

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

FINANCIAL STATEMENTS

December 31, 2013

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

TABLE OF CONTENTS

December 31, 2013

	<u>Page Number</u>
Independent Auditors' Report.....	1
Financial Statements	
Statement of Financial Position.....	3
Statement of Activities.....	4
Statement of Cash Flows.....	7
Notes To Financial Statements.....	8

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 financial statements of New Jersey Synod of the Evangelical Lutheran Church in America (the "Synod") which comprise the statement of financial position as of December 31, 2013, 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 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.

MEMBERS OF LEADING BY EXAMPLE

P.O. Box 7648 • Princeton, NJ 08543-7648 • 609.689.9700 • Fax 609.689.9720

www.mercadien.com

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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Meredith, P.C.
Certified Public Accountants

April 22, 2014

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF FINANCIAL POSITION

December 31, 2013

(With Comparative Totals for December 31, 2012)

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Totals
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 1,545,327	\$ 136,049	\$ -	\$ 1,681,376	\$ 1,001,615
Investments	956,241	-	-	956,241	1,136,321
Staff advances	750	-	-	750	1,000
Loans receivable, current	23,948	-	-	23,948	24,411
Mortgages receivable, current	454,714	-	-	454,714	31,119
Prepaid expenses	64,315	-	-	64,315	59,300
Total Current Assets	3,045,295	136,049	-	3,181,344	2,253,766
Other Assets					
Restricted cash	80,787	-	-	80,787	30,000
Loans receivable	280,487	-	-	280,487	256,017
Mortgages receivable	782,627	-	-	782,627	1,100,758
Investments	1,130,157	1,947,131	476,567	3,553,855	2,766,891
Synod House property and equipment	555,592	-	-	555,592	573,908
Land and Property held by Synod	2,299,964	-	-	2,299,964	2,527,030
Equity in Cross Roads Outdoor Ministries	1,660,818	-	-	1,660,818	1,629,650
Other assets	16,901	-	-	16,901	14,775
Total Assets	<u>\$ 9,852,628</u>	<u>\$ 2,083,180</u>	<u>\$ 476,567</u>	<u>\$12,412,375</u>	<u>\$11,152,795</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accrued expenses and other liabilities	\$ 16,971	\$ -	\$ -	\$ 16,971	\$ 57,362
Deferred revenue	-	-	-	-	3,155
Grants payable	59,729	-	-	59,729	67,823
Loans payable, current	18,607	-	-	18,607	32,761
Total Current Liabilities	95,307	-	-	95,307	161,101
Loans payable, noncurrent	192,620	-	-	192,620	186,030
Total Liabilities	287,927	-	-	287,927	347,131
Net Assets					
Unrestricted					
Cross Roads Outdoor Ministries	1,660,818	-	-	1,660,818	1,629,650
Board designated	5,259,554	-	-	5,259,554	4,550,333
Net investment in property, plant and equipment	2,644,329	-	-	2,644,329	2,882,147
Total unrestricted	9,564,701	-	-	9,564,701	9,062,130
Temporarily restricted	-	2,083,180	-	2,083,180	1,266,967
Permanently restricted	-	-	476,567	476,567	476,567
Total Net Assets	9,564,701	2,083,180	476,567	12,124,448	10,805,664
Total Liabilities and Net Assets	<u>\$ 9,852,628</u>	<u>\$ 2,083,180</u>	<u>\$ 476,567</u>	<u>\$12,412,375</u>	<u>\$11,152,795</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	2013				2012
	Unrestricted Designated And Other Funds				
	Operations	Total	Temporarily Restricted	Permanently Restricted	Totals
Support and revenue					
Support from congregations					
Commitment	\$ 2,152,306	\$ 2,152,306	\$ -	\$ -	\$ 2,184,930
Total support	2,152,306	2,152,306	-	-	2,184,930
Revenue					
Other contributions and gifts	155,921	719,348	875,269	-	1,619,126
Rental income	-	70,782	70,782	-	81,500
Investment income	3,739	137,996	141,735	-	128,534
Gain on sale of property	-	2,048,840	1,247,246	-	710,601
Assembly income	56,533	-	56,533	-	33,461
Total revenue	216,193	2,976,966	1,499,066	-	2,573,222
Net assets released from restrictions	-	682,853	(682,853)	-	-
Total support and revenue	2,368,499	3,659,819	816,213	-	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, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	2013					2012
	Unrestricted					
	Operations	Designated And Other Funds	Total	Temporarily Restricted	Permanently Restricted	Totals
Expenses						
Synod program services						
Support and development of churchwide mission	1,076,153	-	1,076,153	-	-	1,092,465
Ministry partners	253,250	-	253,250	-	-	267,200
Leadership	3,760	-	3,760	-	-	(1,147)
Candidacy	15,014	-	15,014	-	-	12,622
Discipling	65	-	65	-	-	(352)
Outreach	36,220	-	36,220	-	-	36,410
Special causes/justice and peace	522	-	522	-	-	823
Youth ministry	16,056	-	16,056	-	-	10,184
Ecumenical and interfaith	1,132	-	1,132	-	-	240
Communications	6,071	-	6,071	-	-	2,348
Synod mission development	133,154	-	133,154	-	-	117,436
Office of the Bishop	322,508	-	322,508	-	-	365,987
Fiscal and property management	138,847	-	138,847	-	-	132,571
Synod office and operations	307,381	-	307,381	-	-	297,011
Assembly	56,533	-	56,533	-	-	33,461
Total Synod program services	2,366,666	-	2,366,666	-	-	2,367,259
Supporting services						
Designated support	-	1,151,141	1,151,141	-	-	788,932
Mission ministries	-	2,815,279	2,815,279	-	-	901,867
Depreciation	-	47,339	47,339	-	-	46,451
Total supporting services	-	4,013,759	4,013,759	-	-	1,737,250
Total expenses	2,366,666	4,013,759	6,380,425	-	-	4,104,509

See notes to financial statements.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES (CONTINUED)

Year Ended December 31, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	2013				2012
	Unrestricted				
	Designated				
	And Other				
	Funds	Total	Temporarily Restricted	Permanently Restricted	Totals
Operations					

See notes to financial statements.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF CASH FLOWS

Year Ended December 31, 2013

(With Comparative Totals for the Year Ended December 31, 2012)

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,318,784	\$ 908,110
Adjustments to reconcile the change in net assets to net cash from operating activities		
Depreciation	47,339	46,451
Gain on sale of property	(3,296,086)	(710,601)
Gain on sale of investments	(234,123)	(36,936)
Unrealized gain on investments	(570,377)	(222,941)
Equity in earnings of Cross Roads Outdoor Ministries	(50,178)	5,410
Changes in assets and liabilities		
Staff advances	250	250
Restricted cash	(50,787)	(30,000)
Loans receivable	(24,007)	(9,477)
Prepaid expenses	(5,015)	(32,833)
Other assets	(2,126)	3,722
Accrued expenses and other liabilities	(40,391)	53,864
Deferred revenue	(3,155)	3,155
Grants payable	(8,094)	11,141
Net cash from operating activities	<u>(2,917,966)</u>	<u>(10,685)</u>
Cash Flows from Investing Activities		
Purchases of property, equipment and land improvements	(184,607)	(126,145)
Reimbursement for acquisition of property, equipment and land improvements	-	300,000
Sale (Purchase) of investments, net	197,616	(84,127)
Proceeds from sale of property	3,697,746	800,000
Proceeds from property mortgaged	(130,500)	(720,000)
Collections of mortgages receivable	25,036	614,218
Net cash from investing activities	<u>3,605,291</u>	<u>783,946</u>
Cash Flows from Financing Activities		
Repayments of loans payable	<u>(7,564)</u>	<u>(313,601)</u>
Net change in cash	679,761	459,660
Cash, beginning of year	1,001,615	541,955
Cash, end of year	<u>\$ 1,681,376</u>	<u>\$ 1,001,615</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 10,712</u>	<u>\$ 26,962</u>
Supplemental schedule of noncash investing activities		
Issuance of mortgages	<u>\$ (130,500)</u>	<u>\$ (720,000)</u>

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, Vice-President, Secretary, and voting members to the ELCA Churchwide Assembly. The Treasurer is elected by the Synod.

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 ("U.S. 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Synod's financial statements for the year ended December 31, 2012, 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 U.S. 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

Investments are stated at fair value 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.

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.

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.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Income Taxes

As a result of its affiliation with ELCA, 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.

The Synod accounts for uncertainty in income taxes recognized in the financial statements using a recognition threshold of more likely than not as to whether the uncertainty will be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Subsequent Events

Management has evaluated events for potential recognition and disclosure that occurred after December 31, 2013, but before April 22, 2014, the date the financial statements were available to be issued. Other than the items disclosed throughout these financial statements, no subsequent events were determined by management to require disclosure.

Reclassifications

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

C. LAND AND PROPERTY HELD BY THE SYNOD

Property held by the Synod at December 31, 2013 and 2012, consists of the following:

	2013	2012
<u>Property held by Synod</u>		
Cross of Life Lutheran Church, Plainfield, NJ (1)	\$ 58,828	\$ 74,111
Storefront Church, Jersey City, NJ (2)	46,895	22,618
St. Johns, Hoboken, NJ (3)	548,485	534,539
Hansen Parsonage, Linden, NJ (4)	307,387	305,382
Elizabeth Lutheran Center (ELC) Church, Elizabeth, NJ (5)	556,707	537,455
ELC Parsonage, Elizabeth, NJ (6)	121,248	120,852
ELC Parish Hall, Elizabeth, NJ (7)	114,800	110,962
Bridge of Peace, Camden, NJ (8)	91,734	79,822
Elect Saints, Hamilton, NJ (9)	-	264,473
Elect Saints, Hamilton, NJ (10)	-	57,635
Land, Jackson, NJ (11)	403,548	399,723
Townsend's Inlet, Sea Isle, NJ (12)	12,207	6,542
Grace Lutheran Church, Camden, NJ (13)	22,212	12,919
Maywood, Redeemer (14)	391	-
Our Saviour Cresskill (15)	15,522	-
St. Luke's, West Collingswood, NJ (16)	-	-
Zion, Jersey City, NJ (17)	-	-
	<u>\$ 2,299,964</u>	<u>\$ 2,527,033</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 House of Faith (a housing mission agency). In February 2014, the NJ Synod entered into an agreement to sell the property to House of Faith pending financing. Management anticipates closing on the property in June 2014.
- (3) The Synod is currently leasing this property to the Hoboken Shelter (a housing mission agency) as well as being leased by St. John the Baptist, Hoboken.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

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

- (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 by mission congregations for 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.
- (9) The congregation closed in November 2007 and Elect Saints, an organized congregation (May 2010), used the building until December 31, 2012. The property was sold in 2013 to Holy Trinity Baptist Church using a Tenant-in-Common agreement (See Note O).
- (10) The parsonage was also sold in 2013 to Holy Trinity Baptist Church. The Elect Saints pastor currently leases the parsonage from Holy Trinity Baptist.
- (11) Land was purchased in 2007 for a New Jersey Synod Mission Congregation. NJ Synod is seeking to sell the property.
- (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. Management of the Synod expects the Trustee Agreement to be finalized in 2014.
- (13) Congregation closed in January 2012 and the NJ Synod currently leases the property to an ecumenical ministry partner. The property was listed for sale in March 2014.
- (14) Congregation closed in January 2014. An offer has been accepted but a purchase agreement has not been executed.
- (15) Congregation closed in September 2013. A purchase agreement has been executed and management anticipates closing on the property in May 2014.
- (16) Congregation closed in July 2012. The property was sold during 2013 to Fellowship Baptist Church of Mt. Laurel, Inc.
- (17) Congregation closed in April 2012. The property was sold during 2013 to Muungano Seventh Day Adventist Inc. using a Tenant-in-Common agreement (See Note O).

D. INVESTMENTS

Investments are stated at fair value and consist of certificates of deposit, corporate bonds, corporate stocks, pooled investments held by ELCA and fixed income investments invested in the Mission Investment Fund ("MIF") with the ELCA.

The table below sets forth a summary of changes in the fair value of the Synod's investments for the years ended December 31, 2013 and 2012:

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

D. INVESTMENTS (CONTINUED)

December 31,						
	2013			2012		
	Cost	Fair Value	Unrealized Depreciation	Cost	Fair Value	Unrealized Appreciation
<u>Current Investments</u>						
Certificates of deposit	\$ 100,000	\$ 100,000	\$ -	\$ 199,878	\$ 199,878	\$ -
Corporate bonds	906,004	856,241	(49,763)	610,455	620,266	9,811
ELCA funds	-	-	-	288,235	316,177	27,942
	<u>\$ 1,006,004</u>	<u>\$ 956,241</u>	<u>\$ (49,763)</u>	<u>\$ 1,098,568</u>	<u>\$ 1,136,321</u>	<u>\$ 37,753</u>

December 31,						
	2013			2012		
	Cost	Fair Value	Unrealized Appreciation	Cost	Fair Value	Unrealized Appreciation
<u>Other Investments</u>						
Corporate stocks	\$ 2,168,141	\$ 2,882,296	\$ 714,155	\$ 1,885,310	\$ 2,113,575	\$ 228,265
MIF fixed income investments	671,559	671,559	-	653,316	653,316	-
	<u>\$ 2,839,700</u>	<u>\$ 3,553,855</u>	<u>\$ 714,155</u>	<u>\$ 2,538,626</u>	<u>\$ 2,766,891</u>	<u>\$ 228,265</u>

POOLED INVESTMENTS HELD BY ELCA

Investments are held in pooled funds invested with the ELCA. The ELCA invests funds in a diversified balanced portfolio consisting principally of global equities and fixed income securities. As a participant in the pooled funds, the Synod's ownership interest is based on the allocation of the fair value of the Synod's units to the total fair value of the investment pool. During the year ended December 31, 2013, the Synod sold all shares of its investment in the ELCA.

E. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Synod uses various methods including market, income and cost approaches. Based on these approaches, the Synod often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Synod utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Synod is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 — Quoted prices for identical assets and liabilities traded in active exchange markets.
- Level 2 — Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

E. FAIR VALUE MEASUREMENT (CONTINUED)

- Level 3 — Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

While 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 estimate of fair value at the reporting date.

During the years ended December 31, 2013 and 2012, there were no changes to the Synod's valuation techniques that had, or are expected to have, a material impact on its financial position or changes in net assets.

The following is a description of the valuation methodologies used for instruments measured at fair value:

Equity, Fixed Income and Bond Securities - The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Assets measured at fair value on a recurring basis at December 31, 2013 and 2012, were as follows:

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Investments:				
Certificates of deposit	\$ 100,000	\$ -	\$ -	\$ 100,000
Corporate bonds	856,241	-	-	856,241
Fixed income	-	671,559	-	671,559
Equities	2,882,296	-	-	2,882,296
Total investments, at fair value	<u>\$ 3,838,537</u>	<u>\$ 671,559</u>	<u>\$ -</u>	<u>\$ 4,510,096</u>
	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>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

E. FAIR VALUE MEASUREMENT (CONTINUED)

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, 2013 and 2012:

	2013	2012
Fair value, beginning of year	\$ 316,177	\$ 288,235
Dividend income	4,696	13,119
Net realized and unrealized gains	16,954	27,942
Income distribution	(337,827)	(13,119)
Fair value, end of year	<u>\$ -</u>	<u>\$ 316,177</u>

F. LOANS RECEIVABLES

The Synod had the following loans receivable:

	2013	2012*
Cross Roads Camp and Retreat Center, Port Murray, NJ		
\$200,000 at 5.0% interest, due April 8, 2031	\$ 183,381	\$ 189,873
Transformational Ministry Loans		
Various principal amounts at 1% interest, with various final maturity dates through August 1, 2023	121,054	90,555
Total	<u>\$ 304,435</u>	<u>\$ 280,428</u>

* Certain items have been reclassified for comparative purposes.

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

2014	\$ 23,948
2015	26,423
2016	26,146
2017	23,480
2018	22,292
Thereafter	182,146
Total	<u>\$ 304,435</u>

G. MORTGAGE RECEIVABLES

The Synod had the following mortgage receivables:

	2013	2012
Dunamis Life Church, Camden, NJ		
\$115,000 at 5.0% interest, due February 12, 2015	\$ 100,847	\$ 104,803
Church of Hope and Love, Trenton, NJ		
\$376,123 at 6.0% interest, due December 20, 2014	308,366	317,607
Macedonia Baptist Church, Woodbury, NJ		
\$720,000 at 5.0% interest, due January 13, 2015 (1)	697,628	709,467
Holy Trinity Baptist Church of New Jersey, Inc., Trenton, NJ		
\$130,500 at 5.25% interest, due October 23, 2014	130,500	-
Total	<u>\$ 1,237,341</u>	<u>\$ 1,131,877</u>

(1) Subsequent to year-end, the original due date of January 13, 2014, was extended to January 13, 2015, and the future minimum payments due under the revised agreement are reflected in the table below.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

G. MORTGAGES RECEIVABLES (CONTINUED)

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

2014	\$ 454,714
2015	<u>782,627</u>
Total	<u>\$ 1,237,341</u>

H. SYNOD HOUSE PROPERTY AND EQUIPMENT

Synod House property and equipment consists of the following:

	December 31,	
	2013	2012
Buildings and improvements	\$ 619,398	\$ 619,398
Furniture and equipment	53,870	53,870
Transportation equipment	<u>72,887</u>	<u>71,580</u>
Subtotal	746,155	744,848
Accumulated depreciation and amortization	<u>190,563</u>	<u>170,940</u>
Total	<u>\$ 555,592</u>	<u>\$ 573,908</u>

I. LOAN PAYABLE

On March 31, 2011, the Synod entered into a \$540,000 note payable agreement with the Mission Investment Fund of the ELCA (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. In February 2014, the Synod began making monthly principal and interest payments of \$2,500. Based on the revised amortization schedule, the loan will be repaid in 2022. As of December 31, 2013 and 2012, \$211,227 and \$218,791 was outstanding on the note, respectively.

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

2014	\$ 18,607
2015	20,607
2015	21,688
2016	22,826
2017	24,024
Thereafter	<u>103,475</u>
Total	<u>\$ 211,227</u>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

J. RESTRICTIONS ON NET ASSETS

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

	December 31,	
	2013	2012*
Designated Support		
Theological Education Fund (Philadelphia Seminary)	\$ 4,682	\$ 267,996
Danish Home Fund Interest	3,433	5,908
Franklin Fry Chair Fund	37,223	31,796
Brueckner Fund	466,042	362,582
Cross Roads Reserve	1,513	1,213
Compensation Aid Fund	298,098	69,708
Stewardship	2,192	2,964
AIDS Ministry	1,339	1,139
Brauninger Travel Fund	14,272	14,272
Namibia Special Fund	17,829	19,134
Croatia Companion Synod	6,677	6,677
Project Connect Grant	-	5,440
Hurricane Sandy Relief Fund	15,234	107,038
Mission Ministries		
North Plainfield Music Fund	71,539	62,665
Transformational Ministry Loans (congregational legacies)	222,815	158,935
Suddler Trust	21,563	21,563
Hudson/Christ Ridgefield	31,048	31,886
Bethel Maintenance	-	96,051
Fund for Mission Legacy	277,740	-
St. Luke Legacy	337,376	-
St. Mark Legacy	252,565	-
Total	<u>\$ 2,083,180</u>	<u>\$ 1,266,967</u>

* Certain items have been reclassified for comparative purposes.

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

	Year Ended December 31,	
	2013	2012
Designated Support	\$ 557,463	\$ 116,865
Mission Ministries	125,390	19,173
Total	<u>\$ 682,853</u>	<u>\$ 136,038</u>

Net assets released from donor restrictions related to Designated Support above includes \$267,996 of transfers to the LTSP Foundation.

Permanently Restricted Net Assets

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

	December 31,	
	2013	2012
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>

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

J. RESTRICTIONS ON NET ASSETS (CONTINUED)

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 its designated purpose.

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 in the Fund. 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 \$80,000 and \$93,000 for the years ended December 31, 2013 and 2012, respectively.

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.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

M. EQUITY IN CROSS ROADS OUTDOOR MINISTRIES (CONTINUED)

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, 2013, the Synod's equity in Cross Roads Outdoor Ministries was \$1,660,818, 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, 2013, is presented as follows:

Total support and revenues	\$ 992,678
Total expenses	<u>892,323</u>
Change in net assets	100,355
	x 50%
Synod portion of equity in earnings of Cross Roads Ministries	<u>\$ 50,178</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, 2013, was \$397,347. In addition to the designated reserve for Cross Roads Outdoor Ministries, restricted contributions of \$466,042 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 U.S. 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 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.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

N. ENDOWMENT POLICY (CONTINUED)

Endowment Spending Policy (Continued)

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, 2013 and 2012, the total amount appropriated and spent on grants, scholarships and to support the Spending Plan was \$213,684 and \$173,353, 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.

During March 2014, the Synod Council modified the endowment investment policy. Under the terms of the modified endowment investment policy, the target rate of return on investments was decreased to limit the negative impact of market fluctuation on the investments.

Under the provisions of the Uniform Prudent Management of Institutional Funds Act and U.S. 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, 2013 and 2012, no transfers of net assets were required.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

N. ENDOWMENT POLICY (CONTINUED)

Changes in Endowment Net Assets for the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,701,933	\$ 669,495	\$ 476,567	\$ 3,847,995
Investment return	523,050	171,982	-	695,032
Contributions	11,284	630,154	-	641,438
Endowment disbursements	(138,057)	(75,627)	-	(213,684)
Transfer to LTSP Foundation	-	(267,996)	-	(267,996)
Endowment net assets, end of year	<u>\$ 3,098,210</u>	<u>\$ 1,128,008</u>	<u>\$ 476,567</u>	<u>\$ 4,702,785</u>

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	(128,353)	(45,000)	-	(173,353)
Endowment net assets, end of year	<u>\$ 2,701,933</u>	<u>\$ 669,495</u>	<u>\$ 476,567</u>	<u>\$ 3,847,995</u>

O. CONTINGENT LIABILITIES

To assist congregations in obtaining a mortgage, the Synod at times enters into tenant in common agreements. Under the terms of the agreements, the Synod agrees to jointly guarantee a mortgage held by a congregation and funds a debt service reserve account with the financial institution lender. The deed for the mortgaged property is held in escrow, and the Synod retains a 51% interest in the property as a tenant in common and a 49% interest is granted to the congregation. Under the terms of the agreements, the Synod is released of all liability for the mortgage loan if the congregation meets certain financial benchmarks as defined by the financial institution. If the congregation defaults on the loan payments, the Synod becomes liable and the deed for the property would be released to the Synod. As of December 31, 2013 and 2012, the Synod was party to three and one tenant in common agreements, respectively. At December 31, 2013 and 2012, total funds in reserve related to tenant in common agreements were \$80,787 and \$30,000, respectively. As of December 31, 2013 and 2012, there were no defaults under these arrangements.

NEW JERSEY SYNOD OF THE EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS

O. CONTINGENT LIABILITIES (CONTINUED)

The future minimum payments due under the mortgage loans for the years ending December 31, are as follows:

	Tenant-in-Common			Total
	Keys to Life Ministries	Holy Trinity Baptist Church	Muuango Seventh Day	
2014	\$ 12,357	\$ 11,868	\$ 26,066	\$ 50,291
2015	13,022	12,515	27,400	52,937
2016	13,722	13,198	28,802	55,722
2017	14,460	13,918	30,275	58,653
2018	15,238	14,677	31,824	61,739
Thereafter	498,723	342,864	708,518	1,550,105
Total	<u>\$ 567,522</u>	<u>\$ 409,040</u>	<u>\$ 852,885</u>	<u>\$ 1,829,447</u>