFAS 157, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs in which there is little or no market data, which require us to develop our own assumptions.

Income Taxes – The Synod is exempt from taxation under the Internal Revenue Code Section 501(c) (3) and California Revenue and Taxation Code Section 23701(d).

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Functional expenses – The costs of providing the program services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to program services based on a number of different allocation formulas that best represent the character of the expense being allocated.

Use of estimates – The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. NET ASSETS

Temporarily restricted net assets

Temporarily restricted net assets as of January 31, 2009 consist of the following:

Synod Outreach Fund – Stockton new start	\$ 507,799
Westlake property (Note 6)	89,300
Warner trust fund	<u>9,987</u>
Total temporarily restricted net assets	<u>\$ 607,086</u>

In 2002 the Synod received \$507,799 from the sale of Faith Lutheran Church property in Stockton. In accordance with the desire of the Stockton congregation, the proceeds were funded in the Outreach Fund for the purposes of establishing a congregation in Stockton at a future date to be determined. This balance is included temporarily restricted net assets.

Interest Income in 2009 was \$9,494 from the Warner Trust Fund.

Designated net assets

The Synod has designated a portion of unrestricted net assets as an Outreach Fund. This fund has been designated to support the outreach ministry of the Synod, including, but not limited to the establishment of new congregations, fresh starts, redeveloping of and/or strengthening of existing ministries within the Synod, and the leadership development of lay and clergy members. The primary source of funding comes from the sale of real property of disbanded congregations. In 2009, total support and revenues were \$314,132 and total expenses were \$29,494 in the designated Outreach Fund.

In 2005, the Synod received a bequest from the estate of Bernice M. Woock. Those funds have been designated to support congregations and rostered leaders experiencing crises in their ministries. Total Woock expenses in 2009 were \$47,626 and undistributed income at January 31, 2009 amounted to \$16,342, and is included in the designated net assets balance.

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

**NOTES TO FINANCIAL STATEMENTS
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As of January 31, 2009 Synod Outreach Fund assets consisted of the following:

Cash	\$	283,085
Interest receivable		1,705
San Rafael note receivable (net of discount of \$30,912) (Note 6)		1,617,893
Thrivent financial for Lutherans funds – investments stated at market value		549,494
ELCA endowment fund pooled trust – investments stated at market value		488,232
Real estate in disbanded congregations (Note 3)		<u>4,337,000</u>
Total Synod Outreach Fund		7,277,409
Add: Woock fund		16,342
Less: temporarily restricted net assets – Stockton new start		<u>(507,799)</u>
Total Synod designated net assets	\$	<u>6,785,952</u>

Permanently restricted net assets

The Synod maintains a bequest from the estate of Charles and Mabel Warner totaling \$201,723.

The endowment fund is held in an ELCA Mission Investment Fund which is not insured. Interest income from the trust (currently 4.8%) is used for grants to specific programs and ministries of the Synod and institutions and agencies in accordance with the provisions of the bequest. The Synod Council has established a trust committee which oversees the distribution of the income. Undistributed income at January 31, 2009 totaled \$9,987, and is included in temporarily restricted net assets.

3. REAL ESTATE FROM DISBANDED CONGREGATIONS

The Synod holds title to real property and fixtures it receives from congregations that dissolved and were disbanded. The properties are stated at their fair market value and are designated in the Synod's Outreach Fund. They are classified within Level 2 of the fair value hierarchy because they are valued using observable inputs with some market data, such as, appraisals or other directly observable quotations.

Real estate in disbanded congregations as of January 31, 2009 consists of the following:

Cupertino property	\$	4,337,000
San Lorenzo property		<u>XXXX</u>
Total	\$	<u>4,337,000</u>

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Cupertino property

On April 5, 2007, as a result of the dissolution of Redeemer Lutheran Church of Cupertino (Redeemer), the Synod took title to the real property and fixtures of the disbanded congregation. The transaction was based on an agreement of November 15, 2006 between Redeemer and Synod. The intent of the agreement is to develop a new ministry at the site. Title would then be transferred to an existing congregation which would oversee the new ministry. The value of \$4,337,000 is based on a November 7, 2006 document from the office of the State of California Attorney General, which provided an estimated value of the land, and insured values for the structures. Updated property valuation dependent upon property valuation.

San Lorenzo property

Valuation to be determined after result of property valuation.

4. INVESTMENTS

Investments consist of mainly mutual funds invested in equity securities and fixed income funds that are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

Investments consist of the following at January 31, 2009:

Fixed income investment funds	\$ 1,049,059
Mutual funds, invested in equity funds	253,453
Money market funds	<u>2,078</u>
Total	<u>\$ 1,304,590</u>

Interest and investment income (loss) are as follows:

Net unrealized and realized gains (losses)	\$ (487,651)
Interest and dividends from notes receivable	84,639
Interest and dividends from investments	<u>60,393</u>
Total	<u>\$ (342,619)</u>

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2009**

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at January 31, 2009:

Office and computer equipment	\$ 40,734
Automobile	29,824
Furniture and fixtures	<u>25,935</u>
Total	96,493
Less accumulated depreciation	<u>(58,664)</u>
Property and equipment, net	<u>\$ 37,829</u>

6. NOTES RECEIVABLE

Notes receivable as of January 31, 2009 consist of the following:

San Rafael note receivable (net of discount of \$30,912)	\$ 1,617,893
Westlake note receivable	<u>206,396</u>
Notes receivable, net	<u>\$ 1,824,289</u>

San Rafael note receivable

Upon the dissolution of Faith Evangelical Lutheran Church of San Rafael (Faith) in 2002, title to its land (2.86 acres) was transferred to the Synod. The property was subject to a previous 1999 agreement (with amendments in 2001 and 2002) between Faith and Elder Care Alliance Corporate (ECA), which is a California not-for-profit public benefit corporation affiliated with the Synod. The agreement provided that ECA would build a residential care facility for the elderly (approximately 130 rental units) on the property, while the Synod would retain title to the land. It also provided that ECA would lease the land from the Synod (\$50,086 per year) through 2036.

In order to secure financing for the residential care facilities project it was necessary that title to the land be transferred to ECA of San Rafael, which is a subordinate corporation to ECA. In accordance with the terms of a Purchase and Sales Agreement dated September 1, 2004, the Synod sold the land to ECA of San Rafael for \$1,648,805, and received a note for that amount secured by a third priority lien on the property and the project, subordinate to the first and second deeds of trust. The previous lease of the property for \$50,086 per year was terminated as of September 1, 2004.

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Payments on the note are expected to begin approximately in June 2009, as payments are subject to certain conditions, including, but not limited to: the residential care facility must have been 90% occupied for an entire quarter; debt service ratio requirements must be met; the note and deed of trust could be terminated in the event of a foreclosure by the holder of the first deed of trust. The terms provide for 40 annual payments of \$106,149, including principal and interest at 5.75% per annum. Interest does not begin to accrue until the payments begin.

The sales price of \$1,648,805 and fair value of the note receivable was discounted to a present value of \$1,290,225 as of September 1, 2004. The discount of \$358,580 (\$1,648,805 less \$1,290,225) is being amortized at 5.75% over the period from September 1, 2004 to June 30, 2009 as this is the date ECA of San Rafael is expected to have met all requirements including the 90% occupancy requirement and will start making payments. During the period between 2004 and 2009 when no payments are expected, the discount will be amortized and an offset is made to record interest income as the discount will be reduced. In 2009, total interest income was \$74,189, which reduced the discount to \$30,912 and resulted in the note having a present value of \$1,617,893 at January 31, 2009. By fiscal year end January 31, 2010 (or whatever date the payments commence) the value of the note will have been amortized up to the full value of \$1,648,805.

The Purchase and Sales Agreement contains a Seller's Repurchase Option and Buyer's Ground Lease Option. Under this option, the Synod would be able to repurchase the land for One Dollar (\$1), subject to various provisions. The option term would be for one year commencing ten years after the full payment and satisfaction of the obligations secured by the first deed of trust, but not until the year 2064.

Construction on the residential care facility began in January 2005. The facility opened on May 1, 2006. Based on a December 31, 2008 quarter ending report provided by ECA, 89% occupancy has been achieved thus far.

Westlake note receivable

The Westlake note receivable consists of a note executed in 1987 for \$95,000, secured by a deed of trust, plus unpaid accrued interest at 11% annually through January 31, 2009 totaling \$111,396. The note has been delinquent since 2001 when the last interest payment was received and no payments have been received since then. The Synod is in the process of preparing for foreclosure proceedings. The principal of \$95,000 was donor restricted for specific institutions and agencies of the Synod. Accordingly, this balance is included in temporarily restricted net assets. As of January 31, 2009, \$5,700 has been distributed, leaving a balance of \$89,300 in temporarily restricted net assets to be distributed in the future.

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2009**

7. LOAN PAYABLE

In August 2008, the Synod obtained a \$22,825 car loan from The Lutheran Credit Union of America. Interest accrues at a fixed rate of 7.25% per annum. The loan is payable in 72 monthly installments of \$391, maturing on July 25, 2014. Interest of \$805 was paid on this loan during the year ended January 31, 2009. The balance outstanding on the loan at January 31, 2009 was \$21,271.

8. GUARANTOR ON DEBT

The Synod is a guarantor of up to \$192,500 on certain indebtedness of Lutheran Outdoor Ministry of Northern California (Mt. Cross) payable to the Lutheran Credit Union of America.

9. OFFICE LEASE

The Synod leases office space under a non-cancelable lease agreement. Office rent expense was \$62,683 for the year ended January 31, 2009. The lease provides for monthly rentals of \$5,207 and is expected to terminate on October 31, 2009.

10. PENSION PLAN

The Synod sponsors a defined contribution pension plan sponsored by Lutheran organizations in which all full-time employees are eligible for the plan. The Synod makes pension plan contributions equal to 12% of salaries of eligible employees. The contributions are fully vested when paid and totaled \$37,692 for 2009.

**SIERRA PACIFIC SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
SUPPLEMENTAL SCHEDULE OF EXPENSES
YEAR ENDED JANUARY 31, 2009**

INSTITUTIONS AND AGENCIES

ELCA Mission Support	\$ 1,152,910
Region 2	5,250
Pacific Lutheran Seminary	105,000
California Lutheran University	6,000
Lutheran Campus Ministry	80,000
Lutheran Outdoor Ministry of Norther California	6,000
Lutheran Social Services	6,000
Office of Public Policy	6,000
Lutheran Advocacy Ministry - Nevada	385
Total Institution and Agencies	<u>\$ 1,367,545</u>

SYNOD'S MISSION

Witness and Services	\$ 205,063
Synod Council	27,463
Synod Resource Centers	15,705
Leadership	11,621
Word and Sacrament	6,800
Total Synod's Mission	<u>\$ 266,652</u>

SYNOD ASSEMBLY AND CONFERENCES

Synod Assembly	\$ 71,958
Professional leadership conference	14,101
Total Synod assembly and conference	<u>\$ 86,059</u>