

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

***FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014***

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SHIDELL MAIR & RICHARDSON PLLP

Certified Public Accountants

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), which comprise the statement of financial position as of December 31, 2014, 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, 2014, 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 2013 financial statements, and our report dated August 11, 2015, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Shidell Mair & Richardson PLLP

August 11, 2015
St. Paul, Minnesota

NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

(With summarized information for the year ended December 31, 2013)

ASSETS	2014	2013
Cash and cash equivalents	\$ 2,041,280	\$ 1,910,957
Certificates of deposits	401,520	400,000
Accounts receivable	2,595	11,681
Due from related organization	25,297	52,229
Prepaid expenses	34,210	36,731
Furniture, equipment and computers, net	40,986	38,410
Total assets	<u>\$ 2,545,888</u>	<u>\$ 2,450,008</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,576	\$ 25,219
Accrued compensation	48,073	39,695
Due to others	7,881	6,316
Total liabilities	<u>57,530</u>	<u>71,230</u>
 Net Assets		
Unrestricted		
Designated	1,049,818	1,150,404
Undesignated	533,525	583,293
Total unrestricted net assets	1,583,343	1,733,697
Temporarily restricted	905,015	645,081
Total net assets	<u>2,488,358</u>	<u>2,378,778</u>
Total liabilities and net assets	<u>\$ 2,545,888</u>	<u>\$ 2,450,008</u>

See notes to the financial statements

NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014
(With summarized information of the year ended December 31, 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Total
Revenue, gains and other support:				
Contributions				
Individuals	\$ 55,100		\$ 55,100	\$ 70,073
Congregations	1,467,296	\$ 603,371	2,070,667	2,174,817
Other	9,751		9,751	
Total public support and revenue	1,532,147	603,371	2,135,518	2,244,890
Other Revenue				
Service fees	10,940		10,940	4,246
Investment revenue	3,123		3,123	2,622
Other	1,400		1,400	
Registrations	106,263		106,263	99,383
Total other revenue	121,726		121,726	106,251
Total revenue, gains and other support	1,653,873	603,371	2,257,244	2,351,141
Net assets released from restrictions	343,437	(343,437)		
Total revenue and reclassifications	1,997,310	259,934	2,257,244	2,351,141
Expenses:				
Program Activities:				
Missions and Evangelism	383,898		383,898	146,784
Theological Education and Clergy	520,683		520,683	263,331
Congregational Services	239,489		239,489	332,514
Ecumenical and Inter-Lutheran	132,198		132,198	99,095
Convocation / Conferences	353,977		353,977	363,661
Communications	140,050		140,050	128,378
Mission Districts	105,573		105,573	281,480
Total Program activities	1,875,868		1,875,868	1,615,243
Support Activities:				
Fund raising	12,600		12,600	
Management and general	259,196		259,196	257,370
Total support activities	271,796		271,796	257,370
Total program and support activities	2,147,664		2,147,664	1,872,613
Change in net assets	(150,354)	259,934	109,580	478,528
Net Assets, beginning of period	1,733,697	645,081	2,378,778	1,900,250
Net Assets, end of period	\$ 1,583,343	\$ 905,015	\$ 2,488,358	\$ 2,378,778

See notes to the financial statements

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014**

(With summarized information for the year ended December 31, 2013)

	2014										2013		
											Support Activities		
	Missions and Evangelism	Theological Education and Clergy	Congregational Services	Ecumenical and Inter-Lutheran	Convocation / Conferences	Communications	Mission Districts	Total Program Expenses	Fund Raising Expense	Management and General	Total Support Expenses	Total Functional Expenses	Total Functional Expenses
Functional expenses													
Salaries	\$ 85,525	\$ 77,844	\$ 101,443	\$ 71,295	\$ 104,632	\$ 48,819	\$ 49,359	\$ 538,917	\$ 9,434	\$ 99,119	\$ 99,119	\$ 638,036	\$ 580,577
Contract salaries						13,031	13,031	13,031				22,465	20,360
Employee benefits	25,409	25,678	31,854	20,137	30,695	14,715	14,405	162,893		32,109	32,109	195,002	170,837
Payroll taxes	1,796	1,504	1,282	468	4,265	1,712	721	11,748		5,049	5,049	16,797	12,817
Total salaries and related expenses	112,730	105,026	134,579	91,900	139,592	78,277	64,485	726,589	9,434	136,277	145,711	872,300	784,591
Professional services	279	13,795	11,407					25,481		12,515	12,515	37,996	56,981
Telephone	2,123	1,978	2,534	1,731	2,629	1,474	1,214	13,683	177	2,567	2,744	16,427	14,585
Occupancy	1,883	1,754	2,248	1,535	2,332	1,307	1,077	12,136	157	2,279	2,436	14,572	12,000
Promotional expenses	287	286	2,267		908		48	3,796		142	142	3,938	18,765
Computer expense						10,999		10,999		18,510	18,510	29,509	15,038
Postage	295	275	352	240	365	205	169	1,901	25	355	380	2,281	3,704
Office expenses	299	9,352	3,630	1,250	722	2,219	49	17,521	8	6,189	6,197	23,718	16,797
Convocation/Conference expenses	18,283	3,353			160,875			182,511				182,511	204,818
Executive Council travel					5,140			5,140		26,107	26,107	31,247	24,883
Advisory Council travel		1,681						1,681				1,681	14,747
Task Force travel	4,868	57,983	990	3,647			19,173	86,661				86,661	74,014
Employee travel	30,801	46,825	36,913	29,467	37,726	21,155	17,655	220,542	2,550	36,863	39,413	259,955	217,563
Insurance	613	571	732	500	759	426	350	3,951	51	744	795	4,746	4,768
Seminarian support		1,020						1,020				1,020	
Administrative services										13,789	13,789	13,789	16,435
Mission grants	43,000		37,000					80,000				80,000	80,000
Other grants	166,072	274,580	4,013					444,665				444,665	280,009
Printing						22,346		22,346				22,346	18,261
Total before depreciation	381,533	518,479	236,665	130,270	351,048	138,408	104,220	1,860,623	12,402	256,337	268,739	2,129,362	1,857,959
Depreciation	2,365	2,204	2,824	1,928	2,929	1,642	1,353	15,245	198	2,859	3,057	18,302	14,654
Total expenses	\$ 383,898	\$ 520,683	\$ 239,489	\$ 132,198	\$ 353,977	\$ 140,050	\$ 105,573	\$ 1,875,868	\$ 12,600	\$ 259,196	\$ 271,796	\$ 2,147,664	\$ 1,872,613

NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(With summarized information for the year ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 109,580	\$ 478,528
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,302	14,654
(Increase) decrease in operating assets:		
Receivables	9,086	(6,209)
Due from related organization	26,932	(31,046)
Prepaid expenses	2,521	(20,377)
Increase (decrease) in operating liabilities:		
Accounts payable	(23,643)	21,157
Due to others	1,565	(29,935)
Accrued compensation	8,378	8,435
Net cash provided by operating activities	<u>152,721</u>	<u>435,207</u>
Cash flows from investing activities:		
Purchase of certificates of deposits	(1,520)	(400,000)
Purchase of equipment	<u>(20,878)</u>	<u>(2,380)</u>
Net cash provided (used) by investing activities	<u>(22,398)</u>	<u>(402,380)</u>
Net increase in cash and cash equivalents	130,323	32,827
Cash and cash equivalents - beginning of period	<u>1,910,957</u>	<u>1,878,130</u>
Cash and cash equivalents - end of period	<u><u>\$ 2,041,280</u></u>	<u><u>\$ 1,910,957</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 the 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. An annual theological conference has been added specifically for pastor.

In August 2013, the NALC Convocation approved the formation of the North America Lutheran Seminary (NALS), a ministry of the NALC to provide seminary education and training for pastoral candidates in partnership with other established seminaries. The financial statements for the NALC include donations earmarked for, and expenses associated with the operation of, the NALS.

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 Mission Festival is offered in the fall for the renewal of established congregations and 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.

Mission Districts

Mission districts are congregations that shall join in collaboration to fulfill most effectively the ministry and mission of the NALC. The Mission districts are normally based on common geographic boundaries.

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:

The NALC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions. These classes of net assets are summarized as follows:

- 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.

**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 four financial institutions in Minnesota. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation.

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 the assets and liabilities, 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, 2013, 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" within 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 the 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 August 11, 2015, the date the financial statements were available to be issued.

NOTE 3. CERTIFICATES OF DEPOSITS

Certificates of deposits approximate market value and consist of investments with original maturities of twelve to eighteen months with interest rates varying from .20% to .56%. Certificates of deposit with maturities of three months or less from the original date of purchase are included in cash and cash equivalents.

NOTE 4. LEASING ACTIVITIES

The NALC leases office space in Ohio on a one year lease agreement effective January 1, 2013. The lease calls for minimum monthly payments of \$1,000. The NALC has the option to renew the lease annually.

In November, 2014, the NALC started leasing office space in Minnesota under a lease agreement terminating October 31, 2017. The lease calls for minimum monthly payments of \$1,513 increasing to \$1,605 in 2017.

Total rent expense for the year ended December 31, 2014 was \$14,572.

Minimum annual lease payments for the years ended December 31,:

2015	\$	18,244
2016		18,791
2017		16,048
	\$	<u>53,083</u>

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

NOTE 5. 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, 2014 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 \$13,789 as an administrative fee for the shared expense. As of December 31, 2014 the Lutheran Coalition for Renewal owes the North American Lutheran Church \$25,297 for related shared expenses.

NOTE 6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The Church owns the following as of December 31, 2014.

Equipment	\$ 45,544
Leasehold Improvements	25,914
Website	<u>15,000</u>
	86,458
Less accumulated depreciation	<u>(45,472)</u>
	<u>\$ 40,986</u>

NOTE 7. PENSION PLAN

The Church has a 403(b) pension plan. The plan is a voluntary retirement plan that is offered to all eligible employees. The plan is an employer funded tax deferred annuity plan. Employees are fully vested in their contributions. Total pension expense for the year ended December 31, 2014 was \$69,701.

NOTE 8. NET ASSETS

TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets as of December 31, 2014 were restricted for use in the Church's programs as follows:

Great Commission Fund	\$ 3,880
Theological Education Fund	689,241
Disaster Response Fund	171,348
Other	<u>40,546</u>
	<u>\$ 905,015</u>

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

NOTE 8. NET ASSETS - (Continued)

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, 2014, is as follows:

Designated net assets - beginning of the year	\$ 1,150,404
Designation approved by the Executive Council - during the year	(100,586)
Designated net assets - end of year	<u>\$ 1,049,818</u>

Designated net assets as of December 31, 2014, consists of:

Great Commission Fund	\$ 274,818
Theological Education Fund	375,000
Strategic Development Fund	400,000
	<u>\$ 1,049,818</u>