

***NORTH AMERICAN LUTHERAN CHURCH  
NEW BRIGHTON, MINNESOTA***

***FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2012***

## CONTENTS

	<b>Page</b>
Independent Auditor's Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-14

**INDEPENDENT AUDITOR'S REPORT**

Executive Council  
North American Lutheran Church  
New Brighton, Minnesota

We have audited the accompanying financial statements of the North American Lutheran Church (a nonprofit organization) as of December 31, 2012, which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North American Lutheran Church as of December 31, 2012, 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.

**Report of Summarized Comparative Information**

We have previously audited the North American Lutheran Church's 2011 financial statements, and our report dated October 4, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Shidell & Mair, PLLP*

June 9, 2014  
St. Paul, Minnesota

**NORTH AMERICAN LUTHERAN CHURCH**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2012**

(With summarized information for the year ended December 31, 2011)

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 1,878,130	\$ 1,417,806
Refunds receivable	5,472	750
Due from related organization	21,183	
Prepaid expenses	16,354	6,500
Furniture, equipment and computers, net	50,684	18,474
Total assets	<u>1,971,823</u>	<u>\$ 1,443,530</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 4,062	\$ 22,086
Due to related organization		13,959
Accrued compensation	31,260	20,674
Due to others	36,251	1,000
Total liabilities	<u>71,573</u>	<u>57,719</u>
 <b>Net Assets</b>		
Unrestricted		
Designated	1,157,469	757,469
Undesignated	567,691	546,021
Total unrestricted net assets	1,725,160	1,303,490
Temporarily restricted	175,090	82,321
Total net assets	<u>1,900,250</u>	<u>1,385,811</u>
Total liabilities and net assets	<u>\$ 1,971,823</u>	<u>\$ 1,443,530</u>

See notes to the financial statements

**NORTH AMERICAN LUTHERAN CHURCH**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(With summarized information of the year ended December 31, 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
<b>Revenue, gains and other support:</b>				
<b>Contributions</b>				
Individuals	\$ 78,287		\$ 78,287	\$ 71,932
Congregations	1,220,258	222,903	1,443,161	946,366
Bequests	349,712		349,712	
Total public support and revenue	1,648,257	222,903	1,871,160	1,018,298
<b>Other Revenue</b>				
Service fees	8,853		8,853	11,930
Investment revenue	2,216		2,216	1,276
Registrations	93,534		93,534	82,015
Total other revenue	104,603		104,603	95,221
Total revenue, gains and other support	1,752,860	222,903	1,975,763	1,113,519
Net assets released from restrictions	130,134	(130,134)		
Total revenue and reclassifications	1,882,994	92,769	1,975,763	1,113,519
<b>Expenses:</b>				
<b>Program Activities:</b>				
Missions and Evangelism	292,683		292,683	126,600
Theological Education and Clergy	172,176		172,176	121,392
Congregational Services	198,461		198,461	164,057
Ecumenical and Inter-Lutheran	156,154		156,154	61,202
Convocation / Conferences	245,017		245,017	116,031
Mission Districts	72,578		72,578	
Communications	99,663		99,663	61,844
Total Program activities	1,236,732		1,236,732	651,126
<b>Support Activities:</b>				
Management and general	224,592		224,592	174,744
Total support activities	224,592		224,592	174,744
Total program and support activities	1,461,324		1,461,324	825,870
<b>Change in net assets</b>	421,670	92,769	514,439	287,649
<b>Net Assets, beginning of period</b>	1,303,490	82,321	1,385,811	1,098,162
<b>Net Assets, end of period</b>	\$ 1,725,160	\$ 175,090	\$ 1,900,250	\$ 1,385,811

See notes to the financial statements

**NORTH AMERICAN LUTHERAN CHURCH  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2012**  
(With summarized information for the year ended December 31, 2011)

	2012										2011	
	Program Activities					Support Activities						
	Missions and Evangelism	Theological Education and Clergy	Congregational Services	Ecumenical and Inter-Lutheran	Convocation / Conferences	Communications	Mission Districts	Total Program Expenses	Management and General	Total Support Expenses	Total Functional Expenses	Total Functional Expenses
<b>Functional expenses</b>												
Salaries	\$ 64,171	\$ 67,426	\$ 92,076	\$ 72,780	\$ 74,758	\$ 43,003	\$ 34,911	\$ 449,125	\$ 77,712	\$ 77,712	\$ 526,837	\$ 278,765
Contract salaries		2,000				12,000		14,000			14,000	16,500
Employee benefits	15,249	15,429	22,567	20,140	15,544	9,839	8,089	106,857	15,415	15,415	122,272	75,504
Payroll taxes	1,050	1,148	1,435	378	1,755	766	526	7,058	2,640	2,640	9,698	5,073
<b>Total salaries and related expenses</b>	<b>80,470</b>	<b>86,003</b>	<b>116,078</b>	<b>93,298</b>	<b>92,057</b>	<b>65,608</b>	<b>43,526</b>	<b>577,040</b>	<b>95,767</b>	<b>95,767</b>	<b>672,807</b>	<b>375,842</b>
Professional services	1,100	17,577	20,353			618		39,648	53,190	53,190	92,838	70,024
Telephone	1,077	1,151	1,554	1,249	1,232	878	582	7,723	1,282	1,282	9,005	8,654
Occupancy	1,435	1,534	2,070	1,663	1,642	1,170	776	10,290	1,710	1,710	12,000	15,465
Promotional expenses					10,123			10,123			10,123	8,082
Computer expense			1,435				350	1,785	4,555	4,555	6,340	7,588
Postage	396	423	571	459	453	323	214	2,839	470	470	3,309	2,136
Office expenses	704	1,253	1,016	1,816	1,506	2,494	383	9,172	10,085	10,085	19,257	7,055
Convocation/Conference expenses					96,885			96,885			96,885	67,843
Executive Council travel					3,960			3,960	23,092	23,092	27,052	26,509
Advisory Council travel		6,407						6,407			6,407	103
Task Force Travel	9,161	33,623		15,090	3,848		14,971	76,693			76,693	52,384
Travel	21,150	19,883	28,636	40,370	31,132	12,837	10,747	164,755	16,485	16,485	181,240	92,705
Insurance	891	952	1,285	1,033	1,019	726	481	6,387	1,059	1,059	7,446	215
Seminarian support		2,287						2,287			2,287	4,000
Administrative services									15,690	15,690		
Mission grants	36,150		24,000					60,150			60,150	49,642
Other grants	139,135							139,135			139,135	20,341
Printing						14,183		14,183			14,183	13,244
<b>Total before depreciation</b>	<b>291,669</b>	<b>171,093</b>	<b>196,998</b>	<b>154,978</b>	<b>243,857</b>	<b>98,837</b>	<b>72,030</b>	<b>1,229,462</b>	<b>223,385</b>	<b>223,385</b>	<b>1,452,847</b>	<b>821,832</b>
Depreciation	1,014	1,083	1,463	1,176	1,160	826	548	7,270	1,207	1,207	8,477	4,038
<b>Total expenses</b>	<b>\$ 292,683</b>	<b>\$ 172,176</b>	<b>\$ 198,461</b>	<b>\$ 156,154</b>	<b>\$ 245,017</b>	<b>\$ 99,663</b>	<b>\$ 72,578</b>	<b>\$ 1,236,732</b>	<b>\$ 224,592</b>	<b>\$ 224,592</b>	<b>\$ 1,461,324</b>	<b>\$ 825,870</b>

**NORTH AMERICAN LUTHERAN CHURCH**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(With summarized information for the year ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 514,439	\$ 287,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,477	4,038
(Increase) decrease in operating assets:		
Refund receivables	(4,722)	(750)
Due from related organization	(21,183)	1,020,097
Prepaid expenses	(9,854)	(1,602)
Increase (decrease) in operating liabilities:		
Accounts payable	(18,024)	22,086
Due to related organization	(13,959)	9,061
Due to others	35,251	1,000
Accrued compensation	10,586	20,674
Net cash provided by operating activities	<u>501,011</u>	<u>1,362,253</u>
<b>Cash flows from investing activities:</b>		
Purchase of equipment	<u>(40,687)</u>	<u>(22,512)</u>
Net cash provided (used) by investing activities	<u>(40,687)</u>	<u>(22,512)</u>
Net increase in cash and cash equivalents	460,324	1,339,741
<b>Cash and cash equivalents - beginning of period</b>	<u>1,417,806</u>	<u>78,065</u>
<b>Cash and cash equivalents - end of period</b>	<u><u>\$ 1,878,130</u></u>	<u><u>\$ 1,417,806</u></u>

See notes to the financial statements



## **NORTH AMERICAN LUTHERAN CHURCH NOTES TO THE FINANCIAL STATEMENTS**

### **NOTE 1. NATURE OF THE ORGANIZATION**

The North American Lutheran Church (NALC) is a Christian denominational church body whose membership is comprised of Lutheran congregations and Lutheran ordained ministers. The NALC is a church body committed to the authority of the Bible as the inspired Word of God and the authoritative source and norm of its proclamation, faith, and life, according to the teachings of the Lutheran Confessions. The NALC is governed by an annual Convocation comprised of its ordained clergy and delegates from each of its congregations. The NALC is led by a Bishop elected by the Convocation. An Executive Council elected by the Convocation holds governance authority between Convocations.

The NALC has committed to organize its common life around four core values:

- 1) Christ-Centered: The NALC confesses the apostolic faith in Jesus Christ according to the Holy Scriptures. The NALC affirms the authority of the Scriptures as the authoritative source and norm, "according to which all doctrines should and must be judged" (Formula of Concord). The NALC accepts the ecumenical creeds and the Lutheran Confessions as true witnesses to the Word of God.
- 2) Mission-Driven: The NALC believes that the mission of the Church is to preach the Gospel and to make disciples for Christ. The NALC believes that making disciples - in its congregations, in its communities and nations, and around the world - must be a priority of the Church in the present age.
- 3) Traditionally-Grounded: The NALC affirms the faithful witness of the Church across time and space. The NALC endorses the form and practices of the universal Church that are consistent with Scripture, particularly the office of the ministry and the tradition of worship under Word and Sacrament. The NALC seeks dialogue and fellowship with other Lutheran churches and with faithful Christians of other confessions.
- 4) Congregationally-Focused: The NALC strives to be a church body that is organized to facilitate the ministries of local congregations in a posture of servanthood and a spirit of partnership, through the provision of resources, connections and information.

**NORTH AMERICAN LUTHERAN CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF THE ORGANIZATION - (Continued)**

**The NALC's key programs and activities include the following:**

**Missions and Evangelism**

The NALC provides organizational and financial assistance to newly formed and/or small member congregations. The NALC also provides training programs for clergy and lay leaders of mission start congregations. The NALC further provides financial and other assistance to mission congregations, missionaries and partner church bodies in countries outside of North America. To these ends, the NALC has established a Great Commission Fund to support special mission projects including new congregation starts and missionaries.

**Theological Education, Ordination and Clergy Roster**

The NALC provides advice and assistance to seminarians considering ordination in the NALC, and offers an annual retreat for such seminarians. In particular, the NALC has established a Theological Education Fund to support the training and continuing education of NALC pastors. A committee of the NALC examines candidates for ordination in the NALC and makes recommendations to the Executive Council for ordination. The NALC maintains a clergy roster of pastors who have been examined, credentialed and approved for ministry in the NALC, and provides assistance to pastors seeking new congregational calls.

**Congregational Services**

The NALC provides a variety of services to its member congregations, including in particular, assistance in the process of calling a new pastor. The NALC also provides recommendations to congregations of resources and ministries which can be helpful in parish life and programs.

**Ecumenical and Inter-Lutheran Relations**

The NALC is committed to dialogue and cooperation with other faithful Lutheran and Christian church bodies, both in North America and elsewhere in the world.

**NORTH AMERICAN LUTHERAN CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF THE ORGANIZATION - (Continued)**

**Convocation/Conferences**

The Annual Convocation elects the Bishop, Executive Council, Court of Adjudication and Nominating Committee. The Convocation adopts an annual budget, considers significant resolutions and teaching statements, and receives reports from the staff and committees. An annual theological conference provides presentations by theologians on significant theological issues for the education of Lutherans. A revitalization and renewal conference is offered for the renewal of established congregations and a mission planters conference is offered for the support of mission congregations and groups interested in planting a new church.

**Communications**

The Communications team reviews the NALC newsletter, website, social media and videos and works with the NALC staff for the purpose of improving the effectiveness of NALC communications.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared on the accrual basis of accounting. The significant accounting policies are described as follows:

**Classes of Net Assets**

The financial statements report amounts separately by class of net assets:

- a) Unrestricted amounts are those currently available at the discretion of the Executive Council for use in the NALC's ministries, and those resources invested in land, buildings, and equipment.
- b) Temporarily restricted amounts are those which are restricted by donors for specific operating purposes or for the acquisition of land, buildings, and equipment.
- c) Permanently restricted amounts are those restricted by donors in perpetuity as endowments or irrevocable trusts. The NALC has no permanently restricted net assets.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

**NORTH AMERICAN LUTHERAN CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the NALC considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The NALC maintains their cash balances at one financial institution in Minnesota. Accounts at the institution are insured by the Federal Deposit Insurance Corporation. At December 31, 2012, the Organization's cash balances were within FDIC limits.

**Financial Statement Presentation**

Management of the NALC uses estimates and assumptions in preparing the financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that management uses.

**Comparative Information**

The financial statements include prior-year summarized comparative information in total but not by net asset class. 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 Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

**Equipment and Leasehold Improvements**

All major expenditures for equipment and leasehold improvements are capitalized at cost. Contributed equipment is recorded at fair market value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, ranging from three to ten years.

**Functional Allocation of Expenses**

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting activity, are allocated based on the best estimates of management.

**NORTH AMERICAN LUTHERAN CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**Public Support, Revenue, and Expenses**

Contributions are recognized when the donor makes a promise to give to the NALC that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Bequests are recorded as income at the time the NALC has an established right to the bequest and the proceeds are measurable.

**Income Tax**

The NALC is an "association of churches" with the meaning of Section 508(c)(1)(A) of the Internal Revenue Code (the "IRC"), and consequently is exempt from taxes under Section 501(c)(3) of the IRC without obligation to seek such recognition affirmatively from the Internal Revenue Service. Nonetheless by letter dated March 7, 2012, the NALC has been affirmatively determined by Internal Revenue Service to be exempt from Federal income taxes under Section 501(c)(3) of the IRC. Therefore, no provision for income taxes is made in the accompanying financial statements. In addition, pursuant to Section 6033(a) (3) (A) (i) of the IRC, as an "association of churches" the NALC is not required to file information returns with the Internal Revenue Service. The NALC would be required to pay Federal and State income taxes on unrelated business income within the meaning of the IRC.

The NALC records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. Interest related to unrecognized tax positions is recognized in interest expense and penalties in management and general expenses. The NALC has not recorded any liabilities for unrecognized tax positions. The NALC has not generated any unrelated business income and therefore has no income tax return subject to examination by U.S. Federal, state or local taxing authorities.

**Donated Services**

The NALC records donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The value of donated services is determined based on the fair value of the services received or the increase in the fair value of the assets attributable to the donated services.

**NORTH AMERICAN LUTHERAN CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**Subsequent Events**

The NALC recognizes, in the financial statements, the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements.

The management of the NALC evaluated subsequent events for financial reporting through June 9, 2014, the date the financial statements were available to be issued.

**NOTE 3. LEASING ACTIVITIES**

The NALC leases its office space on a one year lease agreement effective January 1, 2011. The lease calls for minimum monthly payments of \$1,000. The NALC has the option to renew the lease for an additional one year.

Total rent expense for the year ended December 31, 2012 was \$12,000.

**NOTE 4. RELATED PARTIES**

The North American Lutheran Church (NALC) was formed by convocation of the Lutheran Coalition for Renewal in 2010. During the year ended December 31, 2012 the North American Lutheran Church and the Lutheran Coalition for Renewal shared office space and operation expense, including employees. The North American Lutheran Church paid Lutheran Coalition for Renewal \$15,060 as an administrative fee for the shared expense. As of December 31, 2012 the Lutheran Coalition for Renewal owes the North American Lutheran Church \$21,183 for related shared expenses.

**NOTE 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

The Church owns the following as of December 31, 2012

Equipment	\$ 26,174
Leasehold Improvements	22,026
Website	<u>15,000</u>
	63,200
Less accumulated depreciation	<u>(12,516)</u>
	<u>\$ 50,684</u>

**NORTH AMERICAN LUTHERAN CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 6. DESIGNATED NET ASSETS**

The Executive Council of the North American Lutheran Church has established three designated funds as follows.

**Great Commission Fund**

The Great Commission Fund is a dedicated fund that is used in support of new mission starts, mission congregations and missionaries. Individuals and congregations may contribute to the fund.

**Theological Education Fund**

The Theological Education Fund is a dedicated fund that is used to support seminarians who are candidates for ordained ministry in the NALC. Individuals and congregations may contribute to the fund.

**Strategic Development Fund**

The Strategic Development fund is a dedicated fund that is used for strategic planning and development for the organization.

Activity in the designated net assets for the year ended December 31, 2012, is as follows:

Designated net assets - beginning of the year	\$ 757,469
Designation approved by the Executive Council during the year	400,000
Designated net assets - end of year	<u><u>\$ 1,157,469</u></u>

Designated net asset as of December 31, 2012, consists of:

Great Commission Fund	\$ 375,000
Theological Education Fund	375,000
Strategic Development Fund	400,000
Other	7,469
	<u><u>\$ 1,157,469</u></u>

**NORTH AMERICAN LUTHERAN CHURCH  
NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 7. NET ASSETS**

The temporarily restricted net assets as of December 31, 2012 were restricted for use in the Church's programs as follows:

Great Commission Fund	\$ 31,576
Theological Education Fund	24,417
Women of the NALC	8,167
Discipleship Events	500
Foreign Mission	8,000
Hurricane relief	98,675
Other	<u>3,755</u>
	<u>\$ 175,090</u>