

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

***FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011***

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Kahler
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Mair,
PLLP**

**Certified Public
Accountants**

INDEPENDENT AUDITOR'S REPORT

Executive Council
North American Lutheran Church
New Brighton, Minnesota

We have audited the accompanying statement of financial position of the North American Lutheran Church (the Organization) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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 aforementioned financial statements present fairly, in all material respects, the financial position of North American Lutheran Church as of December 31, 2011, 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.

Cornell Kahler Shidell & Mair, PLLP

October 4, 2012
St. Paul, Minnesota

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011**

ASSETS

Cash and cash equivalents	\$ 1,417,806
Accounts receivable	750
Prepaid expenses	6,500
Furniture, equipment and computers, net	18,474
	\$ 1,443,530
Total assets	\$ 1,443,530

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 22,086
Due to related organization	13,959
Accrued compensation	20,674
Due to others	1,000
	57,719
Total liabilities	57,719

Net Assets

Unrestricted	
Designated	757,469
Undesignated	546,021
Total unrestricted net assets	1,303,490
Temporarily restricted	82,321
	1,385,811
Total net assets	1,385,811
Total liabilities and net assets	\$ 1,443,530

See notes to the financial statements

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains and other support:			
Contributions			
Individuals	\$ 71,932		\$ 71,932
Congregations	703,455	\$ 127,461	830,916
Other	115,450		115,450
Total public support and revenue	<u>890,837</u>	<u>127,461</u>	<u>1,018,298</u>
Other Revenue			
Merchandise sales	11,930		11,930
Investment revenue	1,276		1,276
Registrations	82,015		82,015
Total other revenue	<u>95,221</u>		<u>95,221</u>
Total revenue, gains and other support	986,058	127,461	1,113,519
Net assets released from restrictions	<u>1,049,140</u>	<u>(1,049,140)</u>	
Total revenue and reclassifications	<u>2,035,198</u>	<u>(921,679)</u>	<u>1,113,519</u>
Expenses:			
Program Activities:			
Missions and Evangelism	126,600		126,600
Theological and Clergy	121,392		121,392
Congregational Services	164,057		164,057
Ecumenical and Inter-Lutheran	61,202		61,202
Convocation / Conferences	116,031		116,031
Communications	61,844		61,844
Total Program activities	<u>651,126</u>		<u>651,126</u>
Support Activities:			
Management and general	174,744		174,744
Total support activities	<u>174,744</u>		<u>174,744</u>
Total program and support activities	<u>825,870</u>		<u>825,870</u>
Change in net assets	1,209,328	(921,679)	287,649
Net Assets, beginning of period	<u>94,162</u>	<u>1,004,000</u>	<u>1,098,162</u>
Net Assets, end of period	<u>\$ 1,303,490</u>	<u>\$ 82,321</u>	<u>\$ 1,385,811</u>

See notes to the financial statements

NORTH AMERICAN LUTHERAN
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Activities						Support Activities			
	Missions and Evangelism	Theological and Clergy	Congregational Services	Ecumenical and Inter-Lutheran	Convocation / Conferences	Communications	Total Program Expenses	Management and General	Total Support Expenses	Total Functional Expenses
Functional expenses										
Salaries	\$ 32,424	\$ 38,081	\$ 76,104	\$ 32,371	\$ 30,215	\$ 17,617	\$ 226,812	\$ 66,971	\$ 66,971	\$ 293,783
Contract salaries	450	2,970	2,970	900	900	7,500	15,690	810	810	16,500
Employee benefits	8,532	8,144	13,541	6,476	5,470	2,828	44,991	15,495	15,495	60,486
Payroll taxes	731	464	853		895	306	3,249	1,824	1,824	5,073
Total salaries and related expenses	42,137	49,659	93,468	39,747	37,480	28,251	290,742	85,100	85,100	375,842
Professional services										
Telephone	1,067	22,740	15,000			3,765	41,505	28,519	28,519	70,024
Occupancy	1,934	929	2,044	689	1,184	706	6,619	2,035	2,035	8,654
Meetings		1,683	3,703	1,249	2,145	1,278	11,992	3,688	3,688	15,680
Computer expense		5,595	5,268		57,778	7,284	75,925			75,925
Other grants	10,341		10,000		528	231	759	6,829	6,829	7,588
Postage							20,341			20,341
Office expenses		340	409		393		1,744	2,136	2,136	2,136
Travel	20,981	36,012	33,212	19,195	15,971	6,154	131,525	40,176	40,176	171,701
Seminarian support		4,000					4,000			4,000
Mission grants	49,642						49,642			49,642
Printing						13,244	13,244			13,244
Total before depreciation	126,102	120,958	163,104	60,880	115,479	61,515	648,038	173,794	173,794	821,832
Depreciation	498	434	953	322	552	329	3,088	950	950	4,038
Total expenses	\$ 126,600	\$ 121,392	\$ 164,057	\$ 61,202	\$ 116,031	\$ 61,844	\$ 651,126	\$ 174,744	\$ 174,744	\$ 825,870

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash flows from operating activities

Change in net assets	\$ 287,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,038
(Increase) decrease in operating assets:	
Accounts receivable	(750)
Due from related organization	1,020,097
Prepaid expenses	(1,602)
Increase (decrease) in operating liabilities:	
Accounts payable	22,086
Due to related party	9,061
Due to others	1,000
Accrued liabilities	20,674
Net cash provided by operating activities	1,362,253

Cash flows from investing activities:

Purchase of equipment	(22,512)
Net cash provided (used) by investing activities	(22,512)

Net increase in cash and cash equivalents	1,339,741
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Cash and cash equivalents - beginning of period	78,065
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Cash and cash equivalents - end of period	\$ 1,417,806
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See notes to the financial statements

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

NOTE 1. NATURE OF THE NALC - (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 FINANCIAL STATEMENTS**

NOTE 1. NATURE OF THE NALC - (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 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, 2011, 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.

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.

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.

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

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

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.

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 October 4, 2012, the date the financial statements were available to be issued.

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

NOTE 3. LEASED FACILITIES

The NALC leases its office space on a one year lease agreement effective January 1, 2011. The lease calls for minimum monthly payments of \$500. The NALC has the option to renew the lease for an additional one year.

The NALC also leased four employees on a month to month basis unless terminated by either party with ten days written notice.

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, 2011 the North American Lutheran Church and the Lutheran Coalition for Renewal shared office space and operation expense, including employees. The expenses were allocated between the two organizations based on the employee's time spent working for the respective organization.

NOTE 5. NET ASSETS

The temporarily restricted net assets as of December 31, 2011 were restricted for use in the Church's programs as follows

Great Commission Fund	\$ 46,453
Theological Education Fund	18,509
Women of the NALC	1,604
Discipleship Events	4,000
Foreign Mission	8,000
Other	3,755
	<u>\$ 82,321</u>

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

NOTE 6. DESIGNATED NET ASSETS

The Executive Council of the North American Lutheran Church has established two 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.