

**NEW JERSEY SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

Financial Statements

December 31, 2012

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

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INDEPENDENT AUDITORS' REPORT

To the Synod Council of the
New Jersey Synod of the Evangelical Lutheran Church in America

Report on the Financial Statements

We have audited the accompanying statement of financial position of New Jersey Synod of the Evangelical Lutheran Church in America (the "Synod") as of December 31, 2012, and the related statements of activities 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Synod as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Synod's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 14, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Amercador, P.C.
Certified Public Accountants

April 18, 2013

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF FINANCIAL POSITION

December 31, 2012

(With Comparative Totals for December 31, 2011)

	2012			Total	2011
	Unrestricted	Temporarily Restricted	Permanently Restricted		Totals
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 816,134	\$ 185,481	\$ -	\$ 1,001,615	\$ 541,955
Investments	1,136,321	-	-	1,136,321	1,225,888
Staff advances	1,000	-	-	1,000	1,250
Loans receivable, current	24,411	-	-	24,411	13,083
Mortgages receivable, current	31,119	-	-	31,119	921,291
Prepaid expenses	59,300	-	-	59,300	26,467
Total Current Assets	2,068,285	185,481	-	2,253,766	2,729,934
Other Assets					
Restricted cash	30,000	-	-	30,000	-
Loans receivable	256,017	-	-	256,017	257,868
Mortgages receivable	1,100,758	-	-	1,100,758	104,804
Investments	1,208,838	1,081,486	476,567	2,766,891	2,333,320
Synod House property and equipment	573,908	-	-	573,908	575,562
Land and Property held by Synod	2,527,030	-	-	2,527,030	2,816,045
Equity in Cross Roads Outdoor Ministries	1,629,650	-	-	1,629,650	1,654,096
Other assets	14,775	-	-	14,775	18,497
Total Assets	\$ 9,409,261	\$ 1,266,967	\$ 476,567	\$11,152,795	\$10,490,126
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accrued expenses and other liabilities	\$ 57,362	\$ -	\$ -	\$ 57,362	\$ 3,498
Deferred revenue	3,155	-	-	3,155	-
Grants payable	67,823	-	-	67,823	56,682
Loans payable, current	32,761	-	-	32,761	16,250
Total Current Liabilities	161,101	-	-	161,101	76,430
Loans payable, noncurrent	186,030	-	-	186,030	516,142
Total Liabilities	347,131	-	-	347,131	592,572
Net Assets					
Unrestricted					
Cross Roads Outdoor Ministries	1,629,650	-	-	1,629,650	1,654,096
Board designated	4,550,333	-	-	4,550,333	3,859,156
Net investment in property, plant and equipment	2,882,147	-	-	2,882,147	2,859,215
Total unrestricted	9,062,130	-	-	9,062,130	8,372,467
Temporarily restricted	-	1,266,967	-	1,266,967	1,048,520
Permanently restricted	-	-	476,567	476,567	476,567
Total Net Assets	9,062,130	1,266,967	476,567	10,805,664	9,897,554
Total Liabilities and Net Assets	\$ 9,409,261	\$ 1,266,967	\$ 476,567	\$11,152,795	\$10,490,126

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES

Year Ended December 31, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

	2012				2011	
	Operations	Unrestricted Designated And Other Funds	Total	Temporarily Restricted	Permanently Restricted	Totals
Support and revenue						
Support from congregations						
Commitment	\$ 2,184,930	-	\$ 2,184,930	-	-	\$ 2,215,321
Total support	2,184,930	-	2,184,930	-	-	2,215,321
Revenue						
Other contributions and gifts	285,539	979,102	1,264,641	354,485	-	1,619,126
Rental income	-	81,500	81,500	-	-	81,500
Investment income	5,969	122,565	128,534	-	-	128,534
Gain on sale of property	-	710,601	710,601	-	-	710,601
Assembly income	33,461	-	33,461	-	-	33,461
Total revenue	324,969	1,893,768	2,218,737	354,485	-	2,573,222
Net assets released from restrictions	-	136,038	136,038	(136,038)	-	-
Total support and revenue	2,509,899	2,029,806	4,539,705	218,447	-	4,758,152

See notes to financial statements.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended December 31, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

	2012				2011	
	Unrestricted		Designated		Totals	
	Operations	Funds	Temporarily Restricted	Permanently Restricted	Total	Totals
Expenses						
Synod program services						
Support and development of churchwide mission	1,092,465	-	-	-	1,092,465	1,109,027
Ministry partners	267,200	-	-	-	267,200	286,434
Leadership	(1,147)	-	-	-	(1,147)	545
Candidacy	12,622	-	-	-	12,622	4,629
Discipling	(352)	-	-	-	(352)	(1,922)
Outreach	36,410	-	-	-	36,410	37,623
Special causes/justice and peace	823	-	-	-	823	291
Youth ministry	10,184	-	-	-	10,184	14,932
Ecumenical and interfaith	240	-	-	-	240	-
Communications	2,348	-	-	-	2,348	5,022
Synod mission development	117,436	-	-	-	117,436	128,114
Office of the Bishop	365,987	-	-	-	365,987	428,622
Fiscal and property management	132,571	-	-	-	132,571	122,409
Synod office and operations	297,011	-	-	-	297,011	304,582
Assembly	33,461	-	-	-	33,461	22,577
Total Synod program services	2,367,259	-	-	-	2,367,259	2,462,885
Supporting services						
Designated support	-	788,932	-	-	788,932	1,065,072
Mission ministries	-	901,867	-	-	901,867	1,459,445
Depreciation	-	46,451	-	-	46,451	46,798
Total supporting services	-	1,737,250	-	-	1,737,250	2,571,315
Total expenses	2,367,259	1,737,250	-	-	4,104,509	5,034,200

See notes to financial statements.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended December 31, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

	2012				2011	
	Unrestricted	Temporarily	Permanently	Total	Total	Totals
	Designated	Restricted	Restricted			
	And Other					
	Funds					
Operations	Total					
Excess of Support and Revenue over expenses	142,640	292,556	435,196	218,447	-	380,498
Other changes						
Realized and unrealized gain (loss) on investments	-	259,877	259,877	-	-	(145,342)
Equity in earnings of Cross Roads Outdoor Ministries	-	(5,410)	(5,410)	-	-	6,573
Transfers	(142,640)	142,640	-	-	-	-
Change in net assets	-	689,663	689,663	218,447	-	241,729
Net assets, beginning of year	-	8,372,467	8,372,467	1,048,520	476,567	9,655,825
Net assets, end of year	\$ -	\$ 9,062,130	\$ 9,062,130	\$ 1,266,967	\$ 476,567	\$ 9,897,554

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

(With Comparative Totals for the Year Ended December 31, 2011)

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 908,110	\$ 241,729
Adjustments to reconcile the change in net assets to net cash from operating activities		
Depreciation	46,451	46,798
Gain on sale of property	(710,601)	(1,031,734)
Gain on sale of investments	(36,936)	(123,918)
Unrealized (gain) loss on investments	(222,941)	269,260
Equity in earnings of Cross Roads Outdoor Ministries	5,410	(6,573)
Changes in assets and liabilities		
Staff advances	250	-
Other receivable	-	7,700
Restricted cash	(30,000)	-
Loans receivable	(9,477)	(262,871)
Prepaid expenses	(32,833)	12,879
Other assets	3,722	(721)
Accrued expenses and other liabilities	53,864	410
Deferred revenue	3,155	-
Grants payable	11,141	(20,519)
Net cash from operating activities	<u>(10,685)</u>	<u>(867,560)</u>
Cash Flows from Investing Activities		
Purchases of property, equipment and land improvements	(126,145)	(818,140)
Reimbursement for acquisition of property, equipment and land improvements	300,000	-
(Purchase) Sale of investments, net	(84,127)	89,449
Proceeds from sale of property	800,000	1,120,603
Proceeds from property mortgaged	(720,000)	(376,123)
Collections of mortgages receivable	<u>614,218</u>	<u>54,809</u>
Net cash from investing activities	<u>783,946</u>	<u>70,598</u>
Cash Flows from Financing Activities		
Repayments of loans payable	(313,601)	(7,608)
Borrowings under loans payable	-	540,000
Net cash from financing activities	<u>(313,601)</u>	<u>532,392</u>
Net change in cash	459,660	(264,570)
Cash, beginning of year	<u>541,955</u>	<u>806,525</u>
Cash, end of year	<u>\$ 1,001,615</u>	<u>\$ 541,955</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 26,962</u>	<u>\$ 18,471</u>
Supplemental schedule of noncash investing activities		
Issuance of mortgages	<u>\$ (720,000)</u>	<u>\$ (376,123)</u>

See notes to financial statements.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

A. NATURE OF ORGANIZATION

The New Jersey Synod of the Evangelical Lutheran Church in America, (the "Synod"), is one of sixty-five geographical synodical units of the Evangelical Lutheran Church in America (the "ELCA"). The Synod lies within Region 7 of the ELCA and is comprised of 175 congregations. The Synod relies primarily on annual mission support gifts from these congregations. The Synod Assembly, whose voting members include lay representatives from New Jersey congregations, clergy, associates in ministry and deaconesses, is the Synod's highest legislative authority. The Synod Assembly elects the Synod Council, Bishop, and other officers, and voting members to the ELCA Churchwide Assembly.

The Synod Council appoints Mission Teams and recommends program goals and budgets, and carries out the resolutions of the Synod Assembly. It issues letters of call to ordained ministers and to associates in ministry, deaconesses and diaconal ministers. The programs and supporting services of the Synod are included in the statement of activities.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Synod have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

In accordance with the consistent practice of the Synod, income for the year includes apportionments received from congregations applicable to the current year that are deposited in January of the subsequent year. Similarly, payments for grants and other expenses that are dependent on the availability of income from congregations are disbursed in the succeeding January and recorded as incurred in the current year.

The Synod is required to report information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets - net assets not subject to donor-imposed stipulations. Unrestricted net assets include both designated and undesignated funds.
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met by actions of the Synod and/or by the passage of time.
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Synod. Generally, the donors of these assets permit the Synod to use all or part of the income earned on related investments for general or donor-specified purposes.

Comparative Financial Information

The financial statements include 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 GAAP. Accordingly, such information should be read in conjunction with the Synod's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes unrestricted time deposits, certificates of deposit and highly liquid debt instruments with original maturities of three months or less.

Fair Value Measurements

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

Level 1 - Determined using quoted market prices in active markets for identical assets and liabilities.

Level 2 - Determined using quoted market prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market for substantially the full term of the assets or liabilities.

Level 3 - Determined using inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The market for assets and liabilities using level 3 measures is typically inactive.

Investments

The Synod carries investments at their fair values in the statement of financial position. All interest, dividends and realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. There have been no changes in valuation techniques and related inputs.

Investment in Unconsolidated Affiliate

The Synod accounts for its equity investment in Cross Roads Outdoor Ministries under the equity method. Under the equity method, the investment is initially recorded at cost and is subsequently adjusted for the Synod's share of earnings or losses of the affiliate.

Property and Equipment

Land, buildings, furniture, equipment and transportation equipment are recorded at cost, except for donated items, which are recorded at their fair market values on the dates of donation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Buildings	40 years
Furniture and equipment	3 years
Transportation equipment	3 years

Repairs and maintenance, which do not extend the useful lives of the related assets, are expensed as incurred.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land and Property Held by the Synod

Land and Property held by the Synod is property that has been transferred from a congregation generally due to a disbanded congregation or financial difficulties. The Synod capitalizes costs incurred in connection with holding and improving the property and expects reimbursement of such costs when the property is either transferred back to another congregation or is sold.

Public Support and Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Synod that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable values. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present values of their net realizable values, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. The Synod has not received any unconditional promises to give.

Conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated non-cash assets are recorded at their fair values in the periods received. Contributions of donated services that create or enhance non-financial 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 are recorded at their fair values in the periods received.

Endowment contributions and investments are restricted by the donor. Investment earnings available for distribution are reclassified to unrestricted or temporarily restricted net assets and are reported in the statement of activities as net assets released from restrictions.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period during which the income gains are recognized.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

As a result of its affiliation with the Evangelical Lutheran Church in America, the Synod is a religious organization and is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Management has evaluated the Synod's tax positions for uncertainties with respect to the financial statements as of and for the year ended December 31, 2012, and has determined that there is no liability for uncertain tax positions at December 31, 2012.

Contributions Expense

Contributions are recognized as an expense in the period the contributions are made. Such contributions are recorded at the fair value of assets given.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued amended guidance related to disclosures about offsetting assets and liabilities. The amended guidance requires entities to disclose both gross information and net information about financial instruments, including derivatives, and transactions eligible for offset in the statement of financial position, as well as financial instruments and transactions subject to agreements similar to a master netting arrangement. This guidance will be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Synod is currently evaluating the impact of this guidance on its consolidated financial statements and related disclosures. The adoption of this guidance is not expected to materially impact the Synod's financial statements.

In October 2012, the FASB issued guidance which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit entity-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. The Synod is currently evaluating the impact of this amendment on the financial statements.

Subsequent Events

Management has evaluated events for potential recognition and disclosure that occurred after December 31, 2012, but before April 18, 2013, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

C. LAND AND PROPERTY HELD BY THE SYNOD

Property held by the Synod at December 31, 2012 and 2011, consists of the following:

	<u>2012</u>	<u>2011</u>
<u>Property held by Synod</u>		
Cross of Life Lutheran Church, Plainfield, NJ (1)	\$ 74,111	\$ 85,794
Storefront Church, Jersey City, NJ (2)	22,618	21,133
St. Johns, Hoboken, NJ (3)	534,539	805,338
Hansen Parsonage, Linden, NJ (4)	305,382	303,508
Elizabeth Lutheran Center (ELC) Church, Elizabeth, NJ (5)	537,454	521,797
ELC Parsonage, Elizabeth, NJ (6)	120,852	120,522
ELC Parish Hall, Elizabeth, NJ (7)	110,962	107,692
Bridge of Peace, Camden, NJ (8)	79,822	67,192
Elect Saints, Hamilton, NJ (9)	264,472	251,934
Elect Saints, Hamilton, NJ (10)	57,635	52,783
Land, Jackson, NJ (11)	399,723	396,034
Townsend's Inlet, Sea Isle, NJ (12)	6,542	6,094
St. John Lutheran Church, Westville, NJ (13)	-	76,224
Grace Lutheran Church, Camden, NJ (14)	12,919	-
St. Luke's, West Collingswood, NJ (15)	-	-
Zion, Jersey City, NJ (16)	-	-
	<u>\$ 2,527,031</u>	<u>\$ 2,816,045</u>

- (1) The Synod currently has an agreement in place to transfer the property to a congregation once they have been reimbursed for all capital expenditures.
- (2) The Synod is currently leasing this property to a housing mission agency.
- (3) The Synod is currently leasing this property to a housing mission agency as well as being used by an active congregation.
- (4) This property is being used as a parsonage for the pastor of the Pilgrim Journey congregation.
- (5) The Synod has converted this property to the Elizabeth Lutheran Center ("ELC"). The ELC Church is used by Santa Isabel and Pilgrim Journey mission congregations.
- (6) The ELC Parsonage is used by the pastor of the Santa Isabel congregation.
- (7) The ELC Parish Hall is currently used for mission congregation and community fellowship.
- (8) Bridge of Peace congregation transitioned from a mission ministry to an organized congregation in May 2007. The Synod continues to own the property and assist the congregation.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

C. LAND AND PROPERTY HELD BY THE SYNOD (CONTINUED)

- (9) The congregation closed in November 2007 and Elect Saints, an organized congregation (May 2010), used the building until December 31, 2012. The property is currently for sale.
- (10) The parsonage is used by the Elect Saints Pastor. The Elect Saints' Pastor may lease the parsonage after the sale of the property.
- (11) Land was purchased in 2007 for a New Jersey Synod Mission Congregation.
- (12) The Townsend's Inlet property is currently being used. The Synod believes they have legal rights to this property and have paid legal fees associated with interest as Trustee for the property.
- (13) Property sold in January 2012 for \$800,000 and the carrying costs at the time of sale were \$82,754. The NJ Synod currently holds the mortgage on the property - see Footnote G.
- (14) Congregation closed in January 2012 and the NJ Synod currently leases the property to an ecumenical ministry partner. Redevelopment options are being reviewed.
- (15) Congregation closed in July 2012 and a nursery school currently leases the property. The property is for sale. The assets of the congregation exceed the carrying costs as of December 31, 2012. The receipt of the excess assets are shown as other liabilities on the Statement of Financial Position.
- (16) Congregation closed in April 2012 and a caretaker lives in one of the houses while caring for the property. The property is for sale. An insurance claim was received in 2012 for future costs of repairs. The receipt of the insurance claim is shown as other liabilities on the Statement of Financial Position.

D. INVESTMENTS

Investments are stated at fair value and consist of certificates of deposit, corporate bonds, mutual funds, funds invested with ELCA and corporate stocks.

The table below sets forth a summary of changes in the fair value of the Synod's investments for the years ended December 31, 2012 and 2011:

	December 31,					
	2012			2011		
	Cost	Fair Value	Unrealized Appreciation	Cost	Fair Value	Unrealized Depreciation
Current Investments						
Certificates of deposit	\$ 199,878	\$ 199,878	\$ -	\$ 413,686	\$ 413,686	\$ -
Corporate bonds	610,455	620,266	9,811	532,661	512,554	(20,107)
Mutual funds	-	-	-	12,281	11,413	(868)
ELCA funds	288,235	316,177	27,942	309,489	288,235	(21,254)
	<u>\$ 1,098,568</u>	<u>\$ 1,136,321</u>	<u>\$ 37,753</u>	<u>\$ 1,268,117</u>	<u>\$ 1,225,888</u>	<u>\$ (42,229)</u>
	December 31,					
	2012			2011		
	Cost	Fair Value	Unrealized Appreciation	Cost	Fair Value	Unrealized Appreciation
Other Investments						
Corporate stocks	\$ 1,885,310	\$ 2,113,575	\$ 228,265	\$ 1,667,669	\$ 1,684,065	\$ 16,396
Mission Investment Fund investments	653,316	653,316	-	649,255	649,255	-
	<u>\$ 2,538,626</u>	<u>\$ 2,766,891</u>	<u>\$ 228,265</u>	<u>\$ 2,316,924</u>	<u>\$ 2,333,320</u>	<u>\$ 16,396</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

E. FAIR VALUE MEASUREMENT

Fair values of assets measured on a recurring basis at December 31, 2012 and 2011, were as follows:

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	\$ 199,878	\$ -	\$ -	\$ 199,878
Corporate bonds	620,266	-	-	620,266
Fixed income	-	653,316	-	653,316
ELCA funds	-	-	316,177	316,177
Equities	2,113,575	-	-	2,113,575
Total investments, at fair value	<u>\$ 2,933,719</u>	<u>\$ 653,316</u>	<u>\$ 316,177</u>	<u>\$ 3,903,212</u>
	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	\$ 413,686	\$ -	\$ -	\$ 413,686
Corporate bonds	512,554	-	-	512,554
Fixed income	-	649,255	-	649,255
Mutual funds	11,413	-	-	11,413
ELCA funds	-	-	288,235	288,235
Equities	1,684,065	-	-	1,684,065
Total investments, at fair value	<u>\$ 2,621,718</u>	<u>\$ 649,255</u>	<u>\$ 288,235</u>	<u>\$ 3,559,208</u>

The table below sets forth a summary of changes in the fair value of the Synod's Level 3 investments for the years ended December 31, 2012 and 2011:

	2012	2011
Fair value, beginning of year	\$ 288,235	\$ 309,489
Dividend income	13,119	13,119
Net unrealized gains (losses)	27,942	(21,254)
Income distribution	(13,119)	(13,119)
Fair value, end of year	<u>\$ 316,177</u>	<u>\$ 288,235</u>

F. LOANS RECEIVABLES

The Synod had the following loans receivable:

	2012	2011
Cross Roads Camp and Retreat Center, Port Murray, NJ \$200,000 at 5.0% interest, due April 8, 2031	\$ 189,873	\$ 196,050
Trinity Lutheran Church, Jersey City, NJ \$50,000 at 1.0% interest, due June 22, 2021	42,485	47,500
Temple Lutheran Church, Pennsauken, NJ \$22,000 at 1.0% interest, due December 1, 2021	19,272	21,624
Good Shepherd Lutheran Church, Weehawken, NJ \$18,830 at 1.0% interest, due April 1, 2016.	3,473	5,777
Christ the King Lutheran Church, Kendall Park, NJ \$10,000 at 1.0% interest, due December 1, 2016	9,742	-
Ascension Lutheran Church, Haddon Heights, NJ \$17,000 at 1.0% interest, due October 1, 2014	15,583	-
Total	<u>\$ 280,428</u>	<u>\$ 270,951</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

F. LOANS RECEIVABLES (CONTINUED)

Total maturities of loans receivable for the years ending December 31, are as follows:

2013	\$	24,411
2014		24,316
2015		18,765
2016		17,664
2017		15,187
Thereafter		180,085
Total	\$	<u>280,428</u>

G. MORTGAGE RECEIVABLES

The Synod had the following mortgage receivables:

	<u>2012</u>	<u>2011</u>
New Life Lutheran Church, Camden, NJ \$115,000 at 5.0% interest, due February 12, 2015	\$ 104,803	\$ 108,568
Spirit of Hope, Mount Ephraim, NJ \$600,000 at 6.0% interest, due December 15, 2012	-	584,810
Church of Hope and Love, Trenton, NJ \$376,123 at 6.0% interest, due April 20, 2014	317,607	332,717
Macedonia Baptist Church, Woodbury, NJ \$720,000 at 5.0% interest, due January 13, 2014	<u>709,467</u>	<u>-</u>
Total	<u>\$ 1,131,877</u>	<u>\$ 1,026,095</u>

Total maturities of mortgages receivable for the years ending December 31, are as follows:

2013	\$	31,119
2014		1,004,071
2015		96,687
Total	\$	<u>1,131,877</u>

H. SYNOD HOUSE PROPERTY AND EQUIPMENT

Synod House property and equipment consists of the following:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Buildings and improvements	\$ 619,398	\$ 619,398
Furniture and equipment	53,870	53,870
Transportation equipment	<u>71,580</u>	<u>96,318</u>
Subtotal	744,848	769,586
Accumulated depreciation and amortization	<u>170,940</u>	<u>194,024</u>
Total	<u>\$ 573,908</u>	<u>\$ 575,562</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

I. LOAN PAYABLE

On March 31, 2011, the Synod entered into a \$540,000 note payable agreement with the Mission Investment Fund of the Evangelical Lutheran Church in America (the "Fund") to fund renovations and improvements to St. Johns in Hoboken, NJ. The note payable carries an interest rate of 5.125% and is to be paid in monthly installments until it matures on August 1, 2031. Per the terms of the agreement, the Fund will review, and may adjust, the interest rate at its discretion effective on April 1, 2018 and 2025. During 2012, in addition to the scheduled principal payments, the Synod made additional principal payments in the amount of \$300,000. Due to the additional principal payments made in 2012, the loan will be repaid in 2018 if the Synod continues to pay the required monthly installments due. As of December 31, 2012 and 2011, \$218,791 and \$532,392 was outstanding on the note, respectively.

Maturities of the note payable for the years ending December 31, are as follows:

2013	\$ 32,761
2014	34,480
2015	36,290
2016	38,194
2017	40,198
Thereafter	36,868
Total	<u>\$ 218,791</u>

J. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available to support activities for the following funds:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Designated Support		
Theological Education Fund (Philadelphia Seminary)	\$ 267,996	\$ 264,235
Danish Home Fund Interest	5,908	4,681
Franklin Fry Chair Fund	31,796	28,287
Brueckner Fund	362,582	305,628
Cross Roads Reserve	1,213	901
Compensation Aid Fund	69,708	107,199
Stewardship	2,964	3,916
AIDS Ministry	1,139	1,139
Brauninger Travel Fund	14,272	20,472
Namibia Special Fund	19,134	21,830
Croatia Companion Synod	6,677	6,677
North Plainfield Music Fund	62,665	61,140
Project Connect Grant	5,440	7,500
Hurricane Sandy Relief Fund	107,038	-
Other Temporarily Restricted	-	81
Mission Ministries		
Christ Ridgefield Park Transitional Facilities	158,935	158,606
Suddler Trust	21,563	21,563
Hudson/Christ Ridgefield	31,886	34,504
Bethel Maintenance	96,051	161
Total	<u>\$ 1,266,967</u>	<u>\$ 1,048,520</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

J. RESTRICTIONS ON NET ASSETS (CONTINUED)

Net assets were released from donor restrictions by satisfying the donor restrictions as follows:

	Year Ended December 31,	
	2012	2011
Designated Support	\$ 116,865	\$ 447,922
Mission Ministries	19,173	1,001,261
Total	<u>\$ 136,038</u>	<u>\$ 1,449,183</u>

Permanently Restricted Net Assets

Permanently restricted net assets are endowment funds restricted in perpetuity for the following:

	December 31,	
	2012	2011
Danish Children's Home	\$ 31,105	\$ 31,105
Transitional Ministries (Fund for Mission)	445,462	445,462
Total	<u>\$ 476,567</u>	<u>\$ 476,567</u>

Income generated by the Danish Children's Home asset is temporarily restricted and income generated by the Transitional Ministries (Fund for Mission) asset can be used for operating purposes.

K. CONCENTRATION OF RISK

The Synod maintains an operating cash balance which may exceed federal and other insurance limits. It historically has not experienced any credit-related losses. The risk is managed by maintaining the majority of its deposits in high-quality financial institutions. The Synod maintains investment balances that may exceed federally or other insured limits, although historically the Synod has not experienced any credit-related losses. The investments are primarily financial instruments which are monetary in nature. Accordingly, interest rates have a more significant impact on performance than do the effects of general levels of inflation. Interest rates generally do not move in the same direction or with the same magnitude as prices of goods and services as measured by the consumer price index. The investments are subject to risk conditions of the investments' objectives, stock market performance, interest rates, economic conditions and world affairs.

The Synod invests with the Mission Investment Fund ELCA. These investments are not insured by the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. It historically has not experienced any credit-related losses.

L. RETIREMENT PLAN

Substantially all full-time employees of the Synod are enrolled in an employee savings provision plan (401(k) retirement plan) made available and administered by the Portico of the ELCA. The Synod contributes between 6% and 12% based upon the plan agreement. The full current employer cost provided for under the plan was approximately \$93,000 and \$105,000 for the years ended December 31, 2012 and 2011, respectively.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

M. EQUITY IN CROSS ROADS OUTDOOR MINISTRIES

Camp Beisler was acquired by the Lutheran Church in 1953. In 1988, a merger of over 20 separate Lutheran denominations took place, forming the ELCA. At that time, Camp Beisler became part of the Synod.

In February 2000, the Synod signed an agreement with the Diocese of Newark of the Protestant Episcopal Church in the United States of America (the "Diocese") whereby the Synod conveyed a 50% interest in the improvements to the land at Camp Beisler. The Synod received \$730,000 for this interest and recorded a gain of \$367,827, net of the cost basis. In connection with this agreement, the Synod executed a fifty-year ground lease for \$100 each year with the Lutheran/Episcopal Camp and Conference Center, Inc. (the "Camp and Conference Center"), a new corporation formed to operate the Cross Roads Outdoor Ministries (formerly Camp Beisler). The Synod and Diocese lease the land improvements to the Camp and Conference Center for \$1 a year for fifty years, concurrent with the ground lease. The Synod carries its investment in the Camp and Conference Center on the equity basis. The agreement further provides that in the event that the Synod causes the Camp and Conference Center to be dissolved or the ground lease is terminated by the Synod, the Synod will repurchase the Diocese's 50% interest in the land improvements for the greater of fair market value or \$730,000. In the event that the Diocese causes the Camp and Conference Center to be dissolved or withdraws from the Camp and Conference Center, the Synod will repurchase the Diocese's 50% interest in the land improvements for the lower of fair market value or \$730,000. At December 31, 2012, the Synod's equity in Cross Roads Outdoor Ministries was \$1,629,650, which represents principally the cost of land and land improvements, net of accumulated depreciation and 50% equity in cumulative earnings of the Camp and Conference Center.

Summary financial information for the year ended December 31, 2012, is presented as follows:

Total support and revenues	\$ 628,284
Total expenses	639,104
Change in net assets	<u>(10,820)</u>
	x 50%
Synod portion of equity in earnings of Cross Roads Ministries	<u>\$ (5,410)</u>

The Synod has designated a separate fund (designated net assets) in the event the Camp and Conference Center is dissolved by either party. The balance at December 31, 2012, was \$400,047. In addition to the designated reserve for Cross Roads Outdoor Ministries, restricted contributions of \$362,582 associated with the sale of the Brueckner House in 2009 were also set aside as a reserve amount.

N. ENDOWMENT POLICY

Endowment Description & Interpretation of Relevant Law

The Synod endowment consists of eight funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

N. ENDOWMENT POLICY (CONTINUED)

Endowment Description & Interpretation of Relevant Law (Continued)

The Synod Council and the Synod Investment Committee have interpreted the Uniform Prudent Management of Institutional Funds Act to require standard care that is reasonable and prudent over its endowed funds. The Synod currently classifies permanently restricted net assets at the original value of gifts donated to the permanent endowment. The remaining portion of the endowment funds is classified as temporarily restricted designated net assets if donor-restricted in purpose, or unrestricted net assets if no specific purpose has been designated.

Endowment Spending Policy

During the year ended December 31, 2005, the Synod Council approved an Investment Policy that has spending guidelines. The purpose of this Investment Policy is to establish a prudent and consistent approach to the distribution of endowment earnings that reflects an appropriate balance between the present and future needs. The policy is designed to provide a reasonable degree of stability and predictability in the amount of endowment earnings available for grants,

scholarships and the other restricted purposes established by donors, as well as in the amount available for support of the Synod Spending Plan. The Synod Council has approved expenditures based on resolutions for Wurffel scholarships and grants, Fund for Mission grants and approval of the Spending Plan. The Synod Council has been approving expenditures in the six to eight percent range based on the previous three years' average investment balance. During 2009, the Synod Investment Committee modified the Investment Policy for disbursements to be in the four to six percent range based on the previous three years' average investment balance. In 2011, the Synod Council approved these modifications to the Investment Policy. The Synod Investment Committee annually considers modifications to the Synod Investment Policy. All disbursements are expended according to donor restrictions and are classified as net assets released from restrictions in the accompanying statement of activities.

For the years ended December 31, 2012 and 2011, the total amount appropriated and spent on grants, scholarships and to support the spending plan was \$173,153 and \$181,063, respectively.

Endowment Investment Policies

The Synod Council and the Synod Investment Committee have adopted investment policies that seek long-term capital growth, current income and growth of income, consistent with prudent, conservative and risk-averse investments for its endowment. The endowment investments may be invested in any combination of common stocks, securities convertible to common stock, preferred stocks, fixed income securities, mutual funds, managed funds and certificate of deposit as long as the ratio of equities to fixed income does not exceed 70% equities. Ten percent (10%) of all investments are with organizations that follow a socially oriented investment policy. All investments comply with the ELCA's social responsibility guidelines.

To satisfy its long-term objectives, the Synod relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Synod targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

N. ENDOWMENT POLICY (CONTINUED)

Endowment Investment Policies (Continued)

Under the provisions of the Uniform Prudent Management of Institutional Funds Act and GAAP, losses in the market value of donor-restricted endowment funds are required to be offset by reductions in temporarily restricted net assets or unrestricted net assets, or both. The permanently restricted net assets of such endowment funds should always equal their historic dollar value. An endowment fund that has become "underwater" will therefore result in decreases in temporarily restricted or unrestricted net assets, despite the absence of any legal obligation to restore the endowment fund for such losses. Unrestricted net assets that have been reduced because of this requirement will be restored from future gains for that reduction. For the years ended December 31, 2012 and 2011, no transfers of net assets were required.

Changes in Endowment Net Assets for the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,547,827	\$ 603,733	\$ 476,567	\$ 3,628,127
Investment return	275,909	107,676	-	383,585
Contributions	6,550	3,086	-	9,636
Endowment disbursements	<u>(128,353)</u>	<u>(45,000)</u>	-	<u>(173,353)</u>
Endowment net assets, end of year	<u>\$ 2,701,933</u>	<u>\$ 669,495</u>	<u>\$ 476,567</u>	<u>\$ 3,847,995</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,631,746	\$ 678,865	\$ 476,566	\$ 3,787,177
Investment return	(56,486)	(27,601)	-	(84,087)
Contributions	105,900	200	-	106,100
Endowment disbursements	(133,332)	(47,731)	-	(181,063)
Transfer of net assets	<u>(1)</u>	<u>-</u>	<u>1</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,547,827</u>	<u>\$ 603,733</u>	<u>\$ 476,567</u>	<u>\$ 3,628,127</u>

O. CONTINGENT LIABILITY

On December 18, 2009, The Keys to Life Ministries, Inc. ("Keys to Life") executed a promissory note payable to the Synod and gave a mortgage on the property occupied by Keys to Life located at 74 East Kings Highway, Mt. Ephraim, New Jersey. The original note matured on December 15, 2011, and was extended until December 14, 2012. Keys to Life was unable to obtain a mortgage loan from a financial institution lender. As a result, on August 7, 2012, the Synod and Keys to Life entered into a Tenant-In-Common Agreement so that Keys to Life could obtain a \$580,000 mortgage loan from a financial institution lender. In order for Keys to Life to obtain the mortgage loan, the Synod agreed to guarantee the mortgage loan jointly with Keys to Life. Under the terms of the Tenant-In-Common Agreement, the Synod was required to fund a debt service reserve account in the amount of \$30,000 with the financial institution lender. The Synod retained a 51% interest in the property as a tenant-in-common and a 49% interest in the property was granted to

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

O. CONTINGENT LIABILITY (CONTINUED)

Keys to Life. Pursuant to the agreement, the deed is held in escrow. Under the terms of the agreement, if Keys to Life meets the financial institution lender's benchmarks, as identified in the mortgage commitment letter, the Synod is released of all liability for the mortgage loan and the deed would be released to Keys to Life. If Keys to Life repays the mortgage loan in full, the Synod is released of all liability for the mortgage loan and the deed would be released to Keys to Life. If Keys to Life defaults on the payments due under the mortgage loan, the Synod is liable and the deed would be released to the Synod. The mortgage loan has a term of 25 years. For the first five years, the interest rate is fixed at 5.25%. For the remaining 20 years thereafter, the interest rate is 1.0% plus prime with a floor of 5.25%. The future minimum payments due under the mortgage loan for the years ending December 31, are as follows:

2013	\$	11,727
2014		12,357
2015		13,022
2016		13,722
2017		14,460
Thereafter		<u>513,961</u>
Total	\$	<u><u>579,249</u></u>

Based upon a recent appraisal, the value of the property exceeds the loan. Therefore, the Synod has not recorded either the value of its interest or the contingent liability.