

**NORTH AMERICAN LUTHERAN CHURCH
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
For the Year Ended December 31, 2019**

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LANDON C. SCOTT, PLLC
CERTIFIED PUBLIC ACCOUNTANTS|ADVISORS

INDEPENDENT AUDITORS' 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, 2019, 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, 2019, 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 and Other Matter

The financial statements of North American Church as of December 31, 2018 and for the year then ended were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated June 21, 2019.

The summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent with the financial statements audited by other auditors from which it has been derived.

Brandon C. Scott, PLLC

July 14, 2020

Lake Elmo, Minnesota

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019**

(With summarized information for the year ended December 31, 2018)

ASSETS	2019	2018
Cash and cash equivalents	\$ 2,938,808	\$ 2,696,309
Certificates of deposits	417,327	410,578
Accounts receivable	28,501	24,438
Bequest receivable	-	90,000
Prepaid expenses	133,027	72,640
Fixed assets - operating, net	14,577	10,261
Fixed assets - disaster response, net	137,368	-
Total assets	\$ 3,669,608	\$ 3,304,226
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 100,991	\$ 120,114
Accrued compensation	53,332	67,446
Grants payable	26,629	6,245
Registration deposits	18,773	7,999
Due to others	13,437	15,279
Total liabilities	213,162	217,083
Net Assets		
Without donor restrictions		
Designated	1,082,626	1,100,800
Undesignated	532,168	397,366
Total net assets without donor restrictions	1,614,794	1,498,166
With donor restrictions	1,841,652	1,588,977
Total net assets	3,456,446	3,087,143
Total liabilities and net assets	\$ 3,669,608	\$ 3,304,226

See notes to the financial statements

NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(With summarized information of the year ended December 31, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue:				
Contributions				
Individuals	\$ 97,865	\$ 256,618	\$ 354,483	\$ 707,371
Congregations	1,738,931	925,102	2,664,033	2,197,813
Distaster response - capital	138,839		138,839	-
Other	95,263		95,263	17,661
Total contributions	<u>2,070,898</u>	<u>1,181,720</u>	<u>3,252,618</u>	<u>2,922,845</u>
Other Revenue				
Service fees	10,850		10,850	9,460
Investment revenue	11,750		11,750	7,479
Other	4,210		4,210	11,113
Registrations	239,540		239,540	142,448
Total other revenue	<u>266,350</u>		<u>266,350</u>	<u>170,500</u>
Total contributions and other revenue	<u>2,337,248</u>	<u>1,181,720</u>	<u>3,518,968</u>	<u>3,093,345</u>
Net assets released from restrictions	929,045	(929,045)	-	-
Total revenue and reclassifications	<u>3,266,293</u>	<u>252,675</u>	<u>3,518,968</u>	<u>3,093,345</u>
Expenses:				
Program Activities:				
Missions and Evangelism	300,596		300,596	282,178
Theological Education and Clergy	803,357		803,357	816,401
Congregational Services	674,037		674,037	520,728
Ecumenical and Inter-Lutheran	100,621		100,621	117,591
Convocation / Conferences	597,169		597,169	420,877
NALC - CS	45,859		45,859	48,834
Communications	196,239		196,239	221,292
Mission Districts	117,038		117,038	123,586
Total program activities	<u>2,834,916</u>		<u>2,834,916</u>	<u>2,551,487</u>
Support Activities:				
Fund raising	28,367		28,367	11,513
Management and general	286,382		286,382	252,575
Total support activities	<u>314,749</u>		<u>314,749</u>	<u>264,088</u>
Total program and support activities	<u>3,149,665</u>		<u>3,149,665</u>	<u>2,815,575</u>
Change in net assets	116,628	252,675	369,303	277,770
Net Assets, beginning of year	1,498,166	1,588,977	3,087,143	2,809,373
Net Assets, end of year	<u>\$ 1,614,794</u>	<u>\$ 1,841,652</u>	<u>\$ 3,456,446</u>	<u>\$ 3,087,143</u>

See notes to the financial statements

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**
(With summarized information for the year ended December 31, 2018)

	2019											2018		
	Support Activities													
	Missions and Evangelism	Theological Education and Clergy	Congregational Services	Ecumenical and Inter-Lutheran	Convocation / Conferences	NALC - CS	Communications	Mission Districts	Total Program Expenses	Fund Raising Expense	Management and General	Total Support Expenses	Total Functional Expenses	Total Functional Expenses
Functional expenses														
Salaries	\$ 115,227	\$ 101,298	\$ 119,851	\$ 65,057	\$ 124,922	\$ 28,143	\$ 94,285	\$ 62,918	\$ 711,701	\$ 4,802	\$ 127,581	\$ 132,383	\$ 844,084	\$ 800,915
Contract salaries		22,439	90,067				14,172		126,678		354	354	127,032	85,899
Employee benefits	41,599	28,308	34,931	20,204	34,853	8,296	24,707	17,759	210,657	1,518	36,292	37,810	248,467	223,190
Payroll taxes	3,815	1,557	2,498	1,160	5,744	333	4,984	1,186	21,277	352	4,641	4,993	26,270	22,636
Total salaries and related expenses	160,641	153,602	247,347	86,421	165,519	36,772	138,148	81,863	1,070,313	6,672	168,868	175,540	1,245,853	1,132,640
Professional services	429	27,195	1,731	231	442	98	369	219	30,714	20,018	17,558	37,556	68,270	62,933
Telephone	2,140	2,047	3,296	1,151	2,206	490	1,841	1,091	14,262	89	2,250	2,339	16,601	19,579
Occupancy	1,986	1,899	3,057	1,068	2,046	455	1,708	1,012	13,231	82	2,087	2,169	15,400	14,952
Computer/website expense	1,901	1,746	2,811	982	1,881	418	35,488	930	46,157	76	2,476	2,552	48,709	46,783
Postage	303	339	520	163	313	69	261	194	2,162	13	319	332	2,494	4,105
Office expenses	4,446	23,160	27,004	336	595	132	497	294	56,464	624	10,147	10,771	67,235	40,273
Convocation/Conference expenses		33,504			404,498				438,002				438,002	257,929
Executive Council travel											62,631	62,631	62,631	47,581
Task Force travel	2,922	58,962	56,804					21,707	140,395				140,395	155,932
Staff travel	17,424	69,237	42,583	9,374	17,953	5,044	14,984	8,879	185,478	724	18,316	19,040	204,518	221,737
Insurance	624	596	960	335	643	143	536	318	4,155	26	655	681	4,836	4,825
Seminarian scholarships									121,296				121,296	143,500
Ministry gifts	53,000		37,000						90,000				90,000	98,000
Educational expenses		294,262							294,262				294,262	264,378
Other grants	53,739	14,516	247,849			2,000			318,104				318,104	275,801
Printing							1,511		1,511				1,511	21,735
Total before depreciation	299,555	802,361	670,962	100,061	596,096	45,621	195,343	116,507	2,826,506	28,324	285,287	313,611	3,140,117	2,812,683
Depreciation - disaster response			1,471						1,471				1,471	-
Depreciation	1,041	996	1,604	560	1,073	238	896	531	6,939	43	1,095	1,138	8,077	2,892
Total expenses	\$ 300,596	\$ 803,357	\$ 674,037	\$ 100,621	\$ 597,169	\$ 45,859	\$ 196,239	\$ 117,038	\$ 2,834,916	\$ 28,367	\$ 286,382	\$ 314,749	\$ 3,149,665	\$ 2,815,575

See notes to the financial statements

NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(With summarized information for the year ended December 31, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 369,303	\$ 277,770
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	9,548	2,892
(Increase) decrease in operating assets:		
Accounts receivable	85,937	(99,797)
Prepaid expenses	(60,387)	(27,440)
Increase (decrease) in operating liabilities:		
Accounts payable	(19,123)	19,802
Grants payable	20,384	(3,755)
Registration deposits	10,774	844
Due to others	(1,842)	11,062
Accrued compensation	(14,114)	6,928
Net cash provided (used) by operating activities	400,480	188,306
Cash flows from investing activities:		
Purchase of certificates of deposits	(6,749)	(3,353)
Purchase of fixed assets	(12,393)	(12,091)
Purchase of fixed assets - disaster response	(138,839)	-
Net cash provided (used) by investing activities	(157,981)	(15,444)
Net increase in cash and cash equivalents	242,499	172,862
Cash and cash equivalents - beginning of period	2,696,309	2,523,447
Cash and cash equivalents - end of period	\$ 2,938,808	\$ 2,696,309

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's support comes primarily from contributions from congregations and individuals. The NALC also receives registration fees for various conferences.

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 operates a joint venture in seminary education, the North American Lutheran Seminary (NALS), in partnership with Trinity School for Ministry in Ambridge, PA. The NALC provides advice and assistance to seminarians at the NALS and elsewhere considering ordination in the NALC, and offers an annual retreat for such seminarians. 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 assistance in the process of calling a new pastor and assistance for renewing and revitalizing congregations. The NALC also provides recommendations to congregations of resources and ministries which can be helpful in parish life and programs.

The NALC has established a Disaster Response Fund to provide emergency assistance to North American congregations and individuals, both inside and outside of the NALC, who are affected by natural disasters.

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, NALS Board of Regents, and four members of the NALC - CS Board, and affirms the Executive Council's appointments to the 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 held concurrently with the Convocation for mission planters, mission congregations and those seeking to revitalize existing congregations. A pastor's conference is offered annually for professional growth, community building and sharing of best practices among the clergy of the NALC.

NALC - CS

The NALC provides certain ecclesiastical services to The North American Lutheran Church - Canada Section (NALC-CS), which is a Canadian registered charity and an incorporated charity. The NALC-CS is the NALC's legal entity in Canada. Services provided upon the request of the NALC-CS include theological education, assistance to congregations in the pastoral call process and in other contexts, assistance with legal matters, participation in conferences and conventions, and general ecclesiastical oversight. The NALC-CS reimburses the NALC for certain of these services on an actual cost basis.

Communications

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

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

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 financial statements report amounts separately by class of net assets:

- a) Net assets without donor restrictions are those currently available at the discretion of the Executive Council for use in the NALC's ministries.
- b) Net assets with donor restrictions are those which are restricted by donors either temporarily or in perpetuity. Net assets with temporary restrictions are restricted by the donor for specific operating purposes, time restriction or for the acquisition of land, building, and equipment. Net assets with donor restrictions are those restricted by donors in perpetuity as endowments or irrevocable trusts. The NALC has no net assets with donor restrictions in perpetuity.

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 three 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, 2018, from which the summarized information was derived.

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

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

Fixed Assets

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 twenty 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.

Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

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 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. Restricted contributions whose restrictions are met in the same reporting period, including through the purchase of capital assets, are recorded as unrestricted. 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.

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

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

Income Tax – (Continued)

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.

Liquidity and Availability of Financial Assets

The NALC has \$960,358 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash of \$2,938,808, certificate of deposits of \$417,327, account and bequest receivables of \$28,501, and is reduced by the net assets with donor restrictions of \$1,841,652 and board designated assets of \$582,626. The NALC has designated net assets of \$500,000 in the Emergency Reserve Fund which represents funds available to cover operating expenses. This amount is included in the financial assets available in one year.

The NALC is mainly supported by contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the NALC must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the NALC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligation come due.

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 July 14, 2020, the date the financial statements were available to be issued.

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

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 .56% to .80%. 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 Minnesota under a lease agreement which was entered into on September 29, 2017. This lease expires October 31, 2022 and calls for monthly payments of \$1,240 increasing annually to \$1,395 in 2022. The lease may be terminated by either party on each anniversary of the commencement date with a 120-day notice.

Total rent expense for the year ended December 31, 2019 was \$15,400.

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

2020	\$	15,862
2021		16,338
2022		13,954
	<u>\$</u>	<u>46,154</u>

NOTE 5. FIXED ASSETS – OPERATING

The NALC owns the following as of December 31, 2019:

Equipment	\$	29,450
Leasehold Improvements		1,508
Website		15,000
		<u>45,958</u>
Less accumulated depreciation		<u>(31,381)</u>
	<u>\$</u>	<u>14,577</u>

NOTE 6. FIXED ASSETS – DISASTER RESPONSE

The NALC has the following dedicated fixed assets as of December 31, 2019:

Construction in progress	\$	80,000
Vehicles		58,839
		<u>138,839</u>
Less accumulated depreciation		<u>(1,471)</u>
	<u>\$</u>	<u>137,368</u>

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

NOTE 6. FIXED ASSETS – DISASTER RESPONSE – (Continued)

During the year ended December 31, 2019, the NALC purchased a truck and began constructing a storage garage to enhance its ability to respond to disasters. As part of the construction of the storage garage, a 20-year property lease was entered into on December 1, 2019. At the end of the 20 years, the property will be surrendered.

The lease calls for \$0 annual lease payments. If the property is sold prior to the 20-year term, the NALC has the first right of refusal.

The statement of activities of the NALC present contributions in the amount of \$138,839 as capital contributions.

NOTE 7. NET ASSETS

Net Assets with Donor Restrictions

The temporarily restricted net assets as of December 31, 2019 were restricted for use in the Church's programs as follows:

Theological Education Fund	\$	791,887
Global Church Missions/Partnerships		159,272
NALS Global Center		159,272
Disaster Response Fund		444,006
Domestic Missions		191,264
Ethiopian Church Relief Fund		12,433
Other		83,518
		\$ 1,841,652

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, by the occurrence of other events specified by the donors, or by the passage of time. Net assets released from restrictions for the year ended December 31, 2019 are as follows:

Theological Education Fund	\$	557,136
Great Commission Fund		100,010
Disaster Response Fund		193,202
Ethiopian Church Relief Fund		55,011
Other		23,686
		\$ 929,045

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

NOTE 7. NET ASSETS - (Continued)

Designated Net Assets

The Executive Council of the North American Lutheran Church has established four designated funds as follows:

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, to support the operations of the NALS, and for the purposes related to Theological Education. Individuals and congregations who donate to this fund are recorded in net assets with donor restrictions.

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 who donate to this fund are recorded in net assets with donor restrictions.

Emergency Reserve Fund

The Emergency Reserve Fund is a dedicated fund that is intended to have sufficient funds in reserve to cover at least three months of the NALC's regular, recurring expenses should there be a significant disruption in income from donors or a costly, unbudgeted emergency expense.

Pastoral Care Fund

The Pastoral Care Fund is a dedicated fund that is used to assist pastors and their spouses with the costs of seeking professional assistance following traumatic events in their lives or extremely difficult conflict situations in congregations.

Activity in the designated net assets for the year ended December 31, 2019, is as follows:

Designated net assets - beginning of year	\$ 1,100,800
Designated additions - during the year	10,000
Designated expenditures - during the year	<u>(28,174)</u>
Designated net assets - end of year	<u>\$ 1,082,626</u>

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

NOTE 7. NET ASSETS – (Continued)

Designated Net Assets – (Continued)

Designated net assets as of December 31, 2019, consists of:

Great Commission Fund	\$	187,626
Theological Education Fund		375,000
Emergency Reserve Fund		500,000
Pastoral Care Fund		20,000
		20,000
	\$	1,082,626

NOTE 8. 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, 2019 was \$88,904.

NOTE 9. CONTINGENT PROMISSORY NOTE RECEIVABLE

The NALC was gifted a portion of the sale proceeds related to the sale of a church building from a congregation that voted to disband. The NALC was granted the title of the building to facilitate the real estate sale. The building was sold on June 24, 2019 to a religious order, and the contract sales price was \$829,000. Net proceeds from the sale were \$637,087 as detailed below:

Sale price	\$	829,000
Less:		
Settlement charges		(62,913)
Contingent promissory note		(129,000)
		(129,000)
Net proceeds	\$	637,087

The disbanded congregation gifted the NALC 85% of the net proceeds; the other 15% was gifted to another NALC congregation.

The NALC negotiated a covenant in the promissory note with the buyer that requires the building to be used as a place of Christian worship for five years from the date of purchase. If this covenant is fulfilled, the promissory note, which is non-interest bearing, will be forgiven in total. Due to this contingency, the promissory note of \$129,000 is not reflected in the statement of financial position at December 31, 2019.

SUPPLEMENTARY INFORMATION



LANDON C. SCOTT, PLLC
CERTIFIED PUBLIC ACCOUNTANTS|ADVISORS

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

Executive Council
North American Lutheran Church
New Brighton, Minnesota

We have audited the financial statements of the North American Lutheran Church, as of and for the year ended December 31, 2019, and have issued our report thereon dated July 14, 2020, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating income (loss) is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The financial statements of North American Lutheran Church as of December 31, 2018 and for the year then ended were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated June 21, 2019.

Landon C. Scott, PLLC

July 14, 2020
Lake Elmo, Minnesota

**NORTH AMERICAN LUTHERAN CHURCH
SCHEDULE OF OPERATING INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2019</u>	<u>2018</u>
Operating Revenue:		
Donations:		
Congregation	\$ 1,738,931	\$ 1,655,711
Individual	97,865	302,974
Disaster Response - Capital	138,839	-
Mission District	4,500	4,100
Miscellaneous	90,763	13,561
Total Donations	<u>2,070,898</u>	<u>1,976,346</u>
Other Income:		
Registrations	238,128	142,448
DVD/Media sales	1,695	1,385
Candidacy fees	10,850	9,460
Ecclesial services - Canada	-	7,868
Interest income	11,750	7,479
Other income	3,927	1,860
Total other income	<u>266,350</u>	<u>170,500</u>
Total operating revenue	<u>2,337,248</u>	<u>2,146,846</u>
Operating Expenses:		
Organizations and Meetings:		
Convocations and conferences	402,384	240,476
Executive council	62,631	47,581
Committees and task force	112,762	143,112
Stewardship team	25,707	-
Mission team	2,922	8,137
Total organizations and meetings	<u>606,406</u>	<u>439,306</u>
Communications:		
Digital communication	33,105	30,017
Newsletter and postage	1,511	17,512
Printing-brochures/stationary	4,689	4,003
Total communications	<u>39,305</u>	<u>51,532</u>

**NORTH AMERICAN LUTHERAN CHURCH
SCHEDULE OF OPERATING INCOME (LOSS)
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2019</u>	<u>2018</u>
Operating Expenses (Continued):		
Administrative expenses:		
Rent	15,400	14,952
Professional fees	43,320	54,926
Telephone	12,922	17,375
Insurance	11,794	9,447
Software and IT support	14,158	15,184
Office supplies, equipment and expense	7,664	10,711
Depreciation	8,077	2,892
Depreciation - Disaster Response	1,471	-
Total administrative expenses	<u>114,806</u>	<u>125,487</u>
Staff expenses:		
Staff salary and wages	927,076	878,241
Staff taxes and benefits	247,560	223,394
Staff travel	135,192	169,088
Total staff salaries, taxes and benefits	<u>1,309,828</u>	<u>1,270,723</u>
Other:		
Bishop's discretionary fund	7,662	4,683
Support for ministry partners	90,000	90,000
Miscellaneous	24,439	29,156
Total other	<u>122,101</u>	<u>123,839</u>
Total operating expenses	<u>2,192,446</u>	<u>2,010,887</u>
Net operating income (loss)	<u>144,802</u>	<u>135,959</u>
Restricted/Designated Funds:		
Donations	1,181,720	946,499
Distributions	957,219	804,688
Net restricted operations	<u>224,501</u>	<u>141,811</u>
Net change in net assets	<u>\$ 369,303</u>	<u>\$ 277,770</u>