

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA**

**REPORT ON FINANCIAL STATEMENTS  
(with supplementary information)**

**YEARS ENDED JANUARY 31, 2016 AND 2015**

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## **INDEPENDENT AUDITOR'S REPORT**

To the North/West Lower Michigan Synod  
of the Evangelical Lutheran Church in America

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the North/West Lower Michigan Synod of the Evangelical Lutheran Church in America (a nonprofit organization) which comprise the statements of financial position as of January 31, 2016 and 2015, and the related statements of activities and cash flows for the year ended January 31, 2016 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 risks 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 the 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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 the North/West Lower Michigan Synod of the Evangelical Lutheran Church in America as of January 31, 2016 and 2015, and the changes in its net assets and its cash flows for the year ended January 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Report on Summarized Comparative Information**

We have previously audited the North/West Lower Michigan Synod of the Evangelical Lutheran Church in America's 2015 financial statements, and our report dated April 16, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented in the statement of activities for the year ended January 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as identified in the table of contents, is presented for purposes 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 relates 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.

*Manes Costeiran PC*

April 19, 2016

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
STATEMENTS OF FINANCIAL POSITION  
JANUARY 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 381,185	\$ 366,739
Investments	1,952,323	2,069,637
Accounts receivable	33,286	36,701
Prepaid expenses	14,600	29,074
Property and equipment, less accumulated depreciation	<u>38,400</u>	<u>44,265</u>
TOTAL ASSETS	<u><u>\$ 2,419,794</u></u>	<u><u>\$ 2,546,416</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 16,643	\$ 19,529
Accrued payroll and related	11,798	11,527
Deferred revenue	<u>13,525</u>	<u>5,719</u>
Total liabilities	<u>41,966</u>	<u>36,775</u>
<b>NET ASSETS:</b>		
Unrestricted:		
Undesignated	(79,707)	(16,956)
Designated	<u>538,914</u>	<u>562,157</u>
Total unrestricted	459,207	545,201
Temporarily restricted	1,020,982	1,121,801
Permanently restricted	<u>897,639</u>	<u>842,639</u>
Total net assets	<u>2,377,828</u>	<u>2,509,641</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,419,794</u></u>	<u><u>\$ 2,546,416</u></u>

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JANUARY 31, 2016  
(with comparative totals for the year ended January 31, 2015)**

	2016			2015
	Unrestricted	Temporarily restricted	Permanently restricted	Total
<b>REVENUES AND SUPPORT:</b>				<b>Total</b>
Mission support	\$ 1,370,987	\$ -	\$ -	\$ 1,370,987
Center for mission and ministry	15,489	5,226	-	20,715
Committee revenue	10,805	-	-	10,805
Investment income (loss) - net	(55,957)	(33,948)	-	(89,905)
Grant revenue	32,042	-	-	32,042
New and renewing congregations	-	754	-	754
Registration fees - leadership event	2,072	-	-	2,072
Registration fees - synod assembly	42,706	-	-	42,706
Seminary education assistance	-	295	-	295
Synod congregational support	-	29,434	-	29,434
Synod-wide revenue	3,961	21,936	-	25,897
Other income	13,310	-	-	13,310
Transfers from closed congregations	-	-	55,000	55,000
Net assets released from restrictions	124,516	(124,516)	-	-
Total revenues and support	1,559,931	(100,819)	55,000	1,514,112
<b>EXPENSES:</b>				
Program services:				
Agency-organizational ministry support:				
ELCA church-wide support	685,493	-	-	685,493
Capital University and Wittenberg University	3,000	-	-	3,000
Living Water Ministries	40,000	-	-	40,000
Lutheran Social Services of Michigan	3,000	-	-	3,000
Michigan Lutheran Campus Ministry	44,700	-	-	44,700
Region 6 support (includes archives)	9,059	-	-	9,059
Trinity Lutheran Seminary	22,000	-	-	22,000
Total agency-organizational ministry support	807,252	-	-	807,252
Synod ministries:				
Closed congregation expense	149	-	-	149
Synod assembly	55,942	-	-	55,942
Synod council	7,443	-	-	7,443
Total synod ministries	63,534	-	-	63,534
Special programs:				
Paul Trapp endowment	14,000	-	-	14,000
Wilson trust	21,259	-	-	21,259
Seminarian education assistance	5,000	-	-	5,000
Center for Mission and Ministry	29,760	-	-	29,760
Honduras companion support	29,435	-	-	29,435
M. P. Sudanese Christ Wyoming	250	-	-	250
Honduran education fund	3,200	-	-	3,200
New and renewing congregations	3,436	-	-	3,436
Other congregational support	3,155	-	-	3,155
Total special programs	109,495	-	-	109,495

See notes to financial statements.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JANUARY 31, 2016  
(with comparative totals for the year ended January 31, 2015)**

	2016				2015
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
EXPENSES:					
Program services (Concluded):					
Program support:					
Church in society committee	\$ 32,658	\$ -	\$ -	\$ 32,658	\$ 20,940
Christian education committee	140	-	-	140	-
Communication committee	-	-	-	-	1,500
Financial support committee	1,952	-	-	1,952	7,162
Global mission committee	10,773	-	-	10,773	4,701
Ministry committee	40,080	-	-	40,080	37,960
Outreach committee	60,567	-	-	60,567	40,216
Multicultural committee	1,500	-	-	1,500	17,931
Witness/evangelism committee	107	-	-	107	1,638
Worship committee	3,539	-	-	3,539	677
Youth committee	3,594	-	-	3,594	2,216
Total program support	154,910	-	-	154,910	134,941
Total program services	1,135,191	-	-	1,135,191	1,138,949
Support services:					
Staff salaries and benefits:					
Salary - administrative support staff	75,988	-	-	75,988	77,928
Salary and housing - called staff	140,000	-	-	140,000	133,700
Salary - deployed staff	38,821	-	-	38,821	47,748
Social security allowance	16,410	-	-	16,410	16,319
Payroll taxes	9,446	-	-	9,446	9,361
Health insurance and retirement	81,179	-	-	81,179	77,662
Continuing education	1,556	-	-	1,556	516
Other insurance	4,599	-	-	4,599	2,851
Total staff salaries and benefits	367,999	-	-	367,999	366,085
Synod administration:					
Bishop's discretionary fund	1,652	-	-	1,652	2,345
Insurance - operating	10,711	-	-	10,711	10,671
Lease expense	16,800	-	-	16,800	16,800
Office equipment - maintenance	9,431	-	-	9,431	6,360
Office supplies	8,297	-	-	8,297	8,724
Postage	2,718	-	-	2,718	1,965
Professional fees	21,640	-	-	21,640	15,729
Telephone	8,778	-	-	8,778	10,908
Transition costs and moving expense	-	-	-	-	7,786
Travel - staff	31,294	-	-	31,294	34,144
(Gain) loss on disposal of assets	893	-	-	893	(16,606)
Website and network	8,891	-	-	8,891	2,179
Total synod administration	121,105	-	-	121,105	101,005
Depreciation expense	21,630	-	-	21,630	11,362
Total support services	510,734	-	-	510,734	478,452
Total expenses	1,645,925	-	-	1,645,925	1,617,401
CHANGE IN NET ASSETS	(85,994)	(100,819)	55,000	(131,813)	454,639
NET ASSETS, beginning of year	545,201	1,121,801	842,639	2,509,641	2,055,002
NET ASSETS, end of year	\$ 459,207	\$ 1,020,982	\$ 897,639	\$ 2,377,828	\$ 2,509,641

See notes to financial statements.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JANUARY 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash flows from operating activities:		
Change in net assets	\$ (131,813)	\$ 454,639
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	21,630	11,362
(Gain) loss on disposal of assets	893	(16,606)
Realized and unrealized (gain) loss on investments	161,018	(60,487)
Accounts receivable	3,415	3,880
Prepaid expenses	14,474	(18,380)
Accounts payable	(2,886)	(8,448)
Accrued payroll and related	271	494
Deferred revenue	7,806	(2,263)
Total adjustments	<u>206,621</u>	<u>(90,448)</u>
Net cash provided by operating activities	<u>74,808</u>	<u>364,191</u>
Cash flows from investing activities:		
Purchase of investments	(107,719)	(425,306)
Sale of investments	64,015	42,919
Purchase of property and equipment	(16,658)	(51,309)
Proceeds from sale of property and equipment	-	16,606
Note receivable repayment	<u>-</u>	<u>52,721</u>
Net cash used by investing activities	<u>(60,362)</u>	<u>(364,369)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,446	(178)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>366,739</u>	<u>366,917</u>
End of year	<u>\$ 381,185</u>	<u>\$ 366,739</u>



**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of accounting** - The books and records of the Synod are maintained on the accrual basis of accounting, which recognizes income when earned and expenses when incurred. The Synod is required to report its financial position and activities according to three classes of net assets based on donor imposed restrictions. A description of the three net asset categories follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.
- Temporarily restricted net assets - Net assets whose use is limited by either a donor-imposed time restriction or a donor imposed purpose restriction. When a restriction expires (that is, when a stipulated time restriction ends or funds are expended for the specific purpose) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets - Net assets that donors have instructed the Synod to maintain in perpetuity, that is, permanently.

**Financial statement presentation** - The statement of activities includes certain 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 Synod's prior-year statement of activities from which the summarized information was derived.

**Programs:**

- Agency-organizational ministry support:
  - ❖ ELCA agencies and organizations - This activity promotes resources available for monthly or quarterly ministry support for various ELCA related ministries within Region 6.
  - ❖ Church-wide ministry support - This activity provides unrestricted resources for distribution through the church-wide expression of the Evangelical Lutheran Church in America for missions domestically and globally.
- Synod ministries - This activity provides resources for the Synod Assembly, the highest level synod legislative body, and for the Synod Council which transacts and oversees the ministries of the Synod between assemblies.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Programs (Continued):**

- Special programs:
  - ❖ Paul Trapp endowment - This activity oversees requests for financial support for synod congregations in the northern portion of the Lower Peninsula, funded by annual earnings received by the Paul Trapp Endowment Fund Pooled Trust.
  - ❖ Wilson Trust - This activity provides financial resources for synod member churches located in Saginaw County, Michigan, funded by a one-time bequest and annual earnings received by the Wilson Endowment Trust.
  - ❖ Seminarian education assistance - This activity oversees requests for financial support for tuition and/or non-tuition expenses of seminarians toward calls in ELCA ministries, which is funded by donations and annual earnings received by the To Whom Shall We Go Endowment Fund Pooled Trust.
  - ❖ New and renewing congregations - This activity provides financial resources for new congregations and other congregations in renewal within the Synod, funded by donations and annual earnings received by the To Whom Shall We Go Endowment Fund Pooled Trust.
  - ❖ Center for mission and ministry - Originally intended to be part of a campus which would also include a Lutheran Episcopal congregation and the synodical offices, this activity evolved to provide programs including spiritual discernment and formation throughout the Synod.
  - ❖ Making us one - Launched in 2009 as a capital campaign, this activity intends to raise sufficient cash and pledges to construct a Center for Mission and Ministry and new synodical offices, a three-part campus that include the worship and fellowship site of Christ United, a Lutheran-Episcopal congregation in DeWitt, Michigan.
  - ❖ Companion and other congregational support - Through the global Lutheran family, the ELCA has bilateral “companion church” relationships with many national Lutheran church bodies. These global relationships are deepened by the ELCA Companion Synods Program, which connects 65 ELCA synods in over 120 international companion relationships. Through these companion relationships, members of ELCA synods live out the accompaniment model of the global mission.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Programs (Continued):**

➤ Program support:

- ❖ Christian education committee - This committee shall be the conduit between congregations, the Synod, the region and church-wide bodies to promote Christian education. The committee shall recruit, train and equip educational leaders within congregations. The committee shall also provide oversight of the Synod resource room.
- ❖ Church in society committee - This committee shall respond to the Gospel and thereby address social issues through study, grants, advocacy and social statements. This committee shall assist congregations in establishing and implementing social ministry programs.
- ❖ Communication committee - This committee shall communicate and interpret the ministries of the Church, especially focusing on three levels: congregational, synodical and church-wide. It will accomplish these tasks using periodicals, resources and media instruments most beneficial.
- ❖ Financial support committee - This committee oversees stewardship consultations with congregations each year. It acts as a catalyst and advocate for programs and resources beneficial for stewardship growth within the congregation.
- ❖ Global mission committee - This committee shall be responsible for supporting and interpreting the mission work of the church that is done outside the United States as well as that done within. The committee may include in its work the Companion Synod program, congregational advocates and their assisting tools.
- ❖ Ministry committee - This committee shall be responsible for candidacy, leadership support, specialized ministry and ministry of laypersons in daily life.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Programs (Concluded):**

- ❖ Outreach committee - This committee shall be responsible for helping and supporting mission congregations, develop new ministries, support urban and rural coalitions, monitor the Mission Partner Program of the Evangelical Lutheran Church in America, and coordinate mission efforts of the ELCA. The committee shall develop a mission strategy appropriate to the context of the Synod, review funding requests related to the Evangelical Lutheran Church in America for Outreach and coordinate a mission strategy with other synods of Region 6.
- ❖ Multicultural committee - this committee shall promote and facilitate inclusivity, and consult with and/or relate to synod congregations, other synod committees, units of the ELCA, and/or Region 6 on matters which are multi-cultural.
- ❖ Witness/evangelism committee - This committee shall lift up the task of sharing the Gospel of Jesus Christ in word and deed; enable congregations and their members to do this corporately and individually with both the unchurched and their own inactive members; and equip congregations and individuals in any and all appropriate ways of accomplishing this God-given task.
- ❖ Worship committee - This committee shall advise, plan and coordinate workshop for synodical events. The committee shall make available resources, workshops, and worship events to congregations of the Synod.
- ❖ Youth committee - This committee shall serve the youth of the synod as they do ministry in congregations, conferences, the synod and the church-at-large. The committee shall listen to the goals and needs of youth and be advocates in planning and implementation of these goals, work with the Lutheran Youth Organization of the Synod and strive to empower the youth in their ministry. The committee shall also serve as a resource to congregations in the area of youth ministry.

**Functional allocation of expenses** - The costs of the various programs and other activities have been summarized on a functional basis in Note 11. Fundraising has not been segregated on the basis of immateriality.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**Cash and cash equivalents** - Cash and cash equivalents consist of cash accounts and money market funds. Cash held by investment managers is considered an investment rather than cash equivalent.

**Investments** - Investments are reported at fair value with realized and unrealized gains and losses included in the statement of activities.

**Accounts receivable** - Accounts receivable includes amounts collected by local ministries during the years ended January 31, 2016 and 2015, but not received by the Synod until after year end.

**Contributions receivable** - The Synod's contributions receivable are comprised of contributions pledged or bequeathed to the Synod and are expected to be collected within one year. The Synod provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of the receivable account. Based on management's estimate, no allowance for bad debts was necessary for the years ended January 31, 2016 and 2015.

**Property and equipment** - Property and equipment are recorded at cost. Donated assets are recorded at fair value at the date of donation. Depreciation is computed over the estimated useful life of assets using the straight-line method. The Synod capitalizes property and equipment in excess of \$1,000. Cost of maintenance and repairs are charged to expense when incurred.

**Deferred revenue** - Deferred revenue represents grants received in advance of related program expenses and assets held on behalf of others in an agency capacity.

**NOTE 2 - ORGANIZATION, RISKS AND UNCERTAINTIES**

The North/West Lower Michigan Synod of the Evangelical Lutheran Church in America (the "Synod") is a Michigan Non-Profit Corporation. The purpose of the Synod is to develop and administer a comprehensive and coordinated plan of fiscal and administrative policies, procedures, and management services for the member churches. The member churches are located in the northern and western half of the Lower Peninsula of Michigan ("Region 6"). Using ministry support and special offerings received from its member churches, the Synod contributes to denominational ministries and provides support for various missions, educational programs and youth outreach. The Synod is exempt from income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - ORGANIZATION, RISKS AND UNCERTAINTIES (Concluded)**

The Synod is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the organization to concentrations of significant credit risk consist of cash and cash equivalents, and investments. The Synod places its cash with FDIC insured financial institutions and thereby limits the amount of credit exposure to any one financial institution. Although such cash balances may exceed the federally insured limits at certain times during the year and at year-end they are, in the opinion of management, subject to minimal risk. Credit risk with respect to investments is limited due to the wide variety of investment vehicles used as part of participation in the Evangelical Lutheran Church in America (ELCA) Endowment Fund Pooled Trust and the Evangelical Lutheran Church in America Mission Investment Fund. These investments are not insured by the FDIC or any other regulatory agency. The Synod's investment portfolio is also subject to market risk.

Investments are disclosed in Notes 3 and 4 and consist largely of amounts invested in various funds by the Evangelical Lutheran Church in America Endowment Fund Pooled Trust and the Evangelical Lutheran Church in America Mission Investment Fund.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Tax positions are taken based on interpretation of federal, state and local income tax laws. Management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded, as uncertain positions. Federal, state and local tax returns generally remain open for examination by the various taxing authorities for a period of three to four years.

The Synod evaluates events and transactions that occur after year end for potential recognition or disclosure in the financial statements. These subsequent events have been considered through April 19, 2016, which is the date the financial statements were available to be issued.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - INVESTMENTS**

Investments at January 31 consist of the following:

	<u>2016</u>	<u>2015</u>
ELCA Mission Investment Fund:		
Money market fund	\$ 241,572	\$ 257,741
Short-term investment fund	34,430	34,122
ELCA Endowment Fund Pooled Trust	<u>1,676,321</u>	<u>1,777,774</u>
	<u><u>\$ 1,952,323</u></u>	<u><u>\$ 2,069,637</u></u>

Investment income for the year ended January 31 consists of the following:

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Interest and dividends	\$ 149	\$ 2,384	\$ 2,533
ELCA pooled trust dividend	40,946	27,634	68,580
Realized/unrealized loss on investments - net	<u>(97,052)</u>	<u>(63,966)</u>	<u>(161,018)</u>
	<u><u>\$ (55,957)</u></u>	<u><u>\$ (33,948)</u></u>	<u><u>\$ (89,905)</u></u>

  

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Interest and dividends	\$ 192	\$ 2,653	\$ 2,845
ELCA pooled trust dividend	24,309	26,378	50,687
Realized/unrealized gain on investments - net	<u>26,031</u>	<u>34,456</u>	<u>60,487</u>
	<u><u>\$ 50,532</u></u>	<u><u>\$ 63,487</u></u>	<u><u>\$ 114,019</u></u>

Investment income is net of related investment expenses for the years ended January 31, 2016 and 2015.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Synod has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Synod's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at January 31, 2016 and 2015.

*ELCA Endowment Fund Pooled Trust:* Valued at the net asset value (NAV) of the units held by the Synod, the Fund is available for exclusive investment by Evangelical Lutheran Church in America related institutions. The primary investment objective of the Fund is to provide for long term capital growth. The Fund seeks to achieve its investment objectives by investing in a diversified portfolio of equity, bond and real estate securities. Investments held at the ELCA Endowment Fund Pooled Trust include numerous securities that are combined with the investment portfolios of other ELCA related organizations. As such, they are considered Level 3 investments.



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**NOTE 4 - FAIR VALUE MEASUREMENTS (Continued)**

*ELCA Mission Investment Fund:* Valued at the NAV, the Fund is available for exclusive investment by Evangelical Lutheran Church in America related institutions. The Fund participates in short-term investments offering demand, saving and term investment accounts. As such, they are considered Level 2 investments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Synod believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following is a market value summary by the level of the inputs used, as of January 31, 2016 and 2015, in evaluating the Synod's assets carried at fair value. The inputs or methodologies used for valuing securities may not be an indication of the risk associated with investing in those securities.

<u>Description</u>	<u>2016</u>	<u>2015</u>
Level 2 measurement:		
ELCA Mission Investment Fund:		
Short-term investment fund	\$ 34,430	\$ 34,122
Level 3 measurement:		
ELCA Endowment Fund Pooled Trust	1,676,321	1,777,774
ELCA Mission Investment Fund:		
Money market funds at cost	<u>241,572</u>	<u>257,741</u>
Total	<u><u>\$ 1,952,323</u></u>	<u><u>\$ 2,069,637</u></u>

**NORTH/WEST LOWER MICHIGAN SYNOD  
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**NOTE 4 - FAIR VALUE MEASUREMENTS (Concluded)**

The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance February 1, 2014	\$ 1,316,731
ELCA pooled trust dividend	50,687
Realized/unrealized gain on investments - net	60,487
Purchases	392,788
Proceeds from sale	<u>(42,919)</u>
Balance January 31, 2015	1,777,774
ELCA pooled trust dividend	68,580
Realized/unrealized loss on investments - net	(161,018)
Purchases	55,000
Proceeds from sale	<u>(64,015)</u>
Balance January 31, 2016	<u><u>\$ 1,676,321</u></u>

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment and their depreciable lives as of January 31, are summarized as follows:

	Estimated useful life (in years)	2016	2015
Furniture and equipment	5	\$ 25,926	\$ 12,864
Vehicles	3	<u>50,629</u>	<u>50,629</u>
		76,555	63,493
Less accumulated depreciation		<u>38,155</u>	<u>19,228</u>
Net property and equipment		<u><u>\$ 38,400</u></u>	<u><u>\$ 44,265</u></u>
Depreciation expense		<u><u>\$ 21,630</u></u>	<u><u>\$ 11,362</u></u>

**NORTH/WEST LOWER MICHIGAN SYNOD  
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**NOTE 6 - OPERATING LEASE**

The Synod rents office space under the terms of an operating lease from a member church that expired in 2011. Future rent is based on a verbal agreement that the lease continues on a month-to-month basis. The current base monthly lease rate is \$1,400. Rent expense for the years ended January 31, 2016 and 2015 amounted to \$16,800 and \$16,800, respectively.

**NOTE 7 - RETIREMENT PLAN**

The Synod participates in a multi-employer defined contribution pension plan administered by Portico, formerly the Evangelical Lutheran Church in America Board of Pensions, which covers all full-time employees. The Synod contributes between 6 and 12 percent of each participant's annual wages. Contributions made by the Synod amounted to \$21,168 and \$18,844 for the years ended January 31, 2016 and 2015, respectively.

**NOTE 8 - RELATED PARTY TRANSACTIONS**

The Synod conducts essentially all transactions, other than purchases of goods and services and sales of certain property, with affiliated congregations. Certain administrative expenses are reimbursed by related organizations.

**NOTE 9 - NET ASSETS**

Unrestricted net assets at January 31 were comprised of the following:

	2016	2015
Unrestricted, designated:		
Cash flow reserve	\$ 18,780	\$ 17,520
Automobile purchases	20,000	-
Severance pay - called staff	20,000	20,000
Shared risk deductible	5,000	5,000
Emmaus, Cascade land sale	11,770	11,770
St. Luke's, Stevensville	5,539	5,539
Synod-designated endowment fund	457,825	502,328
Total unrestricted, designated net assets	538,914	562,157
Unrestricted, undesignated	(79,707)	(16,956)
Total unrestricted net assets	\$ 459,207	\$ 545,201

**NORTH/WEST LOWER MICHIGAN SYNOD  
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NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - NET ASSETS (Continued)**

Temporarily restricted net assets at January 31 are available for the following purposes:

	2016	2015
Paul Trapp endowment fund	\$ 65,319	\$ 98,298
Honduran education endowment fund	44,572	50,197
Wilson trust endowment fund	271,298	307,484
Endowment related temporarily restricted net assets	381,189	455,979
Central Muskegon ministries fund	12,688	12,688
New and renewing congregations fund	51,214	53,516
Seminary education assistance fund	-	1,782
Center for mission and ministry - building fund	259,651	258,383
Honduras project - church leaders education fund	133	1,633
Center for mission and ministry - program support fund	22,146	32,054
Ministry grant fund	5,155	5,155
Ionia mission fund	54,390	54,390
Coalitions / Multi-cultural ministries fund	17,665	17,665
ELCA - immersion mapp project fund	1,355	1,355
Muskegon Heights fund	49,994	49,994
Trinity Church, Saginaw fund	9,264	9,413
Making us one - regional hubs fund	-	8,437
Making us one - startup grants fund	6,870	6,870
Prince of Peace - seminary fund	34,430	34,122
Prince of Peace - lay ministry training program scholarship fund	28,741	28,741
Honduras health team Salud Para La Vida fund	8,880	10,244
Honduras water filter fund	-	6,436
Honduras trips fund	696	57
Honduras three P's fund	6,615	-
Honduras women's health program fund	125	-
Honduras LaCanada kindergarten snack program fund	11,792	9,905
Papua New Guinea companion support fund	1,816	1,816
Outreach fund	2,426	1,156
Assistant to the Bishop fund	20,000	-
Bishop's teaching fund	1,150	1,150
Open hearts / open church fund	500	-
Interim minister's support fund	5,086	5,086
Other congregational support fund	70	4,655
Technology fund	-	5,928
Bishop's fund	-	150
Berttina W. Helmers trust fund	26,941	43,041
Total temporarily restricted net assets	<u>\$ 1,020,982</u>	<u>\$ 1,121,801</u>

**NORTH/WEST LOWER MICHIGAN SYNOD  
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**NOTE 9 - NET ASSETS (Concluded)**

Temporarily restricted net assets released as a result of satisfying their restricted purposes or by occurrence of other events specified by donors for the years ended January 31, 2016 and 2015 as presented on the statement of activities are comprised of the following:

	2016	2015
Paul Trapp endowment fund	\$ 14,000	\$ 13,640
Honduran education endowment fund	3,200	-
Wilson trust endowment fund	21,258	13,160
Endowment related temporarily restricted net assets released	38,458	26,800
Seminary education assistance fund	2,090	374
Center for mission and ministry - building fund	242	247
Center for mission and ministry - program support fund	15,306	3,404
Center for mission and ministry - regional hubs fund	8,437	-
Trinity Church, Saginaw fund	149	36,150
Honduras companion support fund	29,399	12,030
Other congregational support fund	4,655	2,500
New and renewing congregations fund	3,436	6,000
Technology fund	5,928	-
Bishop's fund	316	275
Berttina W. Helmers trust fund	16,100	-
Outreach fund	-	100
Total temporarily restricted net assets released	<u>\$ 124,516</u>	<u>\$ 87,880</u>

Permanently restricted net assets at January 31 were comprised of the following:

	2016	2015
Paul Trapp endowment fund	\$ 279,545	\$ 279,545
New and renewing congregations endowment fund	98,998	98,998
Seminary education assistance endowment fund	71,308	71,308
Grace mission endowment fund	447,788	392,788
Total permanently restricted net assets	<u>\$ 897,639</u>	<u>\$ 842,639</u>

**NORTH/WEST LOWER MICHIGAN SYNOD  
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NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENTS**

Endowments consist of funds established for a variety of purposes and may include both donor-restricted funds and funds internally designated to function as endowments. Restrictions are both permanent and temporary and assets associated with endowment funds are classified and reported based on the existence or absence of these restrictions.

The Synod has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as permitting the preservation of the historical value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, when directed by the gift instrument, the Synod classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the restricted purpose has been accomplished. The Synod considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

1. The duration and preservation of the fund.
2. The purposes of the organization and the donor-restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the organization
7. The investment policies of the Synod.

The Synods investment and spending practices for endowment assets attempt to provide a predictable stream of funding to programs supported while seeking to maintain the purchasing power of the endowment assets.

Investment earnings from donor-restricted endowment funds are classified as unrestricted income absent explicit donor stipulations to the contrary. In the event that the fair value of donor-restricted endowment funds falls below the level required to be maintained in perpetuity, the resulting deficiency is recorded as a reduction of unrestricted net assets. Deficiencies of this nature amounted to \$42,549 and \$11,719 at January 31, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs deemed prudent by the Synod.

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENTS (Continued)**

Changes in endowment net assets are as follows:

	Unrestricted, designated	Unrestricted, undesignated	Total unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Endowment net assets at February 1, 2014	\$ 478,366	\$ (19,769)	\$ 458,597	\$ 421,945	\$ 449,851	\$ 1,330,393
Contributions	-	-	-	-	392,788	392,788
Investment return:						
Investment income	18,328	5,981	24,309	26,378	-	50,687
Net appreciation	23,962	2,069	26,031	34,456	-	60,487
Appropriation of endowment assets for expenditure	(18,328)	-	(18,328)	(26,800)	-	(45,128)
Endowment net assets at January 31, 2015	502,328	(11,719)	490,609	455,979	842,639	1,789,227
Contributions	-	-	-		55,000	55,000
Investment return:						
Investment income	19,227	21,719	40,946	27,634	-	68,580
Net depreciation	(44,503)	(52,549)	(97,052)	(63,966)	-	(161,018)
Appropriation of endowment assets for expenditure	(19,227)	-	(19,227)	(38,458)	-	(57,685)
Endowment net assets at January 31, 2016	\$ 457,825	\$ (42,549)	\$ 415,276	\$ 381,189	\$ 897,639	\$ 1,694,104

The composition of endowment net assets at January 31 were comprised of the following:

	2016	2015
Cash and cash equivalents	\$ 17,783	\$ 11,453
ELCA Endowment Fund Pooled Trust (Note 3)	1,676,321	1,777,774
Endowment net assets	\$ 1,694,104	\$ 1,789,227

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENTS (Concluded)**

The composition of endowment net assets at January 31, 2016 were comprised of the following:

	Unrestricted, designated	Unrestricted, undesignated	Total unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Synod-designated fund	\$ 457,825	\$ -	\$ 457,825	\$ -	\$ -	\$ 457,825
Paul Trapp fund	-	-	-	65,319	279,545	344,864
New and renewing congregations fund	-	(8,475)	(8,475)	-	98,998	90,523
Seminary education assistance fund	-	(6,335)	(6,335)	-	71,308	64,973
Honduran education fund	-	-	-	44,572	-	44,572
Wilson trust fund	-	-	-	271,298	-	271,298
Grace mission fund	-	(27,739)	(27,739)	-	447,788	420,049
	<u>\$ 457,825</u>	<u>\$ (42,549)</u>	<u>\$ 415,276</u>	<u>\$ 381,189</u>	<u>\$ 897,639</u>	<u>\$ 1,694,104</u>

The composition of endowment net assets at January 31, 2015 were comprised of the following:

	Unrestricted, designated	Unrestricted, undesignated	Total unrestricted	Temporarily restricted	Permanently restricted	Total net endowment assets
Synod-designated fund	\$ 502,328	\$ -	\$ 502,328	\$ -	\$ -	\$ 502,328
Paul Trapp fund	-	-	-	98,298	279,545	377,843
New and renewing congregations fund	-	(3,495)	(3,495)	-	98,998	95,503
Seminary education assistance fund	-	(2,747)	(2,747)	-	71,308	68,561
Honduran education fund	-	-	-	50,197	-	50,197
Wilson trust fund	-	-	-	307,484	-	307,484
Grace mission fund	-	(5,477)	(5,477)	-	392,788	387,311
	<u>\$ 502,328</u>	<u>\$ (11,719)</u>	<u>\$ 490,609</u>	<u>\$ 455,979</u>	<u>\$ 842,639</u>	<u>\$ 1,789,227</u>



**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 - FUNCTIONAL REPORTING**

The Synod reports its expenses in the statement of activities in a manner that facilitates management's oversight. For purposes of functional reporting, expenses relating to supporting various program activities have been allocated as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 1,472,275	\$ 1,454,727
Support services	<u>173,650</u>	<u>162,674</u>
Total expenses	<u><u>\$ 1,645,925</u></u>	<u><u>\$ 1,617,401</u></u>

## **SUPPLEMENTARY INFORMATION**

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
UNRESTRICTED BUDGET TO ACTUAL SCHEDULE  
YEAR ENDED JANUARY 31, 2016**

	Budget	Actual	Favorable (unfavorable)
<b>REVENUES AND SUPPORT:</b>			
Mission support	\$ 1,361,102	\$ 1,370,987	\$ 9,885
Center for mission and ministry	-	15,489	15,489
Committee revenue	20,000	10,805	(9,195)
Investment income (loss) - net	19,100	(55,957)	(75,057)
Grant revenue	20,000	32,042	12,042
Registration fees - leadership event	7,000	2,072	(4,928)
Registration fees - synod assembly	60,000	42,706	(17,294)
Synod-wide revenue	6,000	3,961	(2,039)
Other income	-	13,310	13,310
Net assets released from restrictions	67,000	124,516	57,516
Total revenues and support	1,560,202	1,559,931	(271)
<b>EXPENSES:</b>			
Program services:			
Agency-organizational ministry support:			
ELCA church-wide support	680,551	685,493	(4,942)
Capital University and Wittenberg University	3,000	3,000	-
Living Water Ministries	40,000	40,000	-
Lutheran Social Services of Michigan	3,000	3,000	-
Michigan Lutheran Campus Ministry	45,000	44,700	300
Region 6 support (includes archives)	9,500	9,059	441
Trinity Lutheran Seminary	22,000	22,000	-
Total agency-organizational ministry support	803,051	807,252	(4,201)
Synod ministries:			
Closed congregation expense	-	149	(149)
Synod assembly	65,000	55,942	9,058
Synod council	9,000	7,443	1,557
Total synod ministries	74,000	63,534	10,466
Special programs:			
Paul Trapp endowment	-	14,000	(14,000)
Wilson trust	-	21,259	(21,259)
Seminarian education assistance	-	5,000	(5,000)
Center for Mission and Ministry	-	29,760	(29,760)
Honduras companion support	-	29,435	(29,435)
M. P. Sudanese Christ Wyoming	-	250	(250)
Honduran education fund	-	3,200	(3,200)
New and renewing congregations	-	3,436	(3,436)
Other congregational support	-	3,155	(3,155)
Total special programs	-	109,495	(109,495)
Program support:			
Christian education committee	1,000	140	860
Church in society committee	19,000	32,658	(13,658)
Communication committee	2,000	-	2,000
Financial support committee	4,000	1,952	2,048
Global mission committee	10,000	10,773	(773)

**NORTH/WEST LOWER MICHIGAN SYNOD  
OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA  
UNRESTRICTED BUDGET TO ACTUAL SCHEDULE  
YEAR ENDED JANUARY 31, 2016**

	Budget	Actual	Favorable (unfavorable)
EXPENSES (Concluded):			
Program services (Concluded):			
Program support (Concluded):			
Ministry committee	\$ 38,000	\$ 40,080	\$ (2,080)
Multicultural committee	2,000	1,500	500
Outreach committee	52,000	60,567	(8,567)
Witness/evangelism committee	2,000	107	1,893
Worship committee	1,500	3,539	(2,039)
Youth committee	1,500	3,594	(2,094)
Total program support	133,000	154,910	(21,910)
Total program services	1,010,051	1,135,191	(125,140)
Support services:			
Staff salaries and benefits:			
Salary - administrative support staff	82,400	75,988	6,412
Salary and housing - called staff	137,711	140,000	(2,289)
Salary - deployed staff	66,710	38,821	27,889
Social security allowance	16,048	16,410	(362)
Payroll taxes	11,407	9,446	1,961
Health insurance and retirement	87,075	81,179	5,896
Continuing education	3,000	1,556	1,444
Other insurance	5,000	4,599	401
Total staff salaries and benefits	409,351	367,999	41,352
Synod administration:			
Bishop's discretionary fund	4,000	1,652	2,348
Insurance - operating	8,500	10,711	(2,211)
Lease expense	16,800	16,800	-
Office equipment - maintenance	8,000	9,431	(1,431)
Office supplies	9,000	8,297	703
Postage	3,500	2,718	782
Professional fees	18,000	21,640	(3,640)
Telephone	10,000	8,778	1,222
Travel - staff	36,000	31,294	4,706
Gain on disposal of asset	-	893	(893)
Website and network	5,000	8,891	(3,891)
Total synod administration	118,800	121,105	(2,305)
Depreciation expense	12,000	21,630	(9,630)
Total support services	540,151	510,734	29,417
Total expenses	1,550,202	1,645,925	(95,723)
CHANGE IN NET ASSETS	\$ 10,000	\$ (85,994)	\$ (95,994)