

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEAR ENDED JANUARY 31, 2010

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

FINANCIAL STATEMENTS

YEAR ENDED JANUARY 31, 2010

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INDEPENDENT AUDITOR'S REPORT

December 16, 2010

To the Synod Council of the
Oregon Synod of the
Evangelical Lutheran Church in America
Seattle, Washington

We have audited the accompanying statement of financial position of Oregon Synod of the Evangelical Lutheran Church in America as of January 31, 2010 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Oregon Synod of the Evangelical Lutheran Church in America. 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 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 Oregon Synod of the Evangelical Lutheran Church in America as of January 31, 2010, 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.



Jacobson Jarvis & Co, PLLC

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF FINANCIAL POSITION

YEAR ENDED JANUARY 31, 2010

ASSETS

Current Assets	
Cash and cash equivalents	\$ 312,954
Contributions receivable	5,989
Notes receivable, current	33,873
Prepaid expenses and other assets	<u>10,194</u>
Total Current Assets	<u>363,010</u>
Long-term Assets	
Property and equipment, net	210
Notes receivable	26,454
Investments	<u>542,114</u>
Total Long-term Assets	<u>568,778</u>
	<u>\$ 931,788</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 41,796
Grants payable	30,000
Accrued expenses	<u>7,155</u>
Total Current Liabilities	<u>78,951</u>
Net Assets	
Unrestricted net assets	758,857
Temporarily restricted net assets	29,737
Permanently restricted net assets	<u>64,243</u>
Total Net Assets	<u>852,837</u>
	<u>\$ 931,788</u>

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF ACTIVITIES

YEAR ENDED JANUARY 31, 2010

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenue and Other Support				
Benevolence	\$ 1,085,809	\$ -	\$ -	\$ 1,085,809
Dedicated program income	325,973	12,517	580	339,070
Gifts	4,480	-	-	4,480
Support from Synods	32,603	-	-	32,603
Interest income	3,670			3,670
Miscellaneous income	8,070			8,070
Net Assets Released from Restrictions				
Satisfaction of program restriction	<u>17,832</u>	<u>(17,832)</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Support	<u>1,478,437</u>	<u>(5,315)</u>	<u>580</u>	<u>1,473,702</u>
Expenses				
Compensation and benefits	381,142			381,142
Dedicated program expense	262,512			262,512
Support of Churchwide	448,049			448,049
Administrative	29,346			29,346
Travel	48,030			48,030
Program delivery	5,403			5,403
Agency and social ministry	127,411			127,411
Shared missions	83,100			83,100
Program preparation	<u>3,239</u>			<u>3,239</u>
Total Expenses	<u>1,388,232</u>	<u>-</u>	<u>-</u>	<u>1,388,232</u>
Total Changes in Net Assets	<u>90,205</u>	<u>(5,315)</u>	<u>580</u>	<u>85,470</u>
Net Assets - beginning of year	<u>668,652</u>	<u>35,052</u>	<u>63,663</u>	<u>767,367</u>
Net Assets - end of year	<u>\$ 758,857</u>	<u>\$ 29,737</u>	<u>\$ 64,243</u>	<u>\$ 852,837</u>

See notes to financial statements.

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

STATEMENT OF CASH FLOWS

YEAR ENDED JANUARY 31, 2010

Cash Flows from Operating Activities	
Change in net assets	\$ 85,470
Adjustments to reconcile changes in net assets to cash provided by operating activities	
Realized and unrealized gain, net	(85,679)
Reinvested interest income	(22,063)
Depreciation	419
Changes in operating assets and liabilities	
Contributions receivable	33,809
Prepaid expenses and other assets	(521)
Accounts payable	(33,928)
Grants payable	30,000
Accrued expenses	<u>4,154</u>
Net Cash Provided by Operating Activities	<u>11,661</u>
Cash Flows from Investing Activities	
Principal payments received for notes receivable	<u>29,313</u>
Net Cash Provided by Investing Activities	<u>29,313</u>
Change in Cash and Cash Equivalents	40,974
Cash and Cash Equivalents - beginning of year	<u>271,980</u>
Cash and Cash Equivalents - end of year	<u>\$ 312,954</u>

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Oregon Synod of the Evangelical Lutheran Church in America (the Synod) is a nonprofit corporation that functions interdependently with the congregations of the Synod and with the Evangelical Lutheran Church in America (ELCA). The Synod serves on behalf of and in support of the Synod's members and congregations. To fulfill its purpose the Synod receives, establishes and supports congregations and ministries necessary to carry out its mission; recruits, prepares and supports leaders in accordance with standards established by the ELCA, and interprets the work of the church to congregations, members and to the public. The Synod has 119 constituent Lutheran congregations in the State of Oregon. The Synod's principal source of revenue is contributions.

Basis of presentation

In accordance with financial accounting standards, 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. The net assets of the Synod are classified as follows:

Unrestricted net assets are available without restriction for support of the Synod's operations.

Temporarily restricted net assets are restricted by the donor to be used for certain purposes or future periods. Temporarily restricted net assets as of January 31, 2010 were available as follows:

Outreach grant	\$ 6,420
Thrivent grant	8,933
Ministry programs	<u>14,384</u>
	<u>\$ 29,737</u>

Permanently restricted net assets represent endowment gifts given with the intent that the principal will be maintained intact in perpetuity, and the income may be used as prescribed by the donor.

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 disclosures 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.

Income taxes

The Synod is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents consist of checking, savings, and money market accounts as well as certain certificates of deposit. The Synod maintains cash deposits in bank accounts which exceed federally insured limits. The Synod has not experienced any losses in these accounts. The Synod pools some cash balances with other Synods and Region I of the Evangelical Lutheran Church in America.

Long Term Investments

Long-term investments are reported at their fair value on the statement of financial position based on market value at January 31, 2010 and are held in the ELCA Endowment Fund Pooled Trust (the Trust) and the Mission Investment Fund of the ELCA (the Fund). The Trust is administered by the Foundation of the ELCA with the ELCA Board of Pensions acting as investment advisor. The Trust develops and invests assets entrusted to it by congregations, synods and other organizations of the church. The Fund offers investments to enable individuals, ELCA congregations, synods and ELCA-affiliated institutions to earn interest on their financial resources while helping to build the Lutheran church. Investments are held as long-term assets because they have been designated to fund future operations. Investments consist of the following at January 31, 2010:

	<u>Endowment</u>	<u>Other</u>	<u>Total</u>
Mission Investment Fund of the ELCA - CDs	\$ 37,544	\$ 64,965	\$ 102,509
ELCA Endowment Pooled Trust	439,605	-	439,605
	<u>\$ 477,149</u>	<u>\$ 64,965</u>	<u>\$ 542,114</u>

These investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the statement of financial position.

Investment returns included in Dedicated Program Income on the statement of activities for the year ended January 31, 2010 are as follows:

Interest earned on investments	\$ 22,063
Realized and unrealized gains, net	85,679
	<u>\$ 107,742</u>

Contributions receivable

Contributions receivable at January 31, 2010 represent promises received from donors prior to year end.

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash payments were received subsequent to year end for all outstanding pledge balances. As a policy, promises to give are stated at net realizable value. In accordance with financial accounting standards, these promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Furniture and equipment

Furniture and equipment are recorded at cost when purchased and fair value when donated. Expenditures for property costing in excess of \$2,000 which significantly increase the estimated useful life of assets are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The property and equipment is depreciated over a useful life of five to forty years and consist of the following:

Furniture and equipment	\$ 13,336
Accumulated depreciation	<u>(13,126)</u>
	<u>\$ 210</u>

Restricted and unrestricted support

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Dedicated program income and expense

Dedicated program income is contributed by Synod committees and congregations and utilized for specific mission driven activities. These are dollars that are most often unrestricted when contributed or earned and then dedicated for specific program purposes by the Synod.

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional allocation of expenses

The Synod allocates expenses on a functional basis among two categories: program services and management and general. There are no significant fundraising activities for the Synod as the primary source of contributions is from congregational tithing. Expenses consist of the following for the year ended January 31, 2010:

Program	\$1,110,586
Management and general	<u>277,646</u>
	<u>\$1,388,232</u>

NOTE B - NOTES RECEIVABLE

The Synod provides loans to congregations as needed. Notes receivable have due dates ranging from 2010 to 2017, are unsecured, earning interest of 0% to 4% annually, and deemed by management to be fully collectible. Notes receivable consisted of the following at January 31, 2010:

Pilgrim	\$ 8,244
Luther Memorial	4,525
Faith/Keizer	17,748
Redeemer/Portland	12,287
Christ/Aurora	4,050
Our Savior/Lebanon	3,630
1st Immanuel	<u>9,843</u>
	<u>\$ 60,327</u>

Future principle payments for the years ending January 31 approximate:

2011	\$ 33,873
2012	10,080
2013	5,190
2014	3,829
2015	3,000
Thereafter	<u>4,355</u>
	<u>\$ 60,327</u>

Total interest received on Notes Receivable for the year ended January 31, 2010 was \$2,667.

OREGON SYNOD OF THE
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2010

NOTE C - FAIR VALUE MEASUREMENTS

A three-tiered hierarchy of input levels is used for fair value measurements of financial assets and financial liabilities, and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as 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. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of inputs used for fair value measurements are as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities. The Synod has no Level 1 assets or liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets. The Synod's Level 2 assets include certificates of deposit, ELCA Endowment Fund Pooled Trust assets and the Mission Investment Fund of ELCA.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. At January 31, 2010, the Synod had no Level 3 assets or liabilities.

Assets and liabilities carried at fair value on a nonrecurring basis using level 2 inputs generally include donated goods, facilities and services. Long-term promises to give are valued on a nonrecurring basis using the net present value of future cash flows discounted at a risk-free rate of return which is a level 3 input. The Synod also uses fair value concepts to test various long-lived assets for impairment.

NOTE D - ENDOWMENT

Interpretation of Relevant Law

The State of Oregon enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Board of Trustees of the Synod has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, it classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment.

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2010

NOTE D - ENDOWMENT (Continued)

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

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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 to the program supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Synod Finance Committee (the Committee), the endowment assets are invested in a manner that is intended to produce a 3 to 5% average annual return while assuming a low level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Synod relies on a total return strategy in which investment returns are achieved through the current yield of interest and dividends. The Synod targets a prudent asset allocation that places a greater emphasis on short term investment vehicles such as certificates of deposit to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Committee meets on an as need basis to authorize and appropriate investment income. In this process, the Synod considered the donor's and Council's desired use for the endowment return, the current economy, and the desire to provide additional resources for the mission of the Synod.

OREGON SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2010

NOTE D - ENDOWMENT (Continued)

Endowment net assets by fund type as of January 31, 2010:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Donor-restricted endowment funds:				
Creative Ministry	\$ -	\$ 435	\$ 35,849	\$ 36,284
Swanson Endowment	(953)	-	28,394	27,441
Total Donor-restricted endowment funds	<u>(953)</u>	<u>435</u>	<u>64,243</u>	<u>63,725</u>
Council-restricted endowment funds:				
Creative Ministry	79,410	-	-	79,410
Swanson Endowment	2,159	-	-	2,159
New Beginnings	301,855	-	-	301,855
	<u>383,424</u>	<u>-</u>	<u>-</u>	<u>383,424</u>
Total endowment funds	<u>\$ 382,471</u>	<u>\$ 435</u>	<u>\$ 64,243</u>	<u>\$ 447,149</u>

Change in endowment net assets for the year ended January 31, 2010

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 328,381	\$ -	\$ 63,663	\$ 392,044
Investment return:				
Investment income	23,265	435	-	23,700
Investment gain	80,825	-	-	80,825
Total investment return	104,090	435	-	104,525
Contributions, net	-	-	580	580
Appropriations	(30,000)	-	-	(30,000)
Expenditures	(20,000)	-	-	(20,000)
Endowment net assets, end of year	<u>\$ 382,471</u>	<u>\$ 435</u>	<u>\$ 64,243</u>	<u>\$ 447,149</u>

NOTE E - PENSION PLAN

The Synod has a defined contribution plan and contributes 10% of participating employee's compensation, which 100% vests at the time of the contribution. Pension expense for the year ended January 31, 2010 is \$28,761.

OREGON SYNOD OF THE
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JANUARY 31, 2010

NOTE F - CONCENTRATION OF SUPPORT

The Synod receives most of its revenue from local congregations based on voluntary giving. A reduction in the level of this support would have a significant effect on the Synod's programs and operations.

NOTE G - COMMITMENTS

The Synod leases office facilities and office equipment under non-cancelable operating lease agreements, which extend through June 2013. The agreement for the office facility requires the Synod to pay common area expenses and utilities associated with the leased property. The future minimum annual rentals for the years ending January 31 approximate:

2011	\$	9,800
2012		9,800
2013		<u>800</u>
	\$	<u>20,400</u>

Rental expense under all operating leases for the year ended January 31, 2010 is \$13,804.

NOTE H - SUBSEQUENT EVENTS

Management has evaluated events occurring subsequent to January 31, 2010 through December 16, 2010, which is the date the financial statements were available to be issued and has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at January 31, 2010, including the estimates inherent in the processing of financial statements.