PACIFIC SOUTHWEST DISTRICT OF THE CHURCH OF THE BRETHREN

FINANCIAL STATEMENTS

DECEMBER 31, 2021

PACIFIC SOUTHWEST DISTRICT OF THE CHURCH OF THE BRETHREN

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pacific Southwest District of the Church of the Brethren

Opinion

We have audited the accompanying financial statements of **Pacific Southwest District of the Church of the Brethren**, a nonprofit organization, which comprise the statements of financial position as of **December 31, 2021**, and the related statements of activities, functional expenses and cash flows for the year 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 Pacific Southwest District of the Church of the Brethren as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Pacific Southwest District of the Church of the Brethren and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 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.

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 Pacific Southwest District of the Church of the Brethren'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, misrepresentation, or the override of internal control. Misstatements 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 Pacific Southwest District of the Church of the Brethren'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 Pacific Southwest District of the Church of the Brethren'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.

Suchan + Associates

Suchan & Associates
An Accountancy Corporation

Rancho Cucamonga, California
October 25, 2022

PACIFIC SOUTHWEST DISTRICT OF THE CHURCH OF THE BRETHREN

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2021

ASSETS

CURRENT ASSETS		
Cash	$	1,452,132
Investments (Notes 2,3,6,8, and 9)		5,512,758
Prepaid expenses		33,540
Notes receivable, current portion (Notes 2,4, and 8)		47,074
TOTAL CURRENT ASSETS		**7,045,504**
FIXED ASSETS (Notes 2 and 5)		2,609,674
OTHER ASSETS		
Notes receivable, noncurrent (Notes 2,4 and 8)		802,517
TOTAL ASSETS	**$**	**10,457,695**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$**	**15,332**
NET ASSETS (Notes 2 and 6)		
Net assets without donor restrictions		7,024,483
Net assets without donor restrictions - board designated		2,490,215
Total Net Assets without donor restrictions		9,514,698
Net assets with donor restrictions		927,665
TOTAL NET ASSETS		**10,442,363**
TOTAL LIABILITIES AND NET ASSETS	**$**	**10,457,695**

See Independent Auditor's Report

The accompanying Notes to Financial Statements
are an integral part of this statement

PACIFIC SOUTHWEST DISTRICT OF THE CHURCH OF THE BRETHREN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Support and Revenue			
Public contributions	$ 28,317	$ -	$ 28,317
District conference	4,075	-	4,075
Unrealized gain (loss) on investments	866,316	164,255	1,030,571
Interest and investment income, net of investment expenses of $26,252	71,720	-	71,720
Other income	131,565	-	131,565
Subtotal	1,101,993	164,255	1,266,248
Net assets released from restrictions			
Restrictions satisfied by use	245	(245)	-
TOTAL REVENUES	**1,102,238**	**164,010**	**1,266,248**
EXPENSES			
Program services	321,890	-	321,890
Property rental	30,833	-	30,833
Management and general	355,659	-	355,659
TOTAL EXPENSES	**708,382**	**-**	**708,382**
CHANGE IN NET ASSETS	**393,856**	**164,010**	**557,866**
NET ASSETS, BEGINNING OF YEAR	9,120,842	763,655	9,884,497
NET ASSETS, END OF YEAR	**$ 9,514,698**	**$ 927,665**	**$ 10,442,363**

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PACIFIC SOUTHWEST DISTRICT OF THE CHURCH OF THE BRETHREN

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2021

	Partnership/ Commissions	Conferences	Ministry Support	Total Program Services	Property Rental	Management & General	Total
Accounting	$ -	$ -	$ -	$ -	$ -	$ 17,100	$ 17,100
Assessments	1,279	-	-	1,279	-	-	1,279
Church growth	107,867	-	-	107,867	-	-	107,867
Committee delegates	-	306	-	306	-	-	306
Disaster response	5,822	-	-	5,822	-	-	5,822
District conference	-	1,693	-	1,693	-	-	1,693
Events / retreats	42,962	-	-	42,962	-	-	42,962
Grants	-	-	5,565	5,565	-	-	5,565
Insurance	-	-	-	-	-	28,849	28,849
Legal	-	-	-	-	-	22,665	22,665
Miscellaneous	3,237	1,540	2,865	7,642	-	141,920	149,562
Office	-	-	-	-	-	6,489	6,489
Payroll taxes	-	-	-	-	-	775	775
Pension cost	-	-	-	-	-	18,502	18,502
Rent	-	-	-	-	-	17,686	17,686
Rental expenses	-	-	-	-	9,020	-	9,020
Repair & maint.	-	-	-	-	-	7,932	7,932
Salaries	-	-	96,265	96,265	-	88,778	185,043
Telephone	-	-	-	-	-	4,221	4,221
Training & development	-	-	11,635	11,635	-		11,635
Travel	-	-	18,818	18,818	-	742	19,560
Subtotal	**161,167**	**3,539**	**135,148**	**299,854**	**9,020**	**355,659**	**664,533**
Depreciation	22,036	-	-	22,036	21,813	-	43,849
TOTAL FUNCTIONAL EXPENSES	**$ 183,203**	**$ 3,539**	**$ 135,148**	**$ 321,890**	**$ 30,833**	**$ 355,659**	**$ 708,382**

See Independent Auditor's Report

The accompanying Notes to Financial Statements
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PACIFIC SOUTHWEST DISTRICT OF THE CHURCH OF THE BRETHREN

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	557,866
Adjustments to reconcile change in net assets to net cash provided (used) for operating activities		
Depreciation		43,849
Net realized and unrealized gain on investments :		(1,030,571)
(Increase) decrease in assets:		
Prepaid expenses		(23,559)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses		4,152
Refundable Advance		(23,553)
CASH USED FOR OPERATING ACTIVITIES		**(471,816)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments		1,202,146
Proceeds from notes receivable		144,854
Payments for notes receivable		(28,923)
Purchase of fixed assets		(369,269)
CASH PROVIDED BY INVESTING ACTIVITIES		**948,808**
NET INCREASE IN CASH		**476,992**
CASH AT BEGINNING OF YEAR		975,140
CASH AT END OF YEAR	**$**	**1,452,132**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:		
Income taxes	$	-
Interest	$	-

See Independent Auditor's Report

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PACIFIC SOUTHWEST DISTRICT OF THE CHURCH OF THE BRETHREN

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 2021

1. Organization and Nature of Activities

Pacific Southwest District of the Church of the Brethren (the District) is a religious non-profit organization, formed in 1965. The primary purpose of the District is to oversee local churches, youth camps, conferences and ministries. The primary revenue is derived from investment activity, including the sales of properties from disbanded churches.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Organization are summarized below.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash and Cash Equivalents - For the purposes of statement of cash flow, the Organization considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalent.

Investments – Investments in marketable securities with readily determinable fair values and all investment in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in net assets without donor restrictions unless a donor or law restricts use. Certificates of deposits are included in investments, but are not subject to the provisions of fair value measurements as they are recorded at cost.

Funds Receivable - The District considers its funds receivable to be fully collectible; accordingly, no allowance for credit loss is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Notes Receivable – Held to maturity notes are carried in the financial statements at amortized cost. It is the District's policy to consider notes receivable delinquent based on contractual terms. Related interest income is accrued in accordance with note terms.

Real Estate Property Held – Property received from dissolved local churches is recorded at appraised value upon the date of dissolution. This property is held until sold or put into use. If the property is put into use, then it is reclassified to fixed assets.

Fixed Assets - Purchased fixed assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation. Other property held by the District's churches, in some instances, are recorded in the name of the District. It is neither the intent nor the expectation that such properties would ever become assets of the District. Consequently, these properties are not recorded as assets until such time as the local church may dissolve. At that time, it is the policy of the District to record such properties as assets, including real estate property held, based upon the fair value at the date of dissolution.

2. Summary of Significant Accounting Policies (continued)

Fixed Assets (continued) - A congregation may not dissolve, but it may dispose of real property in which the District has invested monies in the form of grants. At the point of sale of such property, grants made by the District are returned and recorded as revenues at that time.

Depreciation of office furniture and equipment is computed by the straight-line method over useful lives of 5 - 7 years. Depreciation of building and improvements is computed by the straight-line method over useful lives of 40 years.

The District capitalizes all expenditures for property, furniture and equipment in excess of $500.

Net Assets – The net assets of the District and changes therein are classified and reported as follows:

Without donor restrictions – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the District. Net assets without donor restrictions includes board designated net assets, which are net assets without donor restrictions that are subject to self-imposed limits by action of the governing board. These net assets can also be undesignated at the board's discretion.

With donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the District and/or the passage of time. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying financial statements as net assets released from restrictions.

Contributions – Non-reciprocal contributions received are recorded as with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. It is the policy of the District to record donor restricted contributions as without donor restrictions when the donor-restrictions have been satisfied within the same reporting period.

Refundable Advances – Conditional contributions in which a barrier exists and has not been overcome.

The District received a PPP loan established by the CARES Act and has elected to account for the funding as a conditional contribution by applying ASC Topic 958-605, Revenue Recognition. Revenue is recognized when conditions are met, which include meeting full-time equivalency (FTE) and salary reduction requirements and incurring eligible expenditures. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender, as a result of such audit, adjustments could be required to revenue. The PPP balance of $23,553 was recognized as a refundable advance as of December 31, 2020. On April 8, 2021, the PPP loan recorded as a refundable advance in the amount of $23,553 was fully forgiven.

Interest and Dividends – Interest is recorded when earned and dividends are recorded when received. Both are included in the change in net assets without donor restrictions.

2. Summary of Significant Accounting Policies (continued)

Income Taxes - The District is exempt from federal and state income taxes under Section 501(c) (3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, respectively. Accordingly, no provision for income taxes is included in the financial statements. In addition, the District has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. The District has no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses - The costs of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

3. Investments

Investments consist of marketable securities valued at quoted market prices invested at the Brethren Foundation, as well as certificates of deposits held at other various banking institutions valued at cost. The fair market value at December 31, 2021 was $5,512,758.

Investment Breakdown:

Brethren Foundation General Funds:		
Domestic Stock	$	2,001,921
Domestic Stock Large Cap Core		1,996,872
Small Cap		1,249,363
General Fund Totals		**5,248,156**
Certificate of Deposit - .15% 12 month CD, maturity date March 18, 2022		264,602
Total Investments	**$**	**5,512,758**

The District invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of activities.

4. Notes Receivable

Notes Receivable consist of the following:

Note receivable, $520,000 original note dated January 8, 2015, payable in monthly installments of $3,432, including interest at 5% per annum. Note matures January 2020 when all unpaid principal and accrued interest is due. This note is secured by certain trust deed. Per modification agreement, lender removes the balloon payment requirement due at the end of January 2020. Anytime after January 2020 the lender can request payment of the balance of the note with 12 month written notice to the borrower.	$ 416,813
Note receivable $33,000 original loan dated May 15, 2019, payable in quarterly payments of $1,053 plus interest at 5% per annum. This note matures June 1, 2029, and is unsecured.	18,036
Note receivable, $230,000 original loan dated March 1, 2011, quarterly interest only payments at 5% per annum. Note matures March 1, 2026 and is unsecured.	74,000
Note receivable, $750,000 original loan dated December 23, 2016, payable in 240 monthly equal payments of $4,956, including interest at 5% per annum beginning February 2017. This note matures February 2037. Loan can be called, but no earlier than January 1, 2022. This note is unsecured.	295,419
Note receivable, $20,000 original loan dated October 2020, including interest at 0% per annum. Updated promissory note for an additional $20,000 loan dated January 2021. This note matures October 2030. This note is unsecured.	36,400
Note receivable, $8,923 original loan dated November 11, 2021, payable in monthly installments of $168, including interest at 5% per annum beginning January 2022. This note matures December 15, 2026. This note is unsecured.	8,923
TOTAL	**849,591**
Less current portion	47,074
LONG-TERM PORTION	**$ 802,517**

4. Notes Receivable (continued)

Principal repayments due on the above notes are as follows:

Year Ended December 31,		
2022	$	47,074
2023		305,072
2024		32,922
2025		34,613
2026		36,138
Thereafter		393,772
TOTAL	**$**	**849,591**

Notes Receivable and Related Interest:		
Beginning balance, January 1	$	965,522
Accrued interest earned		30,207
Principal loaned		28,923
Principal proceeds received		(144,854)
Interest proceeds received		(30,207)
TOTAL NOTES RECEIVABLE, End of year	**$**	**849,591**

5. Fixed Assets

Fixed assets consist of the following:

Cost		
Land	$	706,826
Buildings		2,139,027
Office Equipment		56,730
Vehicles		30,387
Total Fixed Assets		2,932,970
Less accumulated depreciation		323,296
Net Fixed Assets	**$**	**2,609,674**

Depreciation expense for the year ended December 31, 2021 was $43,849. Normal repair and maintenance costs are expensed as incurred.

The depreciation policies followed by the District are described in Note 2.

6. Restricted Funds

Included in investments are restricted contributions which consist of the following restrictions:

Donor Restricted Funds		
Training in Ministry (TRIM) Scholarship Funds	$	18,194
Women's Fellowship		18,122
Tucson Church Planting		891,349
Total Donor Restricted Funds	**$**	**927,665**

Net Assets Without Donor Restrictions - Board Designated Funds		
Church Planting	$	(31,912)
Ministry & Improvement		1,089,721
Growth from the Ashes Fund		1,432,406
Total Board Designated Funds	**$**	**2,490,215**

Restricted contributions receive their proportionate share of investment income or losses.

7. Pension Plan

The District has a 403(b) contributory annuity plan covering all of its full-time employees. Contributions to the plan are mandatory. Under the Plan the required contributions by the District are 12% of salary and by the employees 4% of their salary. Total pension expense by the District for the year ended December 31, 2021 was $18,502.

8. Concentration of Credit Risk

The District maintains its cash in bank deposit accounts which at times may exceed federally insured limits of $250,000. The District has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. At December 31, 2021, Pacific Southwest District of the Church of the Brethren had $1,124,358 in bank accounts in excess of FDIC insured limits.

The District maintains investment portfolios managed by Brethren Foundation, Inc. As of December 31, 2021, the District has invested $5,248,156 in securities. Accounts are not protected or insured by FDIC or SIPC. A loss has not been experienced, and management believes that the risk of loss due to default is remote.

The District has unsecured notes receivable with local churches totaling $432,778 as of December 31, 2021.

9. Fair Value of Financial Instruments

	Carrying Value/ Fair Value	Fair Value Measurements Using: Level One
December 31, 2021		
Investments	$ 5,248,156	$ 5,248,156

As disclosed in Note 2, investments do not include certificates of deposit in the amounts of $264,602 as of December 31, 2021. Certificates of deposit are recorded at cost and therefore are not subject to the provisions of fair value measurements.

U.S GAAP defines fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level One inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level Two input consist of observable inputs other than quoted prices for identical assets, and Level Three inputs have the lowest priority. The District uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the District measures fair value using Level One input because they generally provide the most reliable evidence of fair value. Level Three inputs are only used when Level One or Level Two inputs are not available.

Level One Inputs – The fair value of investments, which include marketable securities, is based on quoted market values at year-end. The following table provides further detail of Level One fair value measurement:

Investment Activity:	
Beginning balance, 1/1/21	$ 4,894,997
Deposits	-
Disbursements	(715,639)
Interest/Dividends	63,465
Investment fees	(25,238)
Market change, net of fees	1,030,571
Balance, End of Year	**$ 5,248,156**

10. Financial Assets Available

The District's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Financial assets at year end:	
Cash and cash equivalents	$ 1,452,132
Investments	5,512,758
Notes receivable, current portion	47,074
Total financial assets available	7,011,964
Less amounts not available to be used within one year:	
Net assets with donor restrictions	927,665
Less net assets with purpose restrictions to be met in less than one year	-
Board designated restrictions	2,490,215
Total financial assets not available	3,417,880
Financial assets available to meet general expenditures over the next months	$ 3,594,084

11. Subsequent Events

The District has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2021, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 25, 2022, the date these financial statements were available to be issued.