

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

**CONSOLIDATED FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JANUARY 31, 2016**

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Synod Council
Minneapolis Area Synod
of the Evangelical Lutheran Church in America
Minneapolis, Minnesota

We have audited the accompanying consolidated financial statements of the Minneapolis Area Synod of the Evangelical Lutheran Church in America (a nonprofit organization) and its affiliate, which comprise the consolidated statement of financial position as of January 31, 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Minneapolis Area Synod of the Evangelical Lutheran Church in America and its affiliate as of January 31, 2016, and the changes in their net assets and their 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 Minneapolis Area Synod's 2015 consolidated financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended January 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information shown on pages 17 and 18 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Mahoney Ulbrich
Christiansen Russ P.A.*

Saint Paul, Minnesota
June 28, 2016

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

January 31, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Cash	\$ 620,202	\$ 1,173,675
Investments (Note 3)	1,210,751	1,255,990
Prepaid expenses	8,561	10,281
	1,839,514	2,439,946
Jordan New Life property (Note 4)	331,500	331,500
Reformation Church property (Note 5)	1,537,950	1,537,950
	1,869,450	1,869,450
Furniture and equipment (Note 6)	143,721	119,270
Less accumulated depreciation	(79,563)	(49,541)
	64,158	69,729
Total assets	\$ 3,773,122	\$ 4,379,125
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 24,906	\$ 91,677
Due to ELCA (Note 7)	345,426	440,693
Accrued payroll and related expenses	12,212	-
Funds held for others	23,114	51,915
Prepaid revenue	-	5,000
Deferred lease incentive (Note 12)	26,300	40,016
Total liabilities	431,958	629,301
Net assets:		
Unrestricted		
Designated (Note 9)	3,052,478	3,317,854
Undesignated	182,547	226,297
Total unrestricted	3,235,025	3,544,151
Temporarily restricted (Note 10)	106,139	205,673
Total net assets	3,341,164	3,749,824
Total liabilities and net assets	\$ 3,773,122	\$ 4,379,125

See Accompanying Notes to Consolidated Financial Statements.

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	
Support and revenue:				
Mission support from congregations	\$ 2,983,803	\$ -	\$ 2,983,803	\$ 3,169,518
Designated benevolence	85,691	110,252	195,943	255,928
Donated Reformation Church property	-	-	-	1,500,000
Individual bequest	-	-	-	143,429
Stewardship grants	15,000	-	15,000	15,000
Health insurance rebate	44,048	-	44,048	45,370
Rental revenue	8,175	-	8,175	22,000
Investment income (loss)	(44,357)	-	(44,357)	58,858
Miscellaneous	306	-	306	17,961
Net assets released from restrictions:				
Satisfaction of program and time restrictions	209,786	(209,786)	-	-
Total support and revenue	3,302,452	(99,534)	3,202,918	5,228,064
Expenses:				
Ministries:				
ELCA churchwide	1,491,901	-	1,491,901	1,616,759
Other missions	471,210	-	471,210	554,403
Shared and co-ministries	201,357	-	201,357	219,700
Synod assembly	94,544	-	94,544	79,628
Congregational support	53,055	-	53,055	71,892
Committees	18,890	-	18,890	21,749
Tables	21,563	-	21,563	7,747
Compensation and benefits	878,194	-	878,194	805,402
Office expenses	289,170	-	289,170	265,237
General expenses	61,485	-	61,485	49,982
Interest expense	187	-	187	7
Depreciation expense	30,022	-	30,022	14,191
Total expenses	3,611,578	-	3,611,578	3,706,697
Change in net assets	(309,126)	(99,534)	(408,660)	1,521,367
Net assets:				
Beginning of year	3,544,151	205,673	3,749,824	2,228,457
End of year	<u>\$ 3,235,025</u>	<u>\$ 106,139</u>	<u>\$ 3,341,164</u>	<u>\$ 3,749,824</u>

See Accompanying Notes to Consolidated Financial Statements.

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (408,660)	\$ 1,521,367
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation	30,022	14,191
Amortization of lease incentive	(13,716)	(1,143)
Realized and unrealized losses (gains)	44,848	(58,440)
Donated Reformation Church property	-	(1,500,000)
Changes in operating assets and liabilities:		
Prepaid expenses	1,720	(2,059)
Accounts payable	(66,771)	60,199
Due to ELCA	(95,267)	32,471
Accrued payroll and expenses	12,212	-
Funds held for others	(28,801)	17,711
Prepaid revenue	(5,000)	-
Net cash flows from operating activities	(529,413)	84,297
Cash flows from investing activities:		
Payments for furniture and equipment	(24,451)	(39,781)
Payments for improvements at Reformation	-	(37,950)
Purchase of investments	-	(24,385)
Proceeds from sales of investments	391	53,543
Net cash flows from investing activities	(24,060)	(48,573)
Net increase (decrease) in cash	(553,473)	35,724
Cash, beginning of year	1,173,675	1,137,951
Cash, end of year	\$ 620,202	\$ 1,173,675
Supplemental disclosures of cash flow information:		
Leasehold improvements paid by landlord	\$ -	\$ 41,159

See Accompanying Notes to Consolidated Financial Statements.

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

1. **ORGANIZATION**

The Minneapolis Area Synod (the Synod) of the Evangelical Lutheran Church in America (ELCA) is an incorporated administrative unit of the ELCA that oversees 155 congregations. These financial statements include the assets, liabilities, revenues and expenses of the Synod but do not include any congregations because they are separate 501(c)(3) entities that are not controlled by the Synod. Substantially all revenue and support comes from member congregations.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation - The consolidated financial statements include the accounts of the Synod and the Minneapolis Area Service Corporation (MASC). MASC is a Minnesota nonprofit corporation formed for the purpose of holding, managing and disposing of real properties formerly owned by congregations affiliated with the Synod. The Board of MASC is appointed by the Synod and the Bishop is a Director of the Corporation. Inter-entity transactions and balances have been eliminated in consolidation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation - The Synod reports information regarding its financial position and activities in the following three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions. Unrestricted net assets are available for programs and supporting services at the discretion of management and the Synod Council.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions the donor has stipulated must be held in perpetuity. The Synod has no permanently restricted net assets.

Concentration of Credit Risk - The Synod places its cash with one banking institution. At times the amount on deposit exceeds the insured limit of the institution. At January 31, 2016 and 2015, the Synod's uninsured cash balances total \$178,813 and \$1,076,363, respectively.

Additionally, the investments in the Mission Investment Fund of the ELCA and ELCA Endowment Fund A are not insured.

(Continued)

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Cash Equivalents - The Synod considers all highly liquid investments purchased with original maturities of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents. For purposes of the statement of cash flows, investments held in the ELCA Mission Investment Fund (MIF) are not considered cash equivalents.

Investments - The Synod invests in professionally managed portfolios that contain various equity and fixed income securities and funds. MIF investments are stated at cost. Other investments are stated at fair value. Realized and unrealized gains and losses are included in investment income in the statement of activities and are reported as changes in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect investment balances and the amounts reported on the statement of financial position.

Fair Value Measurements - The Synod determines fair value, when necessary, based on the assumptions that market participants would use when pricing the asset or liability. Valuation techniques require using inputs which are categorized using the following hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs that are observable, directly or indirectly, other than the quoted prices included in Level 1; and
- Level 3 - unobservable inputs.

Fair value measurements were applied to mutual funds based on Level 1 inputs. Fair value measurements were applied to the ELCA Endowment Fund A based on Level 2 measurements.

Jordan New Life Property - Minneapolis Area Service Corporation has a 51% ownership interest in the Jordan New Life Property which is carried at estimated fair market value at the time it was donated. The Synod reviews the property for impairment whenever changes in circumstances indicate that the carrying value of such property may not be recoverable. To date, no impairment has been recorded.

Reformation Church Property - Minneapolis Area Service Corporation owns the Reformation Church Property which is carried at estimated fair market value at the time it was donated. The Synod reviews the property for impairment whenever changes in circumstances indicate that the carrying value of such property may not be recoverable. To date, no impairment has been recorded.

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**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Furniture and Equipment - All expenditures over \$500 for furniture and equipment are capitalized and carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized. The cost of maintenance and repairs is expensed as incurred and significant renewals and betterments are capitalized.

Funds Held for Others - The Synod receives funds from the ELCA, congregations and donors and remits these funds to the specified beneficiaries. These transactions are not included in the statement of activities since the Synod has no discretion in how the funds are used. Such amounts are recorded as a liability until released to the beneficiary.

Contributions - Contributions are recognized when the donor makes an unconditional commitment to give to the Synod. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets.

Grants - The Synod awards grants that reflect its mission and ministries. Grants are made to congregations, nonprofit organizations, and other entities. Certain grant funds are restricted internally by bylaws created when the funds were created. Grants are recorded in the period of the award.

Functional Expenses - Expenses have been allocated among program and support services classifications based upon direct expenditures and estimates made by the Synod's management based on employee time.

Income Taxes - The Synod is organized exclusively for charitable, religious and educational purposes and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has taxable income from businesses that are not related to its exempt purpose. The Synod is also exempt from state income taxes. MASC is wholly owned by the Synod and is disregarded for tax purposes. Management believes the Synod did not have any uncertain income tax positions or unrelated business income in 2016.

The Synod is not currently under examination by any taxing jurisdiction. Federal and state tax authorities generally have the right to examine returns for a period of three years after they are filed.

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**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Prior Year Summarized Information - The financial statements include certain prior year summarized information in total but not by net asset class or by functionalized expenses. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Synod's financial statements for the year ended January 31, 2015, from which the summarized information was derived.

3. **INVESTMENTS**

Investments consist of the following:

	2016	2015
ELCA Mission Investment Fund:		
Unsecured term investments:		
Maturing June 5, 2019, 2.08%	\$ 111,781	\$ 223,704
Maturing June 5, 2016, 2.08%	57,501	-
Maturing June 5, 2019, 2.08%	57,375	-
Unsecured investments payable on demand	2,037	2,419
ELCA Endowment Fund A	56,128	59,227
Mutual funds:		
Money market	23,802	23,900
Income	118,175	120,156
Growth	40,279	142,410
Growth and income	560,912	403,272
Aggressive income	182,761	280,902
	\$ 1,210,751	\$ 1,255,990
Investments summary:		
Beginning Balance	\$ 1,255,990	\$ 1,226,708
Deposits	-	24,484
Withdrawals	(391)	(53,543)
Fees	(100)	(100)
Interest and dividends	60,308	12,351
Realized and unrealized gains (losses)	(105,056)	46,090
	\$ 1,210,751	\$ 1,255,990

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**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

3. INVESTMENTS (Continued)

Investments at the ELCA Mission Investment Fund (MIF) are carried at cost and are uninsured. These investments are solely the obligation of MIF, a separate corporation from the ELCA. MIF uses proceeds from sale of its securities primarily to provide financing to ELCA congregations for specified purposes. There are no known restrictions on redemption for these investments.

The ELCA Endowment Fund A is a component of the ELCA Endowment Fund Pooled Trust. Participants are assigned share units according to the Fund's unit value at the time the investment is received. The Fund is managed and invested by professional advisors. The Fund is structured to provide participants with a stable, quarterly stream of distributable income that grows over time approximately in line with the expected long-term rate of inflation. The Fund also seeks to provide participants with long-term capital appreciation.

Investments in the ELCA Endowment Fund A are carried at fair value based on the reported market value per unit held. These investments are solely the obligation of the ELCA Foundation, a separate corporation from the ELCA. The Fund's target asset allocation is 35% US equity; 25% non-US equity; 15% investment grade bonds; 5% inflation indexed bonds; 10% high yield bonds and 10% global real estate securities. There are no known restrictions on redemption for these investments.

The mutual funds are held with professionally managed investment brokerage firms and are recorded at fair value based on quoted prices.

4. JORDAN NEW LIFE PROPERTY

The Minneapolis Area Service Corporation (MASC) was granted ownership interest of a church property in November 2011. The property had a market value of approximately \$650,000. MASC transferred a 49% interest in the property to Adullum Ministries (Adullum). MASC and Adullum hold the property as tenants-in-common. Adullum pays all operating expenses of the property. Decisions are made by a coordinating committee of five with two members appointed by each and one appointed by another ELCA ministry. MASC has the right to demand return of the 49% interest if Adullum defaults on the transfer agreement. Any time after November 8, 2016, MASC has the right to sell the property. Adullum has a right of first refusal if an offer is received.

5. REFORMATION CHURCH PROPERTY

The Minneapolis Area Service Corporation (MASC) was granted ownership interest of the Reformation Church Property in February 2014. The property had a market value of approximately \$1,500,000. MASC made improvements of \$37,950 to the property in 2014. The property was leased to Upper Room Community, a Minnesota non-profit corporation, on a one-year lease for \$24,000 that ended in May 2015. The property is currently for sale.

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**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

6. FURNITURE AND EQUIPMENT

Furniture and equipment consist of:

	2016	2015	Estimated useful life - years
Office furniture and equipment	\$ 59,001	\$ 44,681	3 - 5
Leasehold improvements	84,720	74,589	3
	<u>\$ 143,721</u>	<u>\$ 119,270</u>	

7. DUE TO ELCA

Amounts due to ELCA represent committed mission support and the receipt of a contribution designated to the ELCA.

	2016	2015
ELCA mission support	\$ 281,426	\$ 376,693
Pass through individual bequest	64,000	64,000
	<u>\$ 345,426</u>	<u>\$ 440,693</u>

8. LINE OF CREDIT

The Synod has a \$250,000 unsecured line of credit from Wells Fargo Bank. The revolving line of credit does not have a maturity date. The interest rate is prime plus 2%. No draws have been taken on the line of credit as of January 31, 2016.

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**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

9. **DESIGNATED NET ASSETS**

The Synod Council has chosen to place the following limitations on unrestricted net assets:

	2016	2015
Victory memorial fund	\$ 904,165	\$ 949,158
Mission endowment fund	56,128	59,227
Jordan New Life property	331,500	331,500
Reformation Church property	1,488,762	1,514,552
Energy Efficiency loan fund	115,000	90,000
Bishop's discretionary	758	8,121
CYE staff person	-	10,000
Peer group grants	5,407	15,279
Interim pastor health insurance	4,991	17,236
Healthy Neighborhood fund	-	27,870
Epiphany fund grant	6,654	30,152
Assembly expenses	11,749	28,703
Office renovation	-	7,788
Operating reserves	82,014	82,014
Portico wellness funds	44,048	-
Individual bequest	-	143,429
Other	1,302	2,825
	\$ 3,052,478	\$ 3,317,854

10. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are for the following purposes:

	2016	2015
LRC – Restoring Creation grant	\$ 23,547	\$ 30,000
Natural church development	-	3,086
Seminary of the Streets	5,607	5,607
Peer group grants – Pastoral Excellence Network	25,000	25,000
Swahili Ministry	1,735	2,015
Epiphany Legacy Fund	11,744	96,257
Synod mission new starts	25,487	29,137
Nigeria Health Care and Malaria	57	5,526

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**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

10. **TEMPORARILY RESTRICTED NET ASSETS (Continued)**

Healthy congregations	-		1,101
Other	12,962		7,944
	\$ 106,139		\$ 205,673

11. **ENDOWMENT**

The Synod has established an endowment fund administered by the ELCA Foundation. As of January 31, 2016, the endowment consists of funds designated by the Synod Council. The endowment was created to secure, strengthen, and extend the long term viability of ministry by providing an ongoing stream of income that will be generated by the fund. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Synod Council has interpreted the Minnesota Prudent Management of Institutional Funds Act (MPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of any donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Synod would classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of any donor-restricted endowment fund that is not classified in permanently restricted net assets would be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Synod in a manner consistent with the standard of prudence prescribed by MPMIFA.

(Continued)

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

11. **ENDOWMENT (Continued)**

Endowment net asset composition as of January 31, 2016, follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Synod designated:				
Mission Fund	\$ 56,128	\$ -	\$ -	\$ 56,128

Changes in endowment net assets for the year ended January 31, 2016, follow:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 59,227	\$ -	\$ -	\$ 59,227
Investment return:				
Interest income	2,300	-	-	2,300
Net appreciation (realized and unrealized)	(5,399)	-	-	(5,399)
Total investment return	(3,099)	-	-	(3,099)
Endowment net assets, end of year	\$ 56,128	\$ -	\$ -	\$ 56,128

Return Objectives and Risk Parameters - The Synod has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding. Under these policies, as approved by the Synod, the endowment assets are invested in a manner that is intended to preserve the endowment's principal, preserve purchasing power after inflation, and generate total returns (income plus capital appreciation), sufficient to support the Synod's mission.

(Continued)

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

11. **ENDOWMENT (Continued)**

Strategies Employed for Achieving Objectives - The endowment funds are invested in the ELCA Endowment Fund Pooled Trust Fund A and the ELCA Mission Investment Fund.

Spending Policy and How the Investment Objectives Relate to Spending Policy - Distributions from the fund shall occur annually, or at such other times as deemed necessary and feasible to accomplish the fund's purposes. Distributions from the fund are calculated at 4.25% of the fund's 5-year rolling average. The distribution rate is reviewed and revised from time to time by the Endowment Fund Committee. In establishing this policy, the Synod considered the long-term expected return on its endowment and the ability of the endowment to achieve its overall investment objective.

12. **LEASES**

Office Space - The Synod leases its office space under an operating lease agreement which was renewed on January 1, 2015, and expires on December 31, 2017. Total rental expense was \$117,640 and \$110,224 during the years ended January 31, 2016 and 2015, respectively.

In conjunction with the lease renewal, the Synod renovated the office space. The total cost of the renovation was \$70,505 of which \$41,159 was paid by the landlord. The amount paid by the landlord is recorded as a deferred lease incentive and is being amortized to rental expense over the term of the lease.

Office Equipment - The Synod leases various types of office equipment under multiple operating lease agreements that expire from February 2015 through November 2018. The lease expense under these agreements is included in office expenses. The lease expense was \$30,395 and \$34,159 for the years ended January 31, 2016 and 2015, respectively.

Future minimum rentals on long-term leases are:

Year ending January 31,	
2017	\$ 160,491
2018	144,126
2019	10,019
2020	1,500
2021	625
	<hr/>
	\$ 316,761
	<hr/>

(Continued)

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended January 31, 2016
(With Comparative Totals for 2015)

13. PENSION PLAN

The Synod is a participant in a multi-employer defined contribution pension plan of the ELCA, which is administered by the ELCA Board of Pensions. The plan covers all eligible Synod employees. The Synod makes contributions to the ELCA Board of Pensions for Synod employees based upon specified percentages of their annual compensation. Pension costs were \$60,946 and \$61,151 during the years ended January 31, 2016 and 2015, respectively.

14. PROGRAM SERVICES AND SUPPORTING ACTIVITIES

Expenses for program services and supporting activities are summarized by function below:

	<u>2016</u>	<u>2015</u>
Program services	\$ 3,243,337	\$ 3,435,744
Management and general	343,143	247,330
Fundraising	<u>25,098</u>	<u>23,623</u>
	<u>\$ 3,611,578</u>	<u>\$ 3,706,697</u>

15. RELATED PARTY

Southside Commons, a Minnesota nonprofit corporation, was formed during fiscal year 2015. The board of directors is appointed by the Synod. The Synod has no economic interest in the corporation and there were no financial transactions between the two organizations as of January 31, 2016. Accordingly, Southside Commons has not been consolidated with the Synod's financial statements.

16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2016, the date on which the financial statements were available for issue, and identified no significant events or transactions to disclose.

SUPPLEMENTARY CONSOLIDATING INFORMATION

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

January 31, 2016

	Minneapolis Area Synod	Minneapolis Area Service Corporation	Total	Eliminations	Total
ASSETS					
Cash	\$ 615,453	\$ 4,749	\$ 620,202	\$ -	\$ 620,202
Investments (Note 3)	1,210,751	-	1,210,751	-	1,210,751
Prepaid expenses	8,561	-	8,561	-	8,561
Due from Minneapolis Area Service Corporation	53,937	-	53,937	(53,937)	-
	<u>1,888,702</u>	<u>4,749</u>	<u>1,893,451</u>	<u>(53,937)</u>	<u>1,839,514</u>
Jordan New Life property (Note 4)	-	331,500	331,500	-	331,500
Reformation Church property (Note 5)	-	1,537,950	1,537,950	-	1,537,950
	<u>-</u>	<u>1,869,450</u>	<u>1,869,450</u>	<u>-</u>	<u>1,869,450</u>
Furniture and equipment (Note 6)	143,721	-	143,721	-	143,721
Less accumulated depreciation	(79,563)	-	(79,563)	-	(79,563)
	<u>64,158</u>	<u>-</u>	<u>64,158</u>	<u>-</u>	<u>64,158</u>
Total assets	<u>\$ 1,952,860</u>	<u>\$ 1,874,199</u>	<u>\$ 3,827,059</u>	<u>\$ (53,937)</u>	<u>\$ 3,773,122</u>
LIABILITIES AND NET ASSETS					
Accounts payable	\$ 24,906	\$ -	\$ 24,906	\$ -	\$ 24,906
Due to ELCA (Note 7)	345,426	-	345,426	-	345,426
Accrued payroll and related expenses	12,212	-	12,212	-	12,212
Funds held for others	23,114	-	23,114	-	23,114
Deferred lease incentive (Note 12)	26,300	-	26,300	-	26,300
Due to Minneapolis Area Synod	-	53,937	53,937	(53,937)	-
Total liabilities	<u>431,958</u>	<u>53,937</u>	<u>485,895</u>	<u>(53,937)</u>	<u>431,958</u>
Net assets:					
Unrestricted:					
Designated (Note 9)	1,232,216	1,820,262	3,052,478	-	3,052,478
Undesignated	182,547	-	182,547	-	182,547
Total unrestricted	<u>1,414,763</u>	<u>1,820,262</u>	<u>3,235,025</u>	<u>-</u>	<u>3,235,025</u>
Temporarily restricted (Note 10)	106,139	-	106,139	-	106,139
Total net assets	<u>1,520,902</u>	<u>1,820,262</u>	<u>3,341,164</u>	<u>-</u>	<u>3,341,164</u>
Total liabilities and net assets	<u>\$ 1,952,860</u>	<u>\$ 1,874,199</u>	<u>\$ 3,827,059</u>	<u>\$ (53,937)</u>	<u>\$ 3,773,122</u>

See Independent Auditor's Report.

**MINNEAPOLIS AREA SYNOD OF THE EVANGELICAL
LUTHERAN CHURCH IN AMERICA**

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended January 31, 2016

	Minneapolis Area Synod	Minneapolis Area Service Corporation	Total	Eliminations	Total
Support and revenue:					
Mission support from congregations	\$ 2,983,803	\$ -	\$ 2,983,803	\$ -	\$ 2,983,803
Designated benevolence	195,943	-	195,943	-	195,943
Stewardship grant	15,000	-	15,000	-	15,000
Health insurance rebate	44,048	-	44,048	-	44,048
Rental revenue	-	8,175	8,175	-	8,175
Investment loss	(44,357)	-	(44,357)	-	(44,357)
Miscellaneous	306	-	306	-	306
Total support and revenue	3,194,743	8,175	3,202,918	-	3,202,918
Expenses:					
Ministries:					
ELCA churchwide	1,491,901	-	1,491,901	-	1,491,901
Other missions	471,210	-	471,210	-	471,210
Shared and co-ministries	201,357	-	201,357	-	201,357
Synod assembly	94,544	-	94,544	-	94,544
Congregational support	53,055	-	53,055	-	53,055
Committees	18,890	-	18,890	-	18,890
Tables	21,563	-	21,563	-	21,563
Compensation and benefits	878,194	-	878,194	-	878,194
Office expenses	275,105	14,065	289,170	-	289,170
General expenses	41,585	19,900	61,485	-	61,485
Interest expense	187	-	187	-	187
Depreciation expense	30,022	-	30,022	-	30,022
Total expenses	3,577,613	33,965	3,611,578	-	3,611,578
Change in net assets	(382,870)	(25,790)	(408,660)	-	(408,660)
Net assets, beginning	1,903,772	1,846,052	3,749,824	-	3,749,824
Net assets, ending	\$ 1,520,902	\$ 1,820,262	\$ 3,341,164	\$ -	\$ 3,341,164

See Independent Auditor's Report.