



THE
LUTHERAN CHURCH
Missouri Synod

Internal Audit Department



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INTERNAL AUDITOR'S REPORT

Board of Directors
Kansas District of
The Lutheran Church—Missouri Synod
Topeka, Kansas

We have audited the accompanying financial statements of the Kansas District of The Lutheran Church—Missouri Synod, which comprise the statements of financial position as of January 15, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating

INTERNAL AUDITOR'S REPORT (Continued)

Auditor's Responsibility (Continued)

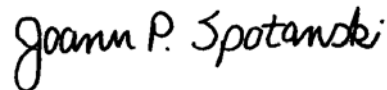
the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, as internal auditors of The Lutheran Church—Missouri Synod, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas District as of January 15, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

THE LUTHERAN CHURCH—MISSOURI SYNOD
Internal Audit Department



St. Louis, Missouri
April 8, 2020

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF FINANCIAL POSITION
JANUARY 15, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets:		
Cash and Cash Equivalents	\$ 149,040	\$ 189,219
Accounts Receivable	6,992	7,036
Interest Receivable	6,768	6,467
Prepaid Expenses	11,345	19,356
Property and Equipment - Net (Note 5)	1,374,100	1,466,165
Long-Term Investments (Note 4)	4,944,070	4,715,692
Cash Surrender Value of Life Insurance Policies	57,238	89,512
Beneficial Interests in Charitable Trusts Held by Others	56,090	50,811
Beneficial Interests in Perpetual Trusts	<u>68,514</u>	<u>59,127</u>
 Total Assets	 <u>\$ 6,674,157</u>	 <u>\$ 6,603,385</u>
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 35,541	\$ 33,377
Deferred Revenue	52,331	61,729
Funds Held in Trust for Others	<u>342,924</u>	<u>375,487</u>
 Total Liabilities	 <u>430,796</u>	 <u>470,593</u>
Net Assets:		
Without Donor Restrictions (Note 7)	3,470,579	3,385,679
With Donor Restrictions (Note 8)	<u>2,772,782</u>	<u>2,747,113</u>
 Total Net Assets	 <u>6,243,361</u>	 <u>6,132,792</u>
 Total Liabilities and Net Assets	 <u>\$ 6,674,157</u>	 <u>\$ 6,603,385</u>

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JANUARY 15, 2020

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES, & OTHER ADDITIONS:</u>			
Support -			
District Congregations (Note 1)	\$ 1,429,584	\$ 102,761	\$ 1,532,345
LCEF (Note 10)	42,967	65,473	108,440
Other	79,672	35,017	114,689
Revenues -			
Subscriptions	61,272		61,272
Conventions, Conferences, and Workshops	319,516		319,516
Net Investment Return	69,244	34,106	103,350
Agreements with LCEF (Note 10)	160,698		160,698
Other	9,812		9,812
Change in Value of Beneficial Interests in Charitable Trusts		5,279	5,279
Change in Value of Beneficial Interests in Perpetual Trusts		9,387	9,387
Net Gain on Property and Equipment Disposals	3,753		3,753
Net Assets Released from Restrictions (Note 8)	226,354	(226,354)	-
	<u>2,402,872</u>	<u>25,669</u>	<u>2,428,541</u>
Total Support, Revenues, & Other Additions			
<u>EXPENSES:</u>			
Program Services -			
World and National Missions	249,299		249,299
Preparing Church Workers	93,065		93,065
Congregational Services	519,485		519,485
Support Services -			
Synodical Budget	400,283		400,283
Mission and Ministry Support Services	797,037		797,037
Ecclesiastical and Program Administration	258,803		258,803
	<u>2,317,972</u>	<u>-</u>	<u>2,317,972</u>
Total Expenses			
CHANGE IN NET ASSETS	84,900	25,669	110,569
NET ASSETS - Beginning of Year	<u>3,385,679</u>	<u>2,747,113</u>	<u>6,132,792</u>
NET ASSETS - End of Year	<u>\$ 3,470,579</u>	<u>\$ 2,772,782</u>	<u>\$ 6,243,361</u>

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JANUARY 15, 2019

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
<u>SUPPORT, REVENUES, & OTHER ADDITIONS:</u>			
Support -			
District Congregations (Note 1)	\$ 1,474,093	\$ 112,948	\$ 1,587,041
LCEF (Note 10)	32,318	63,539	95,857
Other	1,304,387	899,698	2,204,085
Revenues -			
Subscriptions	65,823		65,823
Conventions, Conferences, and Workshops	181,359		181,359
Net Investment Return	43,683	34,257	77,940
Agreements with LCEF (Note 10)	158,884		158,884
Other	14,238		14,238
Change in Value of Beneficial Interests in Charitable Trusts		(2,658)	(2,658)
Change in Value of Beneficial Interests in Perpetual Trusts		(7,891)	(7,891)
Net Gain on Property and Equipment Disposals	4,024		4,024
Net Assets Released from Restrictions (Note 8)	<u>195,736</u>	<u>(195,736)</u>	<u>-</u>
Total Support, Revenues, & Other Additions	<u>3,474,545</u>	<u>904,157</u>	<u>4,378,702</u>
<u>EXPENSES:</u>			
Program Services -			
World and National Missions	357,027		357,027
Preparing Church Workers	65,427		65,427
Congregational Services	417,962		417,962
Support Services -			
Synodical Budget	412,746		412,746
Mission and Ministry Support Services	744,238		744,238
Ecclesiastical and Program Administration	<u>252,690</u>		<u>252,690</u>
Total Expenses	<u>2,250,090</u>	<u>-</u>	<u>2,250,090</u>
CHANGE IN NET ASSETS	1,224,455	904,157	2,128,612
NET ASSETS - Beginning of Year	<u>2,161,224</u>	<u>1,842,956</u>	<u>4,004,180</u>
NET ASSETS - End of Year	<u>\$ 3,385,679</u>	<u>\$ 2,747,113</u>	<u>\$ 6,132,792</u>

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JANUARY 15, 2020

	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL
	World and National Missions	Preparing Church Workers	Congregational Services	Synodical Budget	Mission and Ministry Support Services	Ecclesiastical and Program Administration	
Synodical Pledge	\$	\$	\$	\$ 400,283	\$	\$	\$ 400,283
Personnel							
Salaries and Wages	55,784		155,638		274,090	157,207	642,719
Employee Benefits	18,662		51,109		99,773	56,196	225,740
Grants	120,831	88,316	1,171		16,700		227,018
Conferences and Events			238,709		110,493	1,394	350,596
Travel	6,250		16,558		2,179	15,746	40,733
Depreciation	5,023		18,630		91,550	2,115	117,318
Meetings	4,540	4,749	23,356		5,019	12,474	50,138
Periodicals and Resources	876		3,601		975	980	6,432
Human Care and Disaster Support	32,575						32,575
West Africa Support	938						938
Audit, Insurance and Legal					11,299		11,299
Computers, Software and Equipment					29,523	2,259	31,782
Retreat Center			3,414		12,803	854	17,071
Occupancy	3,383		4,893		49,317	4,866	62,459
Telephone	322		966		7,752	1,259	10,299
Postage and Supplies					12,623		12,623
Publications					54,644		54,644
Other	115		1,440		18,297	3,453	23,305
Total Expenses by Function	\$ <u>249,299</u>	\$ <u>93,065</u>	\$ <u>519,485</u>	\$ <u>400,283</u>	\$ <u>797,037</u>	\$ <u>258,803</u>	\$ <u>2,317,972</u>

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JANUARY 15, 2019

	PROGRAM SERVICES			SUPPORT SERVICES			TOTAL
	World and National Missions	Preparing Church Workers	Congregational Services	Synodical Budget	Mission and Ministry Support Services	Ecclesiastical and Program Administration	
Synodical Pledge	\$	\$	\$	\$ 412,746	\$	\$	\$ 412,746
Personnel							
Salaries and Wages	53,968		151,387		275,802	160,332	641,489
Employee Benefits	18,194		48,690		82,884	53,651	203,419
Grants	213,416	60,746	1,460		16,500		292,122
Conferences and Events			142,672		63,632	890	207,194
Travel	5,529		15,348		4,259	12,850	37,986
Depreciation	7,306		19,078		87,945	3,372	117,701
Meetings	3,660	4,681	24,172		4,718	10,094	47,325
Periodicals and Resources	632		4,857		1,033	1,143	7,665
Human Care and Disaster Support	16,925						16,925
West Africa Support	33,476						33,476
Audit, Insurance and Legal					13,174		13,174
Computers, Software and Equipment					23,996	2,475	26,471
Retreat Center			3,529		13,234	882	17,645
Occupancy	3,551		5,135		51,760	5,108	65,554
Telephone	356		1,261		13,227	725	15,569
Postage and Supplies					10,097		10,097
Publications					55,974		55,974
Other	14		373		26,003	1,168	27,558
Total Expenses by Function	\$ 357,027	\$ 65,427	\$ 417,962	\$ 412,746	\$ 744,238	\$ 252,690	\$ 2,250,090

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 15, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 110,569	\$ 2,128,612
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	117,318	117,701
Change in Value of Beneficial Interests in Charitable Trusts	(5,279)	2,658
Change in Value of Beneficial Interests in Perpetual Trusts	(9,387)	7,891
(Gain) Loss on Property and Equipment Disposals	(3,753)	(4,024)
Interest Restricted for Long-Term Investment	(601)	(562)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	44	18,149
Interest Receivable	(301)	(3,690)
Prepaid Expenses	8,011	(5,056)
Cash Surrender Value of Life Insurance Policies	32,274	70,080
Beneficial Interests in Charitable Trusts	-	10,622
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	2,164	(21,116)
Deferred Revenue	(9,398)	(8,918)
Funds Held in Trust for Others	(32,563)	(70,418)
Net Cash Provided (Used) by Operating Activities	209,098	2,241,929
Cash Flows from Investing Activities:		
Proceeds from Sale of Fixed Assets	9,270	8,901
Purchases of Fixed Assets	(30,770)	(37,902)
Proceeds from Sale of Investments	125,114	70,000
Purchases of Investments	(353,492)	(2,190,525)
Net Cash Provided (Used) by Investing Activities	(249,878)	(2,149,526)
Cash Flows from Financing Activities:		
Interest Restricted for Reinvestment in Perpetual Endowment	601	562
Net Cash Provided (Used) by Financing Activities	601	562
Net Increase (Decrease) in Cash and Cash Equivalents	(40,179)	92,965
Cash and Cash Equivalents - Beginning of Year	189,219	96,254
Cash and Cash Equivalents - End of Year	\$ 149,040	\$ 189,219

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

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

1. NATURE OF ORGANIZATION

The Kansas District (the District), a religious not-for-profit organization, is one of 35 districts of The Lutheran Church—Missouri Synod (the Synod), encompassing 160 congregations in the state of Kansas. 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 \$1,532,345 and \$1,587,041 for the years ended January 15, 2020 and 2019, 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 eight colleges/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 Services* – 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 10 (Agreements with LCEF).
- *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.

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

1. NATURE OF ORGANIZATION (Continued)

The Kansas 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 Kansas 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.

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

2. 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.

Property and Equipment

Property and equipment purchases of \$5,000 or more with an estimated useful life greater than two years 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 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.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Revenue Recognition (Continued)

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, and office building occupancy costs, which are allocated based on the square footage used by each program and supporting activity.

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 January 15, 2020 and 2019.

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 the Board of Administration. 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The District has evaluated subsequent events through April 8, 2020, the date the financial statements were available to be issued, and has determined the following disclosure should be made:

As a result of the spread of the COVID-19 coronavirus in the United States, multiple businesses across a wide range of industries are being disrupted through mandatory and voluntary closings. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments including the duration and spread of the outbreak, as well as its impact on our member congregations, donors, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The District receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the District receives support without donor restrictions in the form of congregational mission commitments, LCEF contract reimbursements, and contributions without donor restrictions. The remainder of funding is provided by investment income without donor restrictions and appropriated earnings from gifts with donor restrictions.

The District considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated net assets, congregational mission commitments, LCEF funding, contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, support of Synod and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the District's fiscal year.

The District manages its cash available to meet general expenditures by operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets, and maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under endowments with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the District.

(Continued)

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

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

The table below presents financial assets available for general expenditures within one year of the Statement of Financial Position date:

	January 15	
	2020	2019
Financial Assets:		
Cash and Cash Equivalents	\$ 149,040	\$ 189,219
Accounts Receivable	6,992	7,036
Interest Receivable	6,768	6,467
Long-Term Investments	4,944,070	4,715,692
Cash Surrender Value of Life Insurance Policies	57,238	89,512
Beneficial Interests in Charitable Trusts Held by Others	56,090	50,811
Beneficial Interests in Perpetual Trusts	68,514	59,127
Total Financial Assets at Year-End	5,288,712	5,117,864
Less Those Unavailable for General Expenditures Within One Year Due to:		
Funds Held in Trust for Others	(342,924)	(375,487)
Donor-Imposed Restrictions	(2,772,782)	(2,747,113)
Net Financial Assets After Donor-Imposed or Contractual Restrictions	2,173,006	1,995,264
Less Internal Designations		
Board Designations	(1,334,550)	(1,270,864)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 838,456	\$ 724,400

KANSAS 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)

KANSAS 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 January 15, 2020:

	Total	Fair Value Measurements Using			Investments Measured at Cost
		Level 1	Level 2	Level 3	
Long-Term Investments -					
LCEF Notes	\$ 3,819,328	\$ -	\$ -	\$ -	\$ 3,819,328
Thrivent Demand Deposit Account	896,606				896,606
LCMS Foundation: LCEF Certificate	228,136				228,136
	<u>\$ 4,944,070</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,944,070</u>
Beneficial Interests in -					
Charitable Trusts	\$ 56,090	\$ -	\$ -	\$ 56,090	\$ -
Perpetual Trusts	\$ 68,514	\$ -	\$ -	\$ 68,514	\$ -

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 January 15, 2020:

	Balance 1/15/2019	Net New or (Matured) Gifts	Change in Value	Balance 1/15/2020
Charitable Trusts	\$ 50,811	\$ -	\$ 5,279	\$ 56,090
Perpetual Trusts	\$ 59,127	\$ -	\$ 9,387	\$ 68,514

(Continued)

KANSAS 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 January 15, 2019:

	Total	Fair Value Measurements Using			Investments Measured at Cost
		Level 1	Level 2	Level 3	
Long-Term Investments -					
LCEF Notes	\$ 3,592,592	\$ -	\$ -	\$ -	\$ 3,592,592
Thrivent Demand					
Deposit Account	894,964				894,964
LCMS Foundation:					
LCEF Certificate	228,136				228,136
	<u>\$ 4,715,692</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,715,692</u>
Beneficial Interests in -					
Charitable Trusts	\$ 50,811	\$ -	\$ -	\$ 50,811	\$ -
Perpetual Trusts	\$ 59,127	\$ -	\$ -	\$ 59,127	\$ -

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 January 15, 2019:

	Balance 1/15/2018	Net New or (Matured) Gifts	Change in Value	Balance 1/15/2019
Charitable Trusts	\$ 64,091	\$ (10,622)	\$ (2,658)	\$ 50,811
Perpetual Trusts	\$ 67,018	\$ -	\$ (7,891)	\$ 59,127

At January 15, 2020 and 2019, the fair value of donor-restricted endowment investments managed by the District and included in long-term investments in the above schedules was \$1,438,930.

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.

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

5. PROPERTY AND EQUIPMENT

Property and equipment consists of:

	January 15	
	2020	2019
Land	\$ 102,000	\$ 102,000
Office Building	2,336,555	2,336,555
Herington Lake Retreat Center	639,871	639,871
Office Furnishings and Equipment	87,331	74,653
Vehicles	92,065	101,560
	3,257,822	3,254,639
Less: Accumulated Depreciation	(1,883,722)	(1,788,474)
Net Property and Equipment	\$ 1,374,100	\$ 1,466,165

6. 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 January 15, 2020 and 2019, we had an unsecured line of credit with LCEF in the amount of \$429,578 and \$405,088, respectively. Borrowings under the line bear interest at the current rate of 3.875%. As of and during the years ended January 15, 2020 and 2019, there were no borrowings against this line of credit.

7. NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions consist of the following:

	January 15	
	2020	2019
Undesignated	\$ 761,929	\$ 648,650
Investment in Property and Equipment	1,374,100	1,466,165
Designated by Board for:		
World and National Missions	1,236,599	1,224,444
Preparing Church Workers	49,210	23,503
Congregational Services	28,741	22,917
Mission and Ministry Support Services	20,000	-
	\$ 3,470,579	\$ 3,385,679

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

8. NET ASSETS WITH DONOR RESTRICTIONS

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

	January 15	
	2020	2019
Purpose Restrictions:		
World and National Missions	\$ 227,649	\$ 221,126
Preparing Church Workers	863,170	895,647
Congregational Services	6,325	5,010
Mission and Ministry Support Services	15,004	22,636
	1,112,148	1,144,419
Time Restrictions:		
Congregation Support	35,333	20,951
Beneficial Interests in Charitable Trusts Held by Others	56,090	50,811
	91,423	71,762
Endowments:		
Corpus (Perpetual) -		
World and National Missions	638,347	638,347
Preparing Church Workers	790,794	790,193
General Use	10,623	10,623
	1,439,764	1,439,163
Net Investment Return Subject to Appropriation and Expenditure; Restricted by Donors for:		
World and National Missions	36,929	22,634
Preparing Church Workers	24,004	10,008
	60,933	32,642
Beneficial Interests in Perpetual Trusts	68,514	59,127
	\$ 2,772,782	\$ 2,747,113

(Continued)

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

8. 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 the donors as follows:

	January 15	
	2020	2019
Satisfaction of Purpose Restrictions:		
World and National Missions	\$ 86,861	\$ 81,442
Preparing Church Workers	77,630	54,682
Congregational Services	27,900	1,500
Mission and Ministry Support Services	13,012	38,056
	205,403	175,680
Expiration of Time Restrictions	20,951	20,056
	\$ 226,354	\$ 195,736

9. ENDOWMENT FUNDS

Our endowment consists of ten individual funds established by donors to provide annual funding for specific activities 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 Kansas 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:

- (1) The duration and preservation of the fund
- (2) The purposes of the District and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the District
- (7) The investment policies of the District

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

9. 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 January 15, 2020 and 2019.

Endowment Policies – Endowment assets are currently being managed and invested by the Business Manager in consultation with the Board of Administration. Endowment assets include those assets of donor-restricted endowment funds the District must hold in perpetuity. The District has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Per District policy, all assets are invested with LCEF or the LCMS Foundation. This allows the District to maintain a stable value in these endowments over the long-term. Exceptions to this policy may be granted by the Board of Directors if the donor specifies an alternate financial institution. The Board of Administration reviews the endowment investments and their performance on an annual basis.

As of January 15, 2020 and 2019, we had the following endowment net asset composition by fund type:

	<u>With Donor Restrictions</u>
<u>January 15, 2020</u>	
Donor-Restricted Endowment Funds:	
Amounts Required to be Maintained in Perpetuity	\$ 1,439,764
Accumulated Investment Return (Loss)	<u>60,933</u>
Total Endowment	<u><u>\$ 1,500,697</u></u>
 <u>January 15, 2019</u>	
Donor-Restricted Endowment Funds:	
Amounts Required to be Maintained in Perpetuity	\$ 1,439,163
Accumulated Investment Return (Loss)	<u>32,642</u>
Total Endowment	<u><u>\$ 1,471,805</u></u>

(Continued)

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

9. ENDOWMENT FUNDS (Continued)

Changes in the endowment net assets for the years ended January 15, 2020 and 2019, are as follows:

	<u>With Donor Restrictions</u>
<u>Year Ended January 15, 2020</u>	
Endowment Net Assets - Beginning of Year	\$ 1,471,805
Net Investment Return (Loss)	33,216
Contributions	601
Appropriation of Endowment Assets for Expenditure	<u>(4,925)</u>
Endowment Net Assets - End of Year	<u>\$ 1,500,697</u>
 <u>Year Ended January 15, 2019</u>	
Endowment Net Assets - Beginning of Year	\$ 1,444,743
Net Investment Return (Loss)	33,908
Contributions	10,622
Appropriation of Endowment Assets for Expenditure	<u>(17,468)</u>
Endowment Net Assets - End of Year	<u>\$ 1,471,805</u>

10. SUPPORT AND REVENUE FROM THE LUTHERAN CHURCH EXTENSION FUND

DRS Funding – In August 2017, a District Relations and Support (DRS) Funding agreement was entered into whereby LCEF agreed to provide annual DRS funding to the District from 2018 through 2021. Per the agreement, these DRS payments are considered support for the general mission of the District and as such, are reported in the Statement of Activities as support from LCEF in net assets without donor restrictions. In September 2019, LCEF decided to accelerate the payout on this agreement and the District received all funds previously scheduled to be received through 2021 in one lump-sum payment. During the years ended January 15, 2020 and 2019, the District received total DRS funding from LCEF in the amount of \$42,967 and \$32,318, respectively.

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 January 15, 2020 and 2019, the District requested and received distributions of LCEF operating results totaling \$65,473 and \$63,539, respectively. These distributions are reflected in the Statement of Activities as support from LCEF in net assets with donor restrictions.

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

10. SUPPORT AND REVENUE FROM THE LUTHERAN CHURCH EXTENSION FUND
(Continued)

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 January 15, 2020 and 2019, totaled \$160,698 and \$158,884, respectively, which is reported in the Statement of Activities as revenue in net assets without donor restrictions.

11. 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 January 15, 2020 and 2019, totaled \$52,283 and \$51,796, respectively.

There were no significant changes in the District's relationship to the CRP or changes that would affect the comparability to the CRP during fiscal 2020 or 2019. There were also no contingent liabilities associated with the CRP at January 15, 2020 or 2019. 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.