

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

***FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015***

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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, 2015, 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, 2015, 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 2014 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Shidell Mair & Richardson PLLP

January 16, 2017
St. Paul, Minnesota

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

(With summarized information for the year ended December 31, 2014)

ASSETS	2015	2014
Cash and cash equivalents	\$ 1,926,471	\$ 2,041,280
Cerificates of deposits	403,158	401,520
Accounts receivable	1,711	2,595
Due from related organization		25,297
Prepaid expenses	50,929	34,210
Furniture, equipment and computers, net	22,892	40,986
Total assets	\$ 2,405,161	\$ 2,545,888
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 83,896	\$ 1,576
Accrued compensation	57,418	48,073
Due to others	14,145	7,881
Total liabilities	155,459	57,530
Net Assets		
Unrestricted		
Designated	990,800	1,049,818
Undesignated	532,677	533,525
Total unrestricted net assets	1,523,477	1,583,343
Temporarily restricted	726,225	905,015
Total net assets	2,249,702	2,488,358
Total liabilities and net assets	\$ 2,405,161	\$ 2,545,888

See notes to the financial statements

NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015
(With summarized information of the year ended December 31, 2014)

	2015		2014	
	Unrestricted	Temporarily Restricted	Total	Total
Revenue, gains and other support:				
Contributions				
Individuals	\$ 94,827		\$ 94,827	\$ 55,100
Congregations	1,451,321	\$ 784,145	2,235,466	2,070,667
Other	1,902		1,902	9,751
Total public support and revenue	1,548,050	784,145	2,332,195	2,135,518
Other Revenue				
Service fees	10,282		10,282	10,940
Investment revenue	3,324		3,324	3,123
Other	3,137		3,137	1,400
Registrations	176,550		176,550	106,263
Total other revenue	193,293		193,293	121,726
Total revenue, gains and other support	1,741,343	784,145	2,525,488	2,257,244
Net assets released from restrictions	962,935	(962,935)		
Total revenue and reclassifications	2,704,278	(178,790)	2,525,488	2,257,244
Expenses:				
Program Activities:				
Missions and Evangelism	529,585		529,585	383,898
Theological Education and Clergy	856,057		856,057	520,683
Congregational Services	287,827		287,827	239,489
Ecumenical and Inter-Lutheran	125,067		125,067	132,198
Convocation / Conferences	389,698		389,698	353,977
Communications	163,559		163,559	140,050
Mission Districts	150,746		150,746	105,573
Total Program activities	2,502,539		2,502,539	1,875,868
Support Activities:				
Fund raising	15,345		15,345	12,600
Management and general	246,260		246,260	259,196
Total support activities	261,605		261,605	271,796
Total program and support activities	2,764,144		2,764,144	2,147,664
Change in net assets	(59,866)	(178,790)	(238,656)	109,580
Net Assets, beginning of year	1,583,343	905,015	2,488,358	2,378,778
Net Assets, end of year	\$ 1,523,477	\$ 726,225	\$ 2,249,702	\$ 2,488,358

See notes to the financial statements

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

(With summarized information for the year ended December 31, 2014)

	2015										2014		
	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	\$ 89,214	\$ 85,709	\$ 93,884	\$ 63,624	\$ 91,338	\$ 55,879	\$ 72,274	\$ 551,922	\$ 5,000	\$ 107,719	\$ 112,719	\$ 664,641	\$ 638,036
Contract salaries	27,235	500	20,250	13,285	38,035	4,000	4,000	38,035	2,419	288	2,707	40,742	22,465
Employee benefits	2,099	23,017	26,877	18,038	25,296	16,536	20,910	157,909	1,175	34,636	35,811	193,720	195,002
Payroll taxes		1,490	1,146	296	3,255	1,787	802	10,875	383	4,301	4,684	15,559	16,797
Total salaries and related expenses	118,548	110,716	142,157	81,958	119,889	87,487	97,986	758,741	8,977	146,944	155,921	914,662	872,300
Professional services		2,950	26,654			260		29,864		13,640	13,640	43,504	37,996
Telephone	2,679	2,502	3,212	1,852	2,709	1,977	2,214	17,145	202	3,320	3,522	20,667	16,427
Occupancy	3,890	3,633	4,665	2,690	3,934	2,871	3,216	24,899	295	4,822	5,117	30,016	14,572
Promotional expenses													
Computer expense	1,686	1,620	3,743	1,202	1,726	26,228	1,366	37,571	3,995	5,065	9,060	46,631	29,509
Postage	459	429	551	318	465	339	380	2,941	55	569	604	3,545	2,281
Office expenses	1,180	1,102	1,415	816	1,194	4,761	975	11,443	89	10,188	10,277	21,720	23,718
Convocation/Conference expenses	20,498	21,136			235,302			276,936				276,936	182,511
Executive Council travel										30,581	30,581	30,581	31,247
Task Force travel	8,111	120,591	8,823	18,730		2,418	25,484	184,157		184,157	184,157	184,157	88,342
Travel	20,472	25,608	24,043	15,366	20,982	15,047	16,572	138,090	1,519	24,852	26,371	164,461	259,955
Insurance	674	629	808	465	681	498	557	4,312	50	837	887	5,199	4,746
Seminar scholarships								92,295				92,295	38,889
Administrative services													13,789
Ministry gifts	49,000		41,000		374			90,000				90,000	80,000
Educational expenses		470,591						470,965				470,965	234,882
Other grants	299,972		27,860					327,832				327,832	171,914
Printing						19,891		19,891				19,891	22,346
Total before depreciation	527,169	853,802	284,931	123,397	387,256	161,777	148,750	2,487,082	15,162	243,266	258,428	2,745,510	2,129,362
Depreciation	2,416	2,255	2,896	1,670	2,442	1,782	1,996	15,457	183	2,994	3,177	18,634	18,302
Total expenses	\$ 529,585	\$ 856,057	\$ 287,827	\$ 125,067	\$ 389,698	\$ 163,559	\$ 150,746	\$ 2,502,539	\$ 15,345	\$ 246,260	\$ 261,605	\$ 2,764,144	\$ 2,147,664

**NORTH AMERICAN LUTHERAN CHURCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

(With summarized information for the year ended December 31, 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (238,656)	\$ 109,580
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,634	18,302
(Gain) on disposal of equipment	(810)	
(Increase) decrease in operating assets:		
Accounts receivable	884	9,086
Due from related organization	25,297	26,932
Prepaid expenses	(16,719)	2,521
Increase (decrease) in operating liabilities:		
Accounts payable	82,320	(23,643)
Due to others	6,264	1,565
Accrued compensation	9,345	8,378
Net cash provided by operating activities	(113,441)	152,721
Cash flows from investing activities:		
Purchase of certificates of deposits	(1,638)	(1,520)
Proceeds from sale of equipment	1,560	
Purchase of equipment	(1,290)	(20,878)
Net cash provided (used) by investing activities	(1,368)	(22,398)
Net increase in cash and cash equivalents	(114,809)	130,323
Cash and cash equivalents - beginning of period	2,041,280	1,910,957
Cash and cash equivalents - end of period	\$ 1,926,471	\$ 2,041,280

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 mission festival is held concurrently with the Convocation for mission planters, mission congregations and those seeking to revitalize existing congregations and a conference for pastors are offered annually for professional growth, community building and sharing of best practices among the clergy of the NALC.

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.

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 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, 2014, 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.

Reclassification

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

**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 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 January 16, 2017, 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. The lease may be terminated by either party with a 60 day notice.

Total rent expense for the year ended December 31, 2015 was:

Ohio office	\$	12,000
Minnesota office		18,016
	\$	<u>30,016</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 during 2014. As of December 31, 2014 the Lutheran Coalition for Renewal owed the North American Lutheran Church \$25,297 for related shared expenses. The two organizations ceased sharing space during 2015 and all related liabilities were paid.

NOTE 6. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The Church owns the following as of December 31, 2015.

Equipment	\$ 38,937
Leasehold Improvements	25,914
Website	15,000
	<hr/> 79,851
Less accumulated depreciation	(56,959)
	<hr/> <u>\$ 22,892</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, 2015 was \$70,403.

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

NOTE 8. NET ASSETS

Temporarily Restricted Net Assets

The temporarily restricted net assets as of December 31, 2015 were restricted for use in the Church's programs as follows:

Theological Education Fund	\$ 491,146
Disaster Response Fund	173,222
Ethiopian Church Relief Fund	12,486
Other	49,371
	<u>\$ 726,225</u>

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, 2015 are as follows:

Theological Education Fund	\$ 624,907
Great Commission Fund	128,000
Ethiopian Church Relief Fund	167,376
Disaster Response Fund	22,859
Other	19,793
	<u>\$ 962,935</u>

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.

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

NOTE 8. NET ASSETS – (Continued)

Activity in the designated net assets for the year ended December 31, 2015, is as follows:

Designated net assets - beginning of year	\$ 1,049,818
Designated expenditures - during the year	(59,018)
Designated net assets - end of year	<u>\$ 990,800</u>

Designated net assets as of December 31, 2015 is as follows:

Great Commission Fund	\$ 215,800
Theological Education Fund	375,000
Strategic Development Fund	400,000
	<u>\$ 990,800</u>