



May 5, 2009

Nathan Stamets from Hoffman, Stewart & Schmidt, P.C. presented the results of his firm's audit of the District's 2008 financial statements to the Northwest District Board of Directors at their April meeting. Nathan indicated that his firm has issued an unqualified opinion with respect to the District's 2008 financial statements and elaborated further to explain that this meant that based on the audit, it is the firm's opinion that the District's 2008 financial statements are fairly stated in all material respects in accordance with accounting principles generally accepted in the United States. This is the highest level of assurance that a CPA firm can give relating to a set of financial statements.

Stamets then outlined in general terms some of the procedures that are performed and processes that are undertaken as part of the audit. Board discussion and questions followed relating to this.

The major components of the District's 2008 financial statements were then reviewed and compared to like components in the District's financial statements for 2005, 2006, and 2007. Trends were identified and variances were explained. During this part of the presentation it was noted that supporting services expenses as presented on the 2008 financial statements (sometimes referred to as overhead) as a percentage of total expenses was approximately 25%. Stamets indicated that some nonprofit watchdog agencies review this percentage to evaluate the utilization of an organization's expenses for its program service purposes. One such agency, the Wise Giving Alliance of the Better Business Bureau, has indicated that this percentage should be lower than 35%. Lastly, Stamets indicated that the audit process was very smooth. His firm received the full cooperation of District management.

Peace in Christ,

Martha Conboy

Martha Conboy
Business Manager
Northwest District - LCMS

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH -
MISSOURI SYNOD**

FINANCIAL STATEMENTS

Year Ended December 31, 2008

with

Independent Auditors' Report

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

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Independent Auditors' Report

The Board of Directors
The Northwest District of the
Lutheran Church - Missouri Synod

We have audited the accompanying statement of financial position of The Northwest District of the Lutheran Church - Missouri Synod as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior years summarized comparative information has been derived from the District's 2007 and 2006 financial statements and, in our reports dated March 26, 2008 and April 2, 2007, respectively, we expressed unqualified opinions on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Northwest District of the Lutheran Church - Missouri Synod as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Hoffman, Stewart & Schmidt, P.C.

April 3, 2009

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Statement of Financial Position

December 31, 2008 *(With Comparative Amounts for 2007 and 2006)*

ASSETS			
	2008	2007	2006
Cash and cash equivalents	\$ 2,377,693	\$ 2,755,233	\$ 1,738,004
Accounts receivable - net of allowance for doubtful accounts of \$2,000 in 2008, 2007 and 2006	38	3,652	393
Contributions receivable <i>(Notes 2 and 19)</i>	327,427	171,790	231,190
Accrued interest receivable	4,156	5,161	7,176
Prepaid expenses	23,933	19,470	23,666
Cash surrender value of life insurance policy <i>(Note 19)</i>	44,377	46,498	39,644
Contracts receivable <i>(Note 3)</i>	201,267	131,986	127,235
Due from Lutheran Church Extension Fund <i>(Note 4)</i>	195,487	228,153	299,578
Investments <i>(Notes 5 and 19)</i>	2,678,130	1,936,729	1,716,103
Deposit	13,617	13,172	12,673
Property and equipment - net <i>(Notes 6 and 19)</i>	627,562	431,274	1,131,961
Beneficial interest in endowment funds held at Lutheran Church Missouri Synod Foundation <i>(Notes 7 and 19)</i>	232,179	289,610	291,176
	<u>\$ 6,725,866</u>	<u>\$ 6,032,728</u>	<u>\$ 5,618,799</u>

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

LIABILITIES AND NET ASSETS			
	2008	2007	2006
Liabilities:			
Accounts payable	\$ 63,324	\$ 58,285	\$ 62,371
Accrued payroll, payroll taxes, and vacation	44,008	35,305	32,719
Funds held on behalf of others	1,378,760	1,124,735	946,176
Accrued interest payable	-	-	665
Deferred revenue	788	-	-
Notes payable - Lutheran Church Extension Fund (Note 4)	195,487	228,153	299,578
Long-term debt	-	-	232,852
Total liabilities	1,682,367	1,446,478	1,574,361
Commitments (Notes 8, 13 and 16)			
Net assets:			
Unrestricted (Note 9)	3,778,316	3,453,607	2,973,090
Temporarily restricted (Note 10)	918,822	728,851	665,990
Permanently restricted (Note 11)	346,361	403,792	405,358
Total net assets	5,043,499	4,586,250	4,044,438
	<u>\$ 6,725,866</u>	<u>\$ 6,032,728</u>	<u>\$ 5,618,799</u>

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Statement of Activities

Year Ended December 31, 2008 *(With Comparative Totals for 2007 and 2006)*

	Unrestricted	Temporarily Restricted	Permanently Restricted
Support, revenue, and gains (losses):			
District congregations	\$ 2,003,711	\$ -	\$ -
Gifts and grants	32,652	517,970	-
Conventions, conferences, and workshops	244,437	-	-
Investment income <i>(Note 17)</i>	132,047	7,310	-
Reimbursement of expenses - Lutheran Church			
Extension Fund <i>(Note 14)</i>	283,850	-	-
Gain (loss) on disposal of property and equipment	(6,939)	-	-
Contribution from dissolved congregation <i>(Note 6)</i>	318,000	-	-
Change in value of beneficial interest in endowment funds held at Lutheran Church			
Missouri Synod Foundation	-	-	(57,431)
Other income	6,734	-	-
Net assets released from restrictions <i>(Note 12)</i>	335,309	(335,309)	-
Net support, revenue, and gains (losses)	3,349,801	189,971	(57,431)
Expenses:			
Synodical pledge and gifts	260,261	-	-
Program services:			
North American missions	482,281	-	-
Professional education	68,143	-	-
Congregational ministry	732,832	-	-
Mission and ministry support	701,598	-	-
Total program services	1,984,854	-	-
Supporting services:			
Operations, Lutheran Church Extension Fund	295,834	-	-
Ecclesiastical administration	408,412	-	-
Program administration	75,731	-	-
Total supporting services	779,977	-	-
Total expenses	3,025,092	-	-
Increase (decrease) in net assets	324,709	189,971	(57,431)
Net assets, beginning of year	3,453,607	728,851	403,792
Net assets, end of year	\$ 3,778,316	\$ 918,822	\$ 346,361

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

	Total		
2008	2007	2006	
\$ 2,003,711	\$ 1,990,565	\$ 2,063,944	
550,622	332,247	294,689	
244,437	156,817	275,311	
139,357	117,740	93,225	
283,850	267,376	209,281	
(6,939)	398,651	5,484	
318,000	-	-	
(57,431)	(1,566)	(3,312)	
6,734	929	19,259	
-	-	-	
3,482,341	3,262,759	2,957,881	
260,261	229,000	229,000	
482,281	577,732	607,187	
68,143	61,280	70,022	
732,832	610,549	444,682	
701,598	568,737	676,855	
1,984,854	1,818,298	1,798,746	
295,834	247,036	201,766	
408,412	368,852	285,944	
75,731	57,761	53,541	
779,977	673,649	541,251	
3,025,092	2,720,947	2,568,997	
457,249	541,812	388,884	
4,586,250	4,044,438	3,655,554	
\$ 5,043,499	\$ 4,586,250	\$ 4,044,438	

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Statement of Cash Flows

Year Ended December 31, 2008 <i>(With Comparative Totals for 2007)</i>	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 457,249	\$ 541,812
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	72,650	89,006
(Gain) loss on disposal of property and equipment	6,939	(398,651)
Realized and unrealized gain on investments	(2,957)	(5,850)
(Increase) decrease in cash surrender value of life insurance policy	2,121	(6,854)
Change in value of beneficial interest in endowment funds held at Lutheran Church Missouri Synod Foundation	57,431	1,566
Contribution from dissolved congregation	(318,000)	-
Contributed investments	(57,454)	-
(Increase) decrease in:		
Accounts receivable	3,614	(3,259)
Contributions receivable	(155,637)	59,400
Accrued interest receivable	1,005	2,015
Prepaid expenses	(4,463)	4,196
Deposit	(445)	(499)
Increase (decrease) in:		
Accounts payable	5,039	(4,086)
Accrued payroll, payroll taxes, and vacation	8,703	2,586
Funds held on behalf of others	254,025	178,559
Accrued interest payable	-	(665)
Deferred revenue	788	-
Net cash provided by operating activities - carried forward	330,608	459,276

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

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Statement of Cash Flows - Continued

Year Ended December 31, 2008 (With Comparative Totals for 2007)	2008	2007
Net cash provided by operating activities - brought forward	\$ 330,608	\$ 459,276
Cash flows from investing activities:		
Purchases of:		
Investments	(846,565)	(299,776)
Property and equipment	(75,877)	(127,241)
Proceeds from:		
Sales of investments	165,575	85,000
Contracts receivable	48,719	129,249
Sale of property and equipment	-	1,003,573
Net cash provided (used) by investing activities	(708,148)	790,805
Cash flows from financing activities:		
Payments made on long-term debt	-	(232,852)
Net cash used by financing activities	-	(232,852)
Increase (decrease) in cash and cash equivalents	(377,540)	1,017,229
Cash and cash equivalents, beginning of year	2,755,233	1,738,004
Cash and cash equivalents, end of year	\$ 2,377,693	\$ 2,755,233
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ -	\$ 5,231
Supplemental disclosure of non-cash investing activities:		
Property sold in exchange for a contract receivable	\$ -	\$ 134,000

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

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of The Northwest District of the Lutheran Church - Missouri Synod are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader:

The District - The Northwest District of the Lutheran Church - Missouri Synod was organized in 1907, as a nonprofit corporation. The objective of the District is to conserve and promote the unity of the true faith, the Christian education of its members, the extension of the kingdom of God, and the greatest possible uniformity in church practice, church customs, and the conduct of congregational affairs.

The District is one of 35 geographic Districts of the Lutheran Church - Missouri Synod, encompassing over 260 congregations in the States of Oregon, Washington, Idaho, and Alaska, and congregations in Hong Kong and Beijing, China. The District relies on donations from congregations for most of its operating income. These donations are subject to fluctuations in the economic status of the area in which the congregation is located. No provisions have been made for changes in the economic environment.

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

Cash Equivalents - The District considers currency, demand deposits, and liquid investments with a maturity at time of purchase of three months or less to be cash equivalents. However, cash equivalents do not include investments the District has both the ability and intent to hold as long-term.

Accounts Receivable - Accounts receivable are recognized as services are provided.

Allowance for Doubtful Accounts - The District uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is estimated by management based on various factors, including past history and current economic conditions.

Investments - Marketable securities and debt instruments are carried at market value. Realized and unrealized gains and losses are reflected in the statement of activities.

Investment Income and Gains - Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met, that is, a stipulated time restriction ends or a purpose restriction is accomplished, in the reporting period in which the income and gains are recognized.

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

1. Summary of Significant Accounting Policies - Continued

Property and Equipment and Depreciation - The District follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$1,000. Donated property and equipment are recorded at estimated market value at date of donation. Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings	40 years
Vehicles, furniture, office equipment and computers	1 - 10 years

Funds Held on Behalf of Others - Funds held on behalf of others represents agency funds over which the District does not have variance power.

Conditional Promises to Give - Conditional promises to give are not recorded as pledges receivable until the underlying condition has been met. At December 31, 2008, the District has received pledges from congregations of \$1,457,312 which are conditional upon the economic environment of the congregations.

Net Assets - The accompanying financial statements have been prepared to focus on the District as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of the District's net assets into three classes - unrestricted, temporarily restricted, and permanently restricted, as follows:

- *Unrestricted net assets* represent net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* represent net assets subject to donor-imposed stipulations that may or will be met by actions of the District and/or the passage of time.
- *Permanently restricted net assets* represent net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the District to use the income. The Board of Directors has interpreted Oregon State law as not requiring the original value of the gift to be maintained as the permanent endowment corpus. Realized gains, as well as net appreciation of permanent endowment funds, may be expended unless explicit donor restrictions specify other treatment.

Revenue Recognition - Contributions are recognized as support when they are received or unconditionally pledged.

The District reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

1. Summary of Significant Accounting Policies - Continued

Revenue Recognition - Continued - The District reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the District reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services - The District recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, and are provided by individuals possessing those skills, that would typically need to be purchased if not provided by donation.

Income Taxes - Income taxes are not provided for in the financial statements since the District is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The District is not classified as a private foundation.

Unemployment Benefits - The District has elected to be self-insured for unemployment benefits. A certificate of deposit in the amount of \$13,617 and \$13,172 at December 31, 2008 and 2007, respectively, has been pledged to cover potential claims from prior years.

Summarized Financial Information for 2007 and 2006 - The financial statements include certain prior-years summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the years ended December 31, 2007 and December 31, 2006, from which the summarized information was derived.

2. Contributions Receivable

The District had contributions receivable representing the following at December 31:

	2008	2007
District congregations	\$ 123,669	\$ 100,711
Future gifts receivable - Foundation	80,258	111,259
Grant receivable - Murdock Trust	<u>152,000</u>	<u>-</u>
	<u>\$ 355,927</u>	<u>\$ 211,970</u>

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

2. Contributions Receivable - Continued	2008	2007
Contributions receivable are due as follows:		
Within one year	\$ 197,669	\$ 100,711
After five years	<u>158,258</u>	<u>111,259</u>
	355,927	211,970
Less present value component	<u>(28,500)</u>	<u>(40,180)</u>
	<u><u>\$ 327,427</u></u>	<u><u>\$ 171,790</u></u>

The present value component on long-term contributions receivable is determined by the Lutheran Church Missouri Synod Foundation, a national organization that provides the above information to the District. At December 31, 2008, discount rates between 3.5 and 4.0 percent were utilized to calculate the present value discount.

3. Contracts Receivable	2008	2007
Contract receivable from a congregation, payable in monthly installments of \$1,000, including interest at 6.0 percent per annum. Due February, 2012. The contract is secured by the congregation's property.	\$ 85,593	\$ 131,986
Contract receivable from an individual payable in monthly installments of \$1,955, including interest at 6.0 percent per annum. Due November, 2014. The contract is secured by the individual's property.	<u>115,674</u>	<u>-</u>
	<u><u>\$ 201,267</u></u>	<u><u>\$ 131,986</u></u>

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

3. Contracts Receivable - Continued

Future principal maturities on the above contracts at December 31, 2008 are as follows:

Years Ending December 31,	Amount
2009	\$ 24,200
2010	25,563
2011	27,140
2012	83,351
2013	21,594
2014	<u>19,419</u>
	<u>\$ 201,267</u>

4. Due From the Lutheran Church Extension Fund

Pursuant to an agreement between the District and the Lutheran Church Extension Fund (LCEF), dated May 15, 1990, the District transferred to LCEF all rights, title, and interest in its Church Extension Fund assets, subject to the debts and liabilities of the Church Extension Fund. Under the terms of this agreement, LCEF will continue Church Extension operations in the District on the District's behalf. The District agreed not to issue any investment obligations after the date of the agreement.

As explained in the addendum to the agreement referenced above, LCEF offered holders of the District Church Extension Fund obligations the right to exchange their holdings for LCEF obligations. Commencing on the effective date, LCEF agreed to pay principal and interest on all obligations and was actually liable to investors who accepted the exchange offer.

LCEF is indebted to the District in an amount equal to the aggregate amount of obligations which are not exchanged, but is not actually nor contingently liable to these investors. The District will remain primarily liable to nontendering investors who did not accept the exchange offer. The District was actually liable to investors in the amount of \$195,487 and \$228,153 at December 31, 2008 and 2007, respectively.

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

5. Investments

The District places most long-term investments with the Lutheran Church Extension Fund (LCEF). As a matter of policy, long-term investments not placed with LCEF are invested in such a manner as to provide for safety of the corpus while providing modest income to help support mission and ministry operations. Investments are summarized as follows:

	2008		2007	
	Cost	Market	Cost	Market
Unrestricted:				
U.S. Treasury Notes	\$ 244,134	\$ 243,500	\$ 240,065	\$ 233,276
Marketable debt securities	-	-	28,248	25,088
Municipal bonds	79,903	74,219	90,947	88,363
Lutheran Church Extension Fund debt instruments	<u>2,028,508</u>	<u>2,028,508</u>	<u>1,276,901</u>	<u>1,276,901</u>
	2,352,545	2,346,227	1,636,161	1,623,628
Temporarily restricted:				
Lutheran Church Extension Fund debt instruments	217,721	217,721	198,919	198,919
Permanently restricted:				
Lutheran Church Extension Fund debt instruments	<u>114,182</u>	<u>114,182</u>	<u>114,182</u>	<u>114,182</u>
Total	<u>\$ 2,684,448</u>	<u>\$ 2,678,130</u>	<u>\$ 1,949,262</u>	<u>\$ 1,936,729</u>

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

6. Property and Equipment

2008	Cost	Accumulated Depreciation	Net Book Value
Land and buildings	\$ 609,477	\$ 397,075	\$ 212,402
Vehicles	273,677	143,227	130,450
Furniture and fixtures	90,493	63,108	27,385
Office equipment	85,275	62,135	23,140
Computers	183,300	149,115	34,185
Othello, Washington - property held for sale ^A	<u>200,000</u>	<u>-</u>	<u>200,000</u>
	<u>\$ 1,442,222</u>	<u>\$ 814,660</u>	<u>\$ 627,562</u>
2007			
Land and buildings	\$ 588,462	\$ 389,486	\$ 198,976
Vehicles	265,351	106,988	158,363
Furniture and fixtures	84,521	61,276	23,245
Office equipment	88,193	71,595	16,598
Computers	<u>172,782</u>	<u>138,690</u>	<u>34,092</u>
	<u>\$ 1,199,309</u>	<u>\$ 768,035</u>	<u>\$ 431,274</u>

^A During 2008, the District was conveyed the Othello, Washington property with an estimated fair value of \$200,000 through the dissolution of a congregation. There is no related debt to the property. The District intends to sell the property and during 2009 hired a real estate agent to facilitate in this process. Along with the property, the District acquired a contract receivable that was due to the congregation in the amount of \$118,000 (Note 3). In total, the District acquired assets with a fair value of \$318,000 from the dissolved congregation.

**7. Beneficial Interest in Endowment Funds Held at
Lutheran Church Missouri Synod Foundation**

The District has a beneficial interest in three endowment funds that are held and administered by Lutheran Church Missouri Synod Foundation (LCMS Foundation). Under the terms of the agreements, the District receives periodic distributions from LCMS Foundation and retains an irrevocable right to such future distributions. The District has recorded its interest in these endowment funds as a component of the permanently restricted net asset class, since the District does not have access to the principal of the endowment funds. The interest has been recorded using the fair value of each endowment fund multiplied by the District's percentage interest in each as follows:

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

**7. Beneficial Interest in Endowment Funds Held at
Lutheran Church Missouri Synod Foundation - Continued**

2008	Value at December 31,	Percentage Interest	Beneficial Interest
Henry Alvin Endowment Fund	\$ 38,251	20%	\$ 7,650
Marie Pearman Endowment Fund	666,764	33%	222,255
Edna Pear French Endowment Fund	7,579	30%	<u>2,274</u>
Total beneficial interest at December 31, 2008			<u>\$ 232,179</u>
2007			
Henry Alvin Endowment Fund	\$ 47,713	20%	\$ 9,543
Marie Pearman Endowment Fund	831,695	33%	277,232
Edna Pear French Endowment Fund	9,451	30%	<u>2,835</u>
Total beneficial interest at December 31, 2007			<u>\$ 289,610</u>

In accordance with the endowment agreement, distributions from the Marie Pearman Endowment Fund are restricted for scholarships to be awarded by the District.

8. Line of Credit

The District has an unsecured line of credit available through the Lutheran Church Extension Fund. Under the line of credit agreement, the District may borrow up to a percentage of its net assets (\$289,102 at December 31, 2008) with interest at LCEF's Cost of Funds plus 2 percent per annum (6.38 percent at December 31, 2008). There were no borrowings on the line of credit as of December 31, 2008 and 2007.

9. Unrestricted Net Assets

	2008	2007
Board designated funds for mission and ministry support services (<i>Note 20</i>)	\$ 90,213	\$ 90,213
Board designated "Kingdom Fund"	317,719	346,727
Undesignated	<u>3,370,384</u>	<u>3,016,667</u>
	<u>\$ 3,778,316</u>	<u>\$ 3,453,607</u>

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

10. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2008	2007
Circuit 10 Missions/Ministry	\$ 29,929	\$ 29,929
Future Gifts Receivable - Foundation	51,758	71,079
China Connection - Beijing Ministry	14,682	17,083
Professional Church Worker Trust	145,679	142,331
LCEF - Operating Results	95,837	32,290
 Marie Pearman Endowment Fund - unspent distributions	 126,825	 113,411
DELTO	5,790	5,790
Agape Renovation	4,605	12,105
WA/OR Circuit Rider	8,926	8,926
Africa Project	10,833	10,833
 Murdock Trust - assist Pacific Northwest Schools Youth	 224,000 -	 - 5,000
Student Aid	-	28,822
Deaf Media Project	10,643	10,643
Youth Outreach	22,932	22,932
 Mission Projects	 12,156	 15,994
Lay Ministry - Scholarships	3,067	15,567
Lay Ministry - Tracking the Spirit	4,400	4,400
Triennium Offering	9,650	9,650
Stanwich Estate	3,981	3,981
 Yared Halche Synod	 3,964	 3,964
Center for Prayer Renewal	9,606	8,151
Tracking the Spirit	14,977	35,250
LCMS Igniter	4,000	4,000
Luthans Memorial	3,200	4,200
 LCEF - Ruecker	 5,000	 5,000
Campbell Trust	33,123	29,807
Sowing the Future	40,921	50,921
PROS - India	5,000	14,600
Other	13,338	12,192
	<u>\$ 918,822</u>	<u>\$ 728,851</u>

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

11. Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	2008	2007
Endowment funds held by the District restricted to be invested in perpetuity <i>(Note 20)</i>	\$ 114,182	\$ 114,182
Beneficial interest in endowment funds held by Lutheran Church Missouri Synod Foundation	<u>232,179</u>	<u>289,610</u>
	<u>\$ 346,361</u>	<u>\$ 403,792</u>

Currently, the income from funds held by the District restricted to be invested in perpetuity is expendable for professional education and support.

12. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

Mission and ministry support	<u>\$ 335,309</u>
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13. Retirement Plans

The District participates in the Worker Benefit Plan of the Lutheran Church - Missouri Synod. Substantially all full-time employees are covered by these retirement and survivor programs. The District contributes a fixed percentage of each participant's salary to the Plan. Retirement and survivor program expenses for the year ended December 31, 2008 totaled \$65,581 and \$19,838, respectively. Retirement and survivor program expenses for the year ended December 31, 2007 totaled \$49,225 and \$16,289, respectively.

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

14. Agreement with the Lutheran Church Extension Fund

In accordance with an agreement with the Lutheran Church Extension Fund, LCEF agreed to reimburse the District for certain expenses incurred by the District in providing facilities and services to LCEF as well as for promotion and coordination expenses for the church extension program.

The agreement, which is subject to renegotiation each July 1, requires LCEF to pay the District a fixed amount monthly, plus reimbursement of certain other stipulated expenditures.

The amount received by the District in connection with this agreement during the years ended December 31, 2008 and 2007 was \$283,850 and \$267,376, respectively.

15. Related-Party Transactions

The Lutheran Church Extension Fund (LCEF) is a financial management organization that is operated by the Lutheran Church - Missouri Synod. As described in *Note 1*, the District is part of the Lutheran Church - Missouri Synod. The District places most of its long-term investments with LCEF and has entered into a number of other financing transactions with LCEF, all of which are considered related-party transactions.

16. Lease Commitments

The District leases equipment under various noncancelable operating leases expiring through June, 2012.

Future minimum lease commitments under the noncancelable operating leases at December 31, 2008 are as follows:

Years Ending December 31,	Amount
2009	\$ 19,392
2010	19,392
2011	15,165
2012	<u>1,242</u>
	<u>\$ 55,191</u>

Total rent expense for the years ended December 31, 2008 and 2007 was \$19,892 and \$23,680, respectively.

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

16. Lease Commitments - Continued

In January, 2003, the District co-signed a lease with the Christ Community LCMS congregation. Monthly rent is due in the amount of \$5,627, to be paid by the congregation. The District will be released from the commitment of this lease when the lease expires. The lease will expire April, 2009.

17. Investment Income	2008	2007
Interest income	\$ 136,400	\$ 111,890
Realized and unrealized gain	<u>2,957</u>	<u>5,850</u>
	<u>\$ 139,357</u>	<u>\$ 117,740</u>

18. Financial Instruments with Concentrations of Risk

Financial instruments that potentially subject the District to concentrations of risk consist primarily of cash equivalents and investments. At December 31, 2008 and 2007, cash equivalents include bank deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurable limits. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility 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 that such changes could materially affect account balances and the amounts reported in the financial statements.

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

19. Fair Value Measurements

Assets measured at fair value on a recurring basis along with how fair value was determined are as follows at December 31, 2008:

	Quoted Prices in Active Markets (Level I)	Other Observable Inputs (Level II)	Total
Contributions receivable	\$ -	\$ 327,427	\$ 327,427
Cash surrender value of life insurance policy	-	44,377	44,377
Investments	2,678,130	-	2,678,130
Beneficial interest in endowment funds held at Lutheran Church Missouri Synod Foundation	-	232,179	232,179
Property and equipment - property held for sale	-	200,000	200,000
	<u>\$ 2,678,130</u>	<u>\$ 803,983</u>	<u>\$ 3,482,113</u>

For contributions receivable, fair value is estimated as the present value of future cash inflows based on a discount rate described in *Note 2*. The cash surrender value of life insurance policy is also estimated as the present value of future cash inflows based on calculations provided by the insurance company. Fair values for both investments and the beneficial interest in endowment funds held at Lutheran Church Missouri Synod Foundation is determined by reference to quoted market prices as well as other relevant information generated by market transactions. Fair value for the property held for sale described in *Note 6* has been established using information gathered from real estate professionals in the region where the property is located, which is mostly based on comparable market transactions. Management believes this is the best estimate of the fair value of this property at the year ended December 31, 2008.

Fair values of the District's other financial instruments approximate their carrying amounts, either because the expected collection or payment period is relatively short, or because the terms are similar to market terms.

**THE NORTHWEST DISTRICT OF
THE LUTHERAN CHURCH - MISSOURI SYNOD**

Notes to Financial Statements - Continued

20. Endowment

The District's endowment consists solely of permanently restricted net assets (*Note 11*). No unrestricted or temporarily restricted net assets were functioning as an endowment for 2008 or 2007. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the District 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 fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the District classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the District in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the District considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the District and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the District
- The investment policies of the District

The District has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs without subjecting those assets to investment risk. As such, The District's endowment assets have been invested solely in Lutheran Church Extension Fund debt instruments described in *Note 5*. The District has a policy for appropriating for expenditure each year the amount of interest income actually earned by the endowment assets.