

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT**

JANUARY 31, 2025 AND 2024

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA

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INDEPENDENT AUDITORS' REPORT

To the Council of
Southeastern Minnesota Synod of the ELCA
Northfield, Minnesota

Opinion

We have audited the financial statements of Southeastern Minnesota Synod of the ELCA (a nonprofit organization) which comprise the statements of financial position as of January 31, 2025 and 2024, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Southeastern Minnesota Synod of the ELCA as of January 31, 2025 and 2024, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeastern Minnesota Synod of the ELCA's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibility 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 auditors' 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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 GAAS, 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 Southeastern Minnesota Synod of the ELCA'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 Southeastern Minnesota Synod of the ELCA'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.



Rochester, Minnesota
June 5, 2025

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
STATEMENTS OF FINANCIAL POSITION

	JANUARY 31,	
	2025	2024
<u>ASSETS</u>		
Cash and cash equivalents	\$ 541,364	\$ 522,445
Investments	647,723	589,228
Contributions receivable	-	9,186
Prepaid expenses	16,600	10,295
Property and equipment, net	9,919	27,457
Operating lease right-of-use asset	9,728	19,920
Endowment	312,052	302,568
	\$ 1,537,386	\$ 1,481,099
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 14,376	\$ 18,234
Deferred revenue	1,350	-
Accrued liabilities	13,094	8,661
Accrued ELCA support	76,235	70,546
Operating lease liability	9,728	19,920
Custodial funds payable	49,200	32,339
Long-term debt	-	18,095
	163,983	167,795
NET ASSETS		
Without donor restrictions	713,283	637,523
With donor restrictions	660,120	675,781
	1,373,403	1,313,304
	\$ 1,537,386	\$ 1,481,099

The accompanying notes are an integral part of these statements.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
STATEMENTS OF ACTIVITIES

YEAR ENDED JANUARY 31,

	2025			2024		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE AND SUPPORT						
Mission support	\$ 1,548,412	\$ -	\$ 1,548,412	\$ 1,553,673	\$ -	\$ 1,553,673
In-kind contributions	109,134	-	109,134	104,937	-	104,937
Grants and contributions	54,980	155,664	210,644	40,441	179,541	219,982
Program fees and offerings	101,075	-	101,075	82,194	-	82,194
Investment gain/(loss)	74,047	12,518	86,565	39,090	12,065	51,155
Gain on disposal of asset	5,800	-	5,800	-	-	-
Net assets released from restrictions	183,843	(183,843)	-	173,547	(173,547)	-
TOTAL REVENUE AND SUPPORT	<u>2,077,291</u>	<u>(15,661)</u>	<u>2,061,630</u>	<u>1,993,882</u>	<u>18,059</u>	<u>2,011,941</u>
EXPENSES						
Program	1,592,846	-	1,592,846	1,623,521	-	1,623,521
Management and general	319,834	-	319,834	338,779	-	338,779
Fundraising	88,851	-	88,851	4,838	-	4,838
TOTAL EXPENSES	<u>2,001,531</u>	<u>-</u>	<u>2,001,531</u>	<u>1,967,138</u>	<u>-</u>	<u>1,967,138</u>
CHANGE IN NET ASSETS	75,760	(15,661)	60,099	26,744	18,059	44,803
NET ASSETS AT BEGINNING OF YEAR	<u>637,523</u>	<u>675,781</u>	<u>1,313,304</u>	<u>610,779</u>	<u>657,722</u>	<u>1,268,501</u>
NET ASSETS AT END OF YEAR	<u>\$ 713,283</u>	<u>\$ 660,120</u>	<u>\$ 1,373,403</u>	<u>\$ 637,523</u>	<u>\$ 675,781</u>	<u>\$ 1,313,304</u>

The accompanying notes are an integral part of these statements.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JANUARY 31, 2025

	<u>MISSION SUPPORT</u>	<u>MISSION PROGRAMS</u>	<u>NUER COMMUNITY</u>	<u>TOTAL PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Personnel	\$ -	\$ 508,358	\$ 6,584	\$ 514,942	\$ 261,882	\$ 85,582	\$ 862,406
Mission support	665,817	-	-	665,817	-	-	665,817
Ministry partners	-	81,991	-	81,991	-	-	81,991
Ministry programs	-	106,463	10,000	116,463	-	-	116,463
Special projects	-	179,676	-	179,676	-	-	179,676
Office and equipment rent	-	12,834	-	12,834	1,511	754	15,099
Repairs	-	4,404	-	4,404	518	259	5,181
Telephone	-	5,562	-	5,562	654	327	6,543
Office expense	-	7,587	-	7,587	9,306	1,673	18,566
Professional fees	-	-	-	-	28,567	-	28,567
Insurance	-	-	-	-	8,683	-	8,683
Communication	-	3,570	-	3,570	1,276	256	5,102
Governance	-	-	-	-	1,991	-	1,991
Depreciation	-	-	-	-	5,446	-	5,446
TOTAL EXPENSES	<u>\$ 665,817</u>	<u>\$ 910,445</u>	<u>\$ 16,584</u>	<u>\$ 1,592,846</u>	<u>\$ 319,834</u>	<u>\$ 88,851</u>	<u>\$ 2,001,531</u>

The accompanying notes are an integral part of these statements.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JANUARY 31, 2024

	<u>MISSION SUPPORT</u>	<u>MISSION PROGRAMS</u>	<u>NUER COMMUNITY</u>	<u>TOTAL PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Personnel	\$ -	\$ 527,055	\$ -	\$ 527,055	\$ 271,514	\$ -	\$ 798,569
Mission support	668,080	-	-	668,080	-	-	668,080
Ministry partners	-	81,992	-	81,992	-	-	81,992
Ministry programs	-	108,242	-	108,242	-	-	108,242
Special projects	-	173,547	-	173,547	-	-	173,547
Office and equipment rent	-	45,264	-	45,264	5,326	2,662	53,252
Repairs	-	3,867	-	3,867	4,105	227	8,199
Telephone	-	5,919	-	5,919	696	348	6,963
Office expense	-	6,582	-	6,582	14,269	1,390	22,241
Professional fees	-	-	-	-	26,463	-	26,463
Insurance	-	-	-	-	7,846	-	7,846
Communication	-	2,973	-	2,973	1,062	211	4,246
Governance	-	-	-	-	1,131	-	1,131
Depreciation	-	-	-	-	6,367	-	6,367
TOTAL EXPENSES	<u>\$ 668,080</u>	<u>\$ 955,441</u>	<u>\$ -</u>	<u>\$ 1,623,521</u>	<u>\$ 338,779</u>	<u>\$ 4,838</u>	<u>\$ 1,967,138</u>

The accompanying notes are an integral part of these statements.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
STATEMENTS OF CASH FLOWS

	YEAR ENDED JANUARY 31,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 60,099	\$ 44,803
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	5,446	6,367
Loss (gain) disposal of assets	(5,800)	-
Unrealized loss (gain) on investments	(51,190)	(19,549)
Decrease (increase) in assets		
Contributions receivable	9,186	(2,435)
Prepaid expenses	(6,305)	(490)
Operating lease right-of-use asset	10,192	(19,920)
Increase (decrease) in liabilities		
Accounts payable	(3,858)	9,374
Deferred revenue	1,350	-
Accrued liabilities	4,433	(4,451)
Accrued ELCA support	5,689	(57,536)
Operating lease liability	(10,192)	19,920
Custodial funds payable	16,861	(31,058)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	35,911	(54,975)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(16,789)	(13,681)
Proceeds from disposal of property and equipment	17,892	-
Purchase of property and equipment	-	(10,691)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,103	(24,372)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(18,095)	(6,134)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(18,095)	(6,134)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	18,919	(85,481)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	522,445	607,926
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 541,364	\$ 522,445
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 424	\$ 800

The accompanying notes are an integral part of these statements.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2025 AND 2024

NOTE 1 - Nature of Organization and Significant Accounting Policies

Nature of Organization - Southeastern Minnesota Synod of the ELCA (the "Synod") is a Minnesota nonprofit corporation with its office located in Northfield, Minnesota. It is organized to oversee the life and mission of the Evangelical Lutheran Church in America in Southeastern Minnesota. The Synod receives most of its revenue through donations.

Basis of Accounting - The financial statements of the Synod have been prepared on the accrual basis of accounting and, accordingly, reflect all receivables, payables and other liabilities.

Basis of Presentation - The accompanying financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) as codified by the Financial Accounting Standards Board.

The Synod is required to report information regarding its net assets and its activities based on the existence or absence of donor or grantor 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.

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 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.

Cash and Cash Equivalents - The Synod's cash and cash equivalents consist of cash on deposit with banks. For purposes of the statements of cash flows, the Synod considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents. However, the Synod does not consider cash, money market accounts, or certificates of deposits included as investments to be cash equivalents for the statements of cash flows.

Contributions Receivable - Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge of the valuation allowance and a credit to accounts receivable. Management believes all receivables are collectible; accordingly, no allowance has been recorded. The Synod's contributions receivable as of February 1, 2023 were \$6,751.

Investments - Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position. Certificates of deposits are carried at cost, which approximates fair value. The aggregate of (a) the unrealized appreciation (depreciation) in the fair value of investments during the year (b) the realized gains (losses) on sales of investments during the year (c) dividend income (d) interest income, and (e) investment fees are reflected in investment return on the statements of activities. Purchases and sales of securities are recorded on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Dividends are recorded on the ex-dividend date.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Investments - Continued - Investment return restricted by donors is reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized.

Property and Equipment - All acquisitions of property and equipment in excess of \$2,000 with useful lives greater than one year are capitalized. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method based on the following estimated useful lives:

<u>Asset</u>	<u>Life</u>
Furniture and equipment	5 - 7 years
Leasehold improvements	5 - 15 years
Vehicles	5 years

Valuation of Long-lived Assets - U.S. GAAP requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No assets are considered to be impaired at January 31, 2025 and 2024.

Revenue Recognition - The Synod records the following exchange transaction revenue in its statement of activities and changes in net assets:

Program Fees: Program fees consist of revenues from admission to Synod programs or events. Admissions to a program or event may consist of one or more performance obligations depending on the number of sessions included in the event or program and are recognized when attendance to the program or event is offered to the participant. Most events and programs are offered as annual events or programs with payment typically required prior to admission to the event or program.

Contribution Recognition - Contributions are recognized when received or unconditionally pledged. Conditional contributions and promises to give, are recognized as revenue when the barriers to entitlement are overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets is removed. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.

Contributions restricted by donors are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. Contributions that are not restricted by the donor are reported as an increase in net assets without donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Grant Recognition - Grants are either recorded as contributions or exchange transactions based on criteria contained in the grant award:

Grant awards that are contributions - Grant awards that are contributions are evaluated for conditions and recognized as revenue when conditions in the award are satisfied. Unconditional awards are recognized as revenue when the award is received. Amounts received in which conditions have not been met are reported as a refundable advance liability.

Grant awards that are exchange transactions - Exchange transactions are those in which the resource provider or grantor receives a commensurate value in exchange for goods or services transferred. Revenue is recognized when control of the promised goods or services is transferred to the customer (grantor) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Amounts received in excess of recognized revenue are reflected as a contract liability.

In-Kind Contributions - The Synod records the value of donated goods when there is an objective basis to measure the value. Donated goods are reflected as in-kind contribution revenue in the accompanying statements of activities.

Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills that are performed by people with those skills and would otherwise be purchased by the Synod. Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution.

A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these financial statements because the criteria for recognition have not been satisfied.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited. Those expenses include occupancy, professional services, and certain office expenses, which are allocated based on estimates of time and usage as determined by managements estimate of time and usage.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Tax Status - The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction and has been classified as an organization other than a private foundation under Section 509(a). The Organization is also exempt from State taxation.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 1 - Nature of Organization and Significant Accounting Policies - Continued

Accounting for Uncertainty in Income Taxes - U.S. GAAP requires management to evaluate tax positions taken by the Synod and recognize a tax liability (or asset) if the Synod has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Synod and has concluded that as of January 31, 2025 and 2024, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Synod is subject to routine audits by taxing jurisdictions, however, there are currently no audits in progress for any tax period. The Synod will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Subsequent event - The Synod evaluated subsequent events through June 5, 2025, the date which the financial statements were available to be issued.

NOTE 2 - Concentration of Cash and Credit Risk

The Synod may have deposits with a financial institution at times during the year that exceed the Federal Deposit Insurance Corporation (FDIC) insurance threshold of \$250,000. The amount of the accounting loss that the Synod would have incurred had the financial institution not been able to return monies in excess of \$250,000 amounted to \$288,676 and \$269,368 as of January 31, 2025 and 2024, respectively. The Organization does not require collateral or other security to support deposits subject to this credit risk.

NOTE 3 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2025	2024
Cash and cash equivalents	\$ 541,364	\$ 522,445
Investments	647,723	589,228
Contributions receivable	-	9,186
Endowment funds	312,052	302,568
Total financial assets available within one year	1,501,139	1,423,427
Less amounts not available for general expenditure within one year:		
Net assets with donor restrictions	660,120	675,781
Total financial assets available to management for general expenditure within one year	\$ 841,019	\$ 747,646

Liquidity Management

The Synod maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 4 - Investments and Endowment

Investments and endowment consisted of the following at January 31:

	<u>2025</u>	<u>2024</u>
Certificates of deposit	\$ 108,753	\$ 106,221
Mutual funds	156,127	150,357
Beneficial interest in trust	<u>694,895</u>	<u>635,218</u>
TOTALS	<u>\$ 959,775</u>	<u>\$ 891,796</u>

The Synod holds a beneficial interest in the ELCA Endowment Fund Pooled Trust. The Trust will hold and administer the fund subject to the provisions of their Articles and By-laws and will charge administrative fees. Distributions from the fund will be made in accordance with the Trust's distribution policy and all distributions will be used to support the Synod's program services.

NOTE 5 - Property and Equipment

Property and equipment consisted of the following at January 31:

	<u>2025</u>	<u>2024</u>
Furniture and equipment	\$ 11,498	\$ 11,498
Leasehold improvements	10,691	10,691
Vehicles	<u>-</u>	<u>31,547</u>
	22,189	53,736
Less: accumulated depreciation	<u>(12,270)</u>	<u>(26,279)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 9,919</u>	<u>\$ 27,457</u>

NOTE 6 - Fair Value Measurements

The Synod has determined the fair value of certain assets and liabilities in accordance with the provisions of U.S. GAAP, which provides a framework for measuring fair value under generally accepted accounting principles.

U.S. GAAP defines fair value as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting Synod has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

The asset's fair value measurement within the fair value hierarchy is based on the lowest of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at January 31, 2025 and 2024.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 6 - Fair Value Measurements - Continued

Beneficial interest in trust: Valued at the estimated fair value of the underlying trust assets.

The method described above may produce a fair value calculation that may be indicative of net realizable value or reflective of future fair values. Furthermore, while the Synod believes its valuation method is appropriate and consistent with other market participants, the use of a different methodology or assumption to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Synod's assets at fair value on a recurring basis as of January 31, 2025 and 2024.

	JANUARY 31, 2025	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Certificates of deposit	\$ 108,753	\$ 108,753	\$ -	\$ -
Mutual funds	156,127	156,127	-	-
Beneficial interest in trust	694,895	-	-	694,895
TOTALS	<u>\$ 959,775</u>	<u>\$ 264,880</u>	<u>\$ -</u>	<u>\$ 694,895</u>

	JANUARY 31, 2024	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Certificates of deposit	\$ 106,221	\$ 106,221	\$ -	\$ -
Mutual funds	150,357	150,357	-	-
Beneficial interest in trust	635,218	-	-	635,218
TOTALS	<u>\$ 891,796</u>	<u>\$ 256,578</u>	<u>\$ -</u>	<u>\$ 635,218</u>

The following is a reconciliation of activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

Beneficial interest in trust

	2025	2024
Balance, beginning of year	\$ 635,218	\$ 609,663
Investment income, net of fees	25,239	24,327
Withdrawals	(18,447)	(17,780)
Unrealized gain	52,885	19,008
Balance, end of year	<u>\$ 694,895</u>	<u>\$ 635,218</u>

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 7 - Custodial Funds Payable

Certain monies received by the Synod from congregations are designated for specific programs administered by the ELCA home office in Chicago. These monies are forwarded in full to the ELCA and have not been included in the Statements of Activities for the years ended January 31, 2025 and 2024.

	2025	2024
Amounts received and transmitted		
Missionaries	\$ 22,169	\$ 40,072
World hunger	113,580	148,228
	\$ 135,749	\$ 188,300
 Total received, not disbursed	 \$ 49,200	 \$ 32,339

NOTE 8 - Leases

The Synod leases certain office facilities and equipment for various terms under short-term and long-term operating lease agreements. The leases expire at various dates through 2025 and certain leases provide for the renewal option of one-year lease terms. The Synod included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments based on a defined schedule or index.

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Synod elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate.

The Synod has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Total lease expense is as follows for the years ended January 31:

	2025	2024
Operating lease expense	\$ 10,800	\$ 900
Short-term lease expense	4,299	52,352
TOTAL	\$ 15,099	\$ 53,252

Other lease information is as follows for the years ended January 31:

	2025	2024
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 10,800	\$ 900
Right-of-use assets obtained in exchange for new lease liabilities		
Operating lease liabilities	-	20,760
Weighted-average remaining lease term in years		
Operating leases	0.92	1.92
Weighted-average discount rate		
Operating leases	4.23%	4.23%

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 8 - Leases - Continued

The future minimum lease payments under operating leases are as follows as of January 31:

2026		\$ 9,900
Total minimum lease payments		9,900
Less amounts representing interest		(172)
TOTAL LEASE LIABILITIES		<u>\$ 9,728</u>

NOTE 9 - Long-Term Debt

The Synod's notes payable are as follows at January 31:

	<u>2025</u>	<u>2024</u>
Note payable with monthly installments including interest of 3.74% of \$578, beginning November 2021 collateralized by a vehicle, due October 2026. Balance was paid off in 2025 using insurance proceeds due to the vehicle being totaled.	<u>\$ -</u>	<u>\$ 18,095</u>

NOTE 10 - Net Assets

Net assets with donor restrictions are restricted for the following purposes at January 31:

	<u>2025</u>	<u>2024</u>
Subject to expenditure for specified purpose:		
Roster leader CE	\$ 15,408	\$ 14,663
Companion synod - Tanzania	53,728	44,569
Companion synod - Columbia	74,908	94,438
Companion synod - South Sudan	35,320	39,763
SE MN synod food ministry grant	3,933	2,600
Holy Spirit fund	25,130	23,029
Disaster response	4,493	4,493
Grants	17,623	12,353
Scholarships	<u>117,525</u>	<u>137,305</u>
	<u>348,068</u>	<u>373,213</u>
Endowments		
Amount required to be held in perpetuity	251,000	251,000
Earnings subject to appropriation and expenditure for specified purpose:		
Children, family, and youth	<u>61,052</u>	<u>51,568</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 660,120</u>	<u>\$ 675,781</u>

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 10 - Net Assets - Continued

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended January 31, 2025 and 2024:

	2025	2024
Satisfaction of purpose restrictions:		
Roster leader CE	\$ 350	\$ 3,000
Companion synod – Tanzania	44,100	65,770
Companion synod – Columbia	68,664	52,411
Companion synod – South Sudan	4,843	1,500
SE MN synod food ministry grant	2,500	3,000
Holy Spirit fund	-	6,000
Grants	109	15,002
Scholarships	56,076	26,778
Children, family and youth	3,034	86
Nuer community	4,167	-
TOTAL RESTRICTIONS RELEASED	\$ 183,843	\$ 173,547

NOTE 11 - Endowment Funds

The Southeastern Minnesota Synod of the ELCA's endowment fund consists of donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence of or absence of donor-imposed restrictions.

Interpretation of the Law - The Council of the Synod has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Synod classifies as net assets without donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Synod in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Synod considers 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 purpose of the Synod 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 Synod
7. The investment policies of the Synod

The Synod has adopted investment and spending policies, approved by the Synod Council, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Synod's spending and investment policies work together to achieve this objective.

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 11 - Endowment Funds - Continued

The investment policy establishes an achievable return objective through a diversified portfolio of publicly-traded domestic and U.S dollar-denominated foreign fixed income and equity securities. The current long-term return objective is to provide stable income which grows over time approximately in line with the expected long-term rate of inflation. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Synod relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Endowment Net Asset Composition by Type of Fund as of January 31, 2025:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity by donors	\$ -	\$ 251,000	\$ 251,000
Accumulated investment gains	<u>-</u>	<u>61,052</u>	<u>61,052</u>
TOTAL	<u>\$ -</u>	<u>\$ 312,052</u>	<u>\$ 312,052</u>

Endowment Net Asset Composition by Type of Fund as of January 31, 2024:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor-restricted endowment funds:			
Original donor-restricted gift and amounts required to be maintained in perpetuity by donors	\$ -	\$ 251,000	\$ 251,000
Accumulated investment gains	<u>-</u>	<u>51,568</u>	<u>51,568</u>
TOTAL	<u>\$ -</u>	<u>\$ 302,568</u>	<u>\$ 302,568</u>

Changes in Endowment Net Assets for the Year Ended January 31, 2025:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 302,568	\$ 302,568
Investment return	-	12,518	12,518
Releases	<u>-</u>	<u>(3,034)</u>	<u>(3,034)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 312,052</u>	<u>\$ 312,052</u>

Changes in Endowment Net Assets for the Year Ended January 31, 2024:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 290,589	\$ 290,589
Investment return	-	12,065	12,065
Releases	<u>-</u>	<u>(86)</u>	<u>(86)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 302,568</u>	<u>\$ 302,568</u>

SOUTHEASTERN MINNESOTA SYNOD OF THE ELCA
NOTES TO FINANCIAL STATEMENTS - Continued
JANUARY 31, 2025 AND 2024

NOTE 12 - Pension Plan

Substantially all employees are enrolled in a non-contributory defined contribution pension plan administered by Portico Benefit Services of Evangelical Lutheran Church in America. All contributions are funded on a current basis. Employer contributions for the year ended January 31, 2025 and 2024 totaled \$48,659 and \$46,182, respectively.

NOTE 13 - In-Kind Contributions

The value of donated services included as in-kind contributions in the financial statements and the corresponding expenses or assets are as follows for the years ended January 31:

	<u>2025</u>	<u>2024</u>
Contributed services	\$ 109,134	\$ 104,937

The Synod receives contributed professional services that are reported at actual cost provided by the Evangelical Lutheran Church in America.

All contributed services were utilized by the Synod's programs and supporting services. There were no donor-imposed restrictions associated with the donated services.

NOTE 14 - Risks and Uncertainties

The Synod's investments are exposed to various risks, such as interest rate, and market and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the values of investments, it is reasonably possible that changes in risks in the near term could materially affect the amounts reported in the statements of financial position and the statements of activities.

NOTE 15 - Subsequent Event

Subsequent to year end, the Synod entered into a copier lease for 36 payments of \$169. This will go into effect as of March 1, 2025.