

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

Financial Statements

December 31, 2011

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

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December 31, 2011

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INDEPENDENT AUDITORS' REPORT

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

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, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Synod's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Synod's 2010 financial statements, and in our report dated April 5, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Synod as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mercadien, P.C.
Certified Public Accountants

April 14, 2012

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NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF FINANCIAL POSITION

December 31, 2011
(With Comparative Totals for December 31, 2010)

	December 31,				
	2011				2010 *
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Totals
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 344,757	\$ 197,198	\$ -	\$ 541,955	\$ 806,525
Investments	1,225,888	-	-	1,225,888	1,417,239
Other receivable	-	-	-	-	7,700
Staff advances	1,250	-	-	1,250	1,250
Loans receivable, current	13,083	-	-	13,083	8,080
Mortgages receivable, current	921,291	-	-	921,291	596,213
Prepaid expenses	26,467	-	-	26,467	39,346
Total Current Assets	2,532,736	197,198	-	2,729,934	2,876,353
Other Assets					
Loans receivable	257,868	-	-	257,868	-
Mortgages receivable	104,804	-	-	104,804	108,568
Investments	1,005,431	851,322	476,567	2,333,320	2,376,760
Synod House property and equipment	575,562	-	-	575,562	603,324
Land and Property held by Synod, at cost	2,816,045	-	-	2,816,045	2,086,774
Equity in Cross Roads Outdoor Ministries	1,654,096	-	-	1,654,096	1,666,559
Other assets	18,497	-	-	18,497	17,776
Total Assets	<u>\$ 8,965,039</u>	<u>\$ 1,048,520</u>	<u>\$ 476,567</u>	<u>\$ 10,490,126</u>	<u>\$ 9,736,114</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accrued expenses and other liabilities	\$ 3,498	\$ -	\$ -	\$ 3,498	\$ 3,088
Grants payable	56,682	-	-	56,682	77,201
Loans payable, current	16,250	-	-	16,250	-
Total Current Liabilities	76,430	-	-	76,430	80,289
Loans payable, noncurrent	516,142	-	-	516,142	-
Total Liabilities	592,572	-	-	592,572	80,289
Net Assets					
Unrestricted					
Cross Roads Outdoor Ministries	1,654,096	-	-	1,654,096	1,666,559
Board designated	3,859,156	-	-	3,859,156	3,299,858
Net investment in property, plant and equipment	2,859,215	-	-	2,859,215	2,690,098
Total unrestricted	8,372,467	-	-	8,372,467	7,656,515
Temporarily restricted	-	1,048,520	-	1,048,520	1,522,744
Permanently restricted	-	-	476,567	476,567	476,566
Total Net Assets	8,372,467	1,048,520	476,567	9,897,554	9,655,825
Total Liabilities and Net Assets	<u>\$ 8,965,039</u>	<u>\$ 1,048,520</u>	<u>\$ 476,567</u>	<u>\$ 10,490,126</u>	<u>\$ 9,736,114</u>

* Reclassified to conform to the current year presentation.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

(With Comparative Totals for the Year Ended December 31, 2010)

	Year Ended December 31,					2010 *
	2011					
	Unrestricted					
	Designated					
	And Other					
	Funds					
	Operations	Total	Temporarily Restricted	Permanently Restricted	Total	Totals
Support and revenue						
Support from congregations						
Commitment	\$ 2,215,321	\$ 2,215,321	\$ -	\$ -	\$ 2,215,321	\$ 2,176,727
Total support	2,215,321	2,215,321	-	-	2,215,321	2,176,727
Revenue						
Other contributions and gifts	237,934	715,706	974,959	-	1,928,599	1,856,563
Rental income	-	94,910	-	-	94,910	95,196
Investment income	5,900	115,657	-	-	121,557	106,269
Gain (loss) on sale of property	-	1,031,734	-	-	1,031,734	(56,016)
Assembly income	22,577	-	-	-	22,577	48,490
Total revenue	266,411	1,958,007	974,959	-	3,199,377	2,050,502
Net assets released from restrictions	-	1,449,183	(1,449,183)	-	-	-
Total support and revenue	2,481,732	3,407,190	(474,224)	-	5,414,698	4,227,229

* Reclassified to conform to the current year presentation.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended December 31, 2011

(With Comparative Totals for the Year Ended December 31, 2010)

	Year Ended December 31,				2010 *
	2011				
	Unrestricted				
	Designated				
	And Other				
	Funds				
Operations	Total	Temporarily Restricted	Permanently Restricted	Total	Totals
Expenses					
Synod program services					
Support and development of churchwide mission	1,109,027	-	-	1,109,027	1,090,223
Ministry partners	286,434	-	-	286,434	271,475
Leadership	545	-	-	545	3,946
Candidacy	4,629	-	-	4,629	9,740
Discipling	(1,922)	-	-	(1,922)	(286)
Outreach	37,623	-	-	37,623	37,647
Special causes/justice and peace	291	-	-	291	2,046
Youth ministry	14,932	-	-	14,932	14,884
Ecumenical and interfaith	-	-	-	-	932
Communications	5,022	-	-	5,022	4,829
Synod mission development	128,114	-	-	128,114	180,403
Office of the Bishop	428,622	-	-	428,622	419,089
Fiscal and property management	122,409	-	-	122,409	142,461
Synod office and operations	304,582	-	-	304,582	299,731
Assembly	22,577	-	-	22,577	48,490
Total Synod program services	2,462,885	-	-	2,462,885	2,525,610
Supporting services					
Designated support	-	1,065,072	-	1,065,072	559,433
Mission ministries	-	1,459,445	-	1,459,445	1,299,769
Depreciation	-	46,798	-	46,798	57,959
Total supporting services	-	2,571,315	-	2,571,315	1,917,161
Total expenses	2,462,885	2,571,315	-	5,034,200	4,442,771

* Reclassified to conform to the current year presentation.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended December 31, 2011

(With Comparative Totals for the Year Ended December 31, 2010)

	Year Ended December 31,					2010 *	
	2011						
	Unrestricted						
	Designated						
	And Other						
	Funds						
Operations	Total	Temporarily Restricted	Permanently Restricted	Total	Totals		
Excess of Support and Revenue over (under) expenses	18,847	835,875	854,722	(474,224)	-	380,498	(215,542)
Other changes							
Realized and unrealized (loss) gain on investments	-	(145,342)	(145,342)	-	-	(145,342)	261,703
Equity in earnings of Cross Roads Outdoor Ministries	-	6,573	6,573	-	-	6,573	14,904
Transfers	(18,847)	18,846	(1)	-	1	-	-
Change in net assets	-	715,952	715,952	(474,224)	1	241,729	61,065
Net assets, beginning of year	-	7,656,515	7,656,515	1,522,744	476,566	9,655,825	9,594,760
Net assets, end of year	\$ -	\$ 8,372,467	\$ 8,372,467	\$ 1,048,520	\$ 476,567	\$ 9,897,554	\$ 9,655,825

* Reclassified to conform to the current year presentation.

See notes to financial statements.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF CASH FLOWS

Year Ended December 31, 2011
(With Comparative Totals for the Year Ended December 31, 2010)

	Year Ended December 31,	
	2011	2010*
Cash Flows from Operating Activities		
Change in net assets	\$ 241,729	\$ 61,065
Adjustments to reconcile the change in net assets to net cash used in operating activities		
Depreciation	46,798	57,959
(Gain) loss on sale of property	(1,031,734)	56,016
Gain on sale of investments	(123,918)	(56,249)
Unrealized loss (gain) on investments	269,260	(205,454)
Equity in earnings of Cross Roads Outdoor Ministries	(6,573)	(14,904)
Changes in assets and liabilities		
Staff advances	-	1,000
Accounts receivable - congregations	-	77,902
Other receivable	7,700	-
Loans receivable	(262,871)	2,304
Prepaid expenses	12,879	(9,385)
Other assets	(721)	-
Accrued expenses and other liabilities	410	(77,492)
Grants payable	(20,519)	61,048
Net cash used in operating activities	<u>(867,560)</u>	<u>(46,190)</u>
Cash Flows from Investing Activities		
Purchase of equipment and land improvements, net	(818,140)	(514,453)
Sale of investments, net	89,449	705,462
Proceeds from sale of property	1,075,603	120,001
Proceeds from property mortgaged	(376,123)	(115,000)
Collections of mortgages receivable	54,809	10,219
Net cash provided by investing activities	<u>25,598</u>	<u>206,229</u>
Cash Flows used in Financing Activities		
Proceeds from (repayments of) loans payable	532,392	(167,757)
Net decrease in cash	(309,570)	(7,718)
Cash, beginning of year	806,525	814,243
Cash, end of year	<u>\$ 496,955</u>	<u>\$ 806,525</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 18,471</u>	<u>\$ 2,248</u>
Supplemental schedule of noncash investing activities		
Issuance of mortgages	<u>\$ (376,123)</u>	<u>\$ (115,000)</u>

*Reclassified to conform to the current year presentation.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 184 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.

Basis of Accounting

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.

Basis of Presentation

The Synod is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Public Support and Revenue Recognition (Continued)

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.

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.

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.

Investments

The Synod carries investments at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

The Synod adopted fair value measurements in accordance with GAAP, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. Fair value is defined under GAAP as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the investment in an orderly transaction between market participants on the measurement date. The Synod will value investments using quoted market prices in active markets for identical investments to the extent possible (Level 1). To the extent that such market prices are not available, the Synod will next attempt to value such investments using observable measurement criteria, including quoted market prices of similar investments in active markets and other corroborated factors (Level 2). In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Synod will develop measurement criteria based on the best information available (Level 3). An investment categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurements.

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.

Income Taxes

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, 2011, and has determined that there is no liability for uncertain tax positions at December 31, 2011.

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.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the presentation made in 2011.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2010, from which the summarized information was derived.

B. 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.

Property held by the Synod at December 31, 2011 and 2010, respectively, consists of the following:

	<u>2011</u>	<u>2010</u>
<u>Property held by Synod</u>		
Cross of Life Lutheran Church, Plainfield, NJ (1)	\$ 85,794	\$ 84,823
Storefront Church, Jersey City, NJ (3)	21,133	18,708
St. Johns, Hoboken, NJ (4)	805,338	390,038
Hansen Parsonage, Linden, NJ (5)	303,508	297,871
Elizabeth Lutheran Center (ELC) Church, Elizabeth, NJ (6)	521,797	471,582
ELC Parsonage, Elizabeth, NJ (7)	120,522	99,585
ELC Parish Hall, Elizabeth, NJ (8)	107,692	67,477
Bridge of Peace, Camden, NJ (10)	67,192	60,220
Elect Saints, Hamilton, NJ (11)	251,934	127,078
Elect Saints, Hamilton, NJ (12)	52,783	37,990
Land, Jackson, NJ (13)	396,034	392,388
Townsend's Inlet, Sea Isle, NJ (14)	6,094	6,094
St. Peters Church, North Plainfield, NJ (15)	-	12,034
Advent Lutheran Church, Trenton, NJ (16)	-	20,886
St. John Lutheran Church, Westville, NJ (17)	76,224	-
	<u>\$ 2,816,045</u>	<u>\$ 2,086,774</u>
<u>Property sold listed at carrying value</u>		
St. Peters Church, North Plainfield, NJ (15)	\$ 46,462	\$ -
Advent Lutheran Church, Trenton, NJ (16)	42,407	-
New Life Lutheran Church, Camden, NJ (2)	-	111,701
Trinity Lutheran Church, Camden, NJ (9)	-	64,316
	<u>\$ 88,869</u>	<u>\$ 176,017</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

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

- (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 building at New Life Lutheran Church was being utilized by a non-Lutheran congregation. On February 12, 2010, the Synod sold the property for \$120,000 to that congregation and concurrently executed a Mortgage and Security Agreement in the amount of \$115,000 (Note D).
- (3) The Synod is currently leasing this property to a housing mission agency and for ecumenical ministry by a social ministry agency.
- (4) The Synod is currently leasing this property to a housing mission agency as well as being used by an active congregation.
- (5) This property is being used as a parsonage for the pastor of the Pilgrim Journey congregation.
- (6) 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.
- (7) The ELC Parsonage is used by the pastor of the Santa Isabel congregation. The value of each ELC property was separated in 2009 (see note 6 above).
- (8) The ELC Parish Hall is currently used for mission congregation fellowship. The value of each ELC property was separated in 2009 (see note 6 above).
- (9) The building at Trinity Lutheran Church was being leased to New Visions, Inc., a multi-part social ministry agency and an AIDS ministry. On October 13, 2010, the Synod sold the property for \$1 to Lutheran Social Ministries of New Jersey to continue the New Vision ministries.
- (10) Bridge of Peace congregation has transitioned from a mission ministry to an organized congregation in May 2007. The Synod continues to own the property and assist the congregation.
- (11) The congregation closed in November 2007 and the church building is currently used by Elect Saints, an organized congregation (May 2010).
- (12) The parsonage is used by the Elect Saints Pastor. The Church and Parsonage were separated in 2008 (see note 11 above).

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

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

- (13) Land was purchased in 2007 for a New Jersey Synod Mission Congregation.
- (14) 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 title research to obtain title to this property.
- (15) This congregation voted to close in November 2009 and has asked the Synod to sell the property. On December 19, 2011, the Synod sold the property for \$700,000.
- (16) This congregation closed and the Synod assumed responsibility for the property in September 2010. On April 20, 2011, the Synod sold the property for \$489,000.
- (17) A letter of intent to sell this property for approximately \$800,000 was signed in 2011, but the sale was not completed prior to year-end.

C. INVESTMENTS

Investments are stated at fair value and consist of certificates of deposit, corporate bonds, funds invested with the Evangelical Lutheran Church in America ("ELCA") and corporate stocks.

The Synod values its investments using measurement inputs at quoted market prices (Level 1), observable measurement criteria (Level 2), or unobservable measurement criteria (Level 3).

The table below sets forth a summary of changes in the fair value of the Synod's investments for the years ended December 31, 2011 and 2010:

December 31,						
	2011			2010		
	Cost	Fair Value	Unrealized Depreciation	Cost	Fair Value	Unrealized Appreciation
<u>Current Investments</u>						
Certificates of deposit	\$ 413,686	\$ 413,686	\$ -	\$ 307,244	\$ 307,244	\$ -
Corporate bonds	532,661	512,554	(20,107)	784,199	800,506	16,307
Mutual funds	12,281	11,413	(868)	-	-	-
ELCA funds	309,489	288,235	(21,254)	237,607	309,489	71,882
	<u>\$ 1,268,117</u>	<u>\$ 1,225,888</u>	<u>\$ (42,229)</u>	<u>\$ 1,329,050</u>	<u>\$ 1,417,239</u>	<u>\$ 88,189</u>
	2011			2010		
	Cost	Fair Value	Unrealized Appreciation	Cost	Fair Value	Unrealized Appreciation
<u>Other Investments</u>						
Corporate stocks	\$ 1,667,669	\$ 1,684,065	\$ 16,396	\$ 1,467,191	\$ 1,693,779	\$ 226,588
Mission Investment Fund investments	649,255	649,255	-	682,981	682,981	-
	<u>\$ 2,316,924</u>	<u>\$ 2,333,320</u>	<u>\$ 16,396</u>	<u>\$ 2,150,172</u>	<u>\$ 2,376,760</u>	<u>\$ 226,588</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

C. INVESTMENTS (CONTINUED)

The tables below present the balances of investments measured at fair value on a recurring basis as of December 31, 2011 and 2010, by valuation hierarchy:

	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>

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	\$ 307,244	\$ -	\$ -	\$ 307,244
Corporate bonds	800,506	-	-	800,506
Fixed income	-	682,981	-	682,981
ELCA funds	-	-	309,489	309,489
Equities	1,693,779	-	-	1,693,779
Total investments, at fair value	<u>\$ 2,801,529</u>	<u>\$ 682,981</u>	<u>\$ 309,489</u>	<u>\$ 3,793,999</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, 2011 and 2010:

	2011	2010
Fair value, beginning of year	\$ 309,489	\$ 286,977
Dividend income	13,119	13,224
Net unrealized gains	(21,254)	22,512
Income distribution	(13,119)	(13,224)
Fair value, end of year	<u>\$ 288,235</u>	<u>\$ 309,489</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

D. LOANS RECEIVABLES

The Synod had the following loans receivable:

	<u>2011</u>	<u>2010</u>
Cross Roads Camp and Retreat Center, Port Murray, NJ		
\$200,000 at 5.0% interest, due April 8, 2031	\$ 196,050	\$ -
Trinity Lutheran Church, Jersey City, NJ		
\$50,000 at 1.0% interest, due June 22, 2021	47,500	-
Temple Lutheran Church, Pennsauken, NJ		
\$22,000 at 1.0% interest, due December 1, 2021	21,624	-
Good Shepherd Lutheran Church, Weehawken, NJ		
\$18,830 at 1.0% interest, due April 1, 2016.	5,777	8,080
Total	<u>\$ 270,951</u>	<u>\$ 8,080</u>

Total maturities of loans receivable for the year ending December 31, 2011, are as follows:

2012	\$ 13,083
2013	14,676
2014	15,813
2015	16,253
2016	15,393
Thereafter	195,733
Total	<u>\$ 270,951</u>

E. MORTGAGE RECEIVABLES

The Synod had the following mortgage receivables:

	<u>2011</u>	<u>2010</u>
New Life Lutheran Church, Camden, NJ		
\$115,000 at 5.0% interest, due February 12, 2015	\$ 108,568	\$ 112,149
Spirit of Hope, Mount Ephraim, NJ		
\$600,000 at 6.0% interest, due December 15, 2012	584,810	592,632
Church of Hope and Love, Trenton, NJ		
\$376,123 at 6.0% interest, due October 20, 2012	332,717	-
Total	<u>\$ 1,026,095</u>	<u>\$ 704,781</u>

Total maturities of mortgages receivable for the year ending December 31, 2011, are as follows:

2012	\$ 921,291
2013	3,957
2014	4,160
2015	96,687
Total	<u>\$ 1,026,095</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

F. SYNOD HOUSE PROPERTY AND EQUIPMENT

Synod House property and equipment consists of the following:

	December 31,	
	2011	2010
Buildings and improvements	\$ 619,398	\$ 619,398
Furniture and equipment	53,870	74,165
Transportation equipment	96,318	96,318
Subtotal	769,586	789,881
Accumulated depreciation and amortization	194,024	186,557
Total	<u>\$ 575,562</u>	<u>\$ 603,324</u>

G. 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 secure the mortgage on 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. As of December 31, 2011, \$532,392 was outstanding on the note.

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

2012	\$ 16,250
2013	17,102
2014	18,000
2015	18,944
2016	19,938
Thereafter	<u>442,158</u>
Total	<u>\$ 532,392</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

H. RESTRICTIONS ON NET ASSETS

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

	December 31,	
	2011	2010
Designated Support		
Theological Education Fund (Philadelphia Seminary)	\$ 264,235	\$ 294,617
Danish Home Fund Interest	4,681	5,951
Franklin Fry Chair Fund	28,287	30,328
Brueckner Fund	305,628	347,103
Cross Roads Reserve	901	701
Compensation Aid Fund	107,199	80,241
Stewardship	3,916	3,916
AIDS Ministry	1,139	989
Brauninger Travel Fund	20,472	-
Namibia Special Fund	21,830	21,074
Croatia Companion Synod	6,677	6,677
North Plainfield Music Fund	61,140	-
Project Connect Grant	7,500	-
Other Temporarily Restricted	81	1,693
Mission Ministries		
Christ Ridgefield Park Transitional Facilities	158,606	158,179
Mission on the Move	-	333,915
Suddler Trust	21,563	21,563
Hudson/Christ Ridgefield	34,504	14,449
Advent Legacy Maintenance	-	176,679
Bethel Maintenance	161	24,669
Total	<u>\$ 1,048,520</u>	<u>\$ 1,522,744</u>

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

	Year Ended December 31,	
	2011	2010
Designated Support	\$ 447,922	\$ 216,078
Mission Ministries	1,001,261	58,976
Total	<u>\$ 1,449,183</u>	<u>\$ 275,054</u>

Permanently Restricted Net Assets

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

	December 31,	
	2011	2010
Danish Children's Home	\$ 31,105	\$ 31,104
Transitional Ministries (Fund for Mission)	445,462	445,462
Total	<u>\$ 476,567</u>	<u>\$ 476,566</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.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

I. 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.

J. 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 Board of Pensions 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 \$105,000 and \$119,000 for the years ended December 31, 2011 and 2010, respectively.

K. 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

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

K. EQUITY IN CROSS ROADS OUTDOOR MINISTRIES (CONTINUED)

will repurchase the Diocese's 50% interest in the land improvements for the lower of fair market value or \$730,000. At December 31, 2011, the Synod's equity in Cross Roads Outdoor Ministries was \$1,654,096, 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, 2011, is presented as follows:

Total support and revenues	\$ 622,559
Total expenses	<u>609,414</u>
Change in net assets	13,145
	x 50%
Synod portion of equity in earnings of Cross Roads Ministries	<u>\$ 6,573</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, 2011, was \$400,247. In addition to the designated reserve for Cross Roads Outdoor Ministries, restricted contributions of \$305,628 associated with the sale of the Brueckner House in 2009 were also set aside as a reserve amount.

L. 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.

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

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

L. ENDOWMENT POLICY (CONTINUED)

Endowment Spending Policy (Continued)

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 2010, 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, 2011 and 2010, the total amount appropriated and spent on grants, scholarships and to support the spending plan was \$181,063 and \$202,293, 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.

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, 2011 and 2010, no transfers of net assets were required.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

L. ENDOWMENT POLICY (CONTINUED)

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	(58,574)	(22,540)	-	(81,114)
Total investment return	(58,574)	(22,540)	-	(81,114)
Contributions	105,900	200	-	106,100
Endowment disbursements	131,409	52,628	-	184,037
Transfer of net assets	(1)	-	1	-
Endowment net assets, end of year	<u>\$ 2,547,662</u>	<u>\$ 603,897</u>	<u>\$ 476,567</u>	<u>\$ 3,628,126</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,534,275	\$ 637,022	\$ 476,566	\$ 3,647,863
Investment return	203,764	108,225	-	311,989
Total investment return	203,764	108,225	-	311,989
Contributions	51,000	100	-	51,100
Endowment disbursements	157,293	66,482	-	223,775
Endowment net assets, end of year	<u>\$ 2,631,746</u>	<u>\$ 678,865</u>	<u>\$ 476,566</u>	<u>\$ 3,787,177</u>

M. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the statement of financial position date but before April 14, 2012, the date the financial statements were available to be issued and determined that the following disclosure is required.

On January 13, 2012, the Synod sold the St. John Lutheran Church in Westville, NJ for \$800,000 and concurrently executed a Mortgage and Security Agreement for \$720,000.