

Emanuel Lutheran Church

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Year ended December 31, 2013 and
December 31, 2012

Emanuel Lutheran Church

Table of Contents

Independent Auditors' Report	1 - 2
Statement of Financial Position.....	3
Statement of Activities for December 31, 2013.....	4
Statement of Activities for December 31, 2012.....	5
Statement of Cash Flows.....	6
Notes to the Financial Statements	7-14



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INDEPENDENT AUDITOR'S REPORT

January 9, 2015

To the Governing Board
Emanuel Lutheran Church
Ludington, Michigan

We have audited the accompanying financial statements of Emanuel Lutheran Church (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and December 31, 2012, and the related statements of activities and cash flows for the years 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.

Auditor's 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 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 qualified audit opinion.

Basis for Qualified Opinion

As explained in Note E to the financial statements, property and equipment the Church owns and purchased prior to January 1, 2012 is not recorded in the financial statements. Accounting principles generally accepted in the United States of America require property and equipment to be recorded at its cost basis at the date of acquisition and depreciated over the estimated useful lives of the assets. The effects on the accompanying financial statements of the failure to record property and equipment have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Emanuel Lutheran Church as of December 31, 2013 and December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lake Michigan CPA Services, PLLC

Ludington, Michigan
January 9, 2015

Emanuel Lutheran Church

Statement of Financial Position December 31, 2013 and December 31, 2012

	ASSETS	
	December 31, 2013	December 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,445	\$ 18,915
Restricted cash	174,898	86,414
Investments	434,788	447,195
Total current assets	<u>618,131</u>	<u>552,524</u>
NONCURRENT ASSETS		
Equipment	19,027	11,824
Less: Accumulated depreciation	<u>(2,578)</u>	<u>(607)</u>
	<u>16,449</u>	<u>11,217</u>
Total assets	<u>\$ 634,580</u>	<u>\$ 563,741</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Deferred income	\$ 174,898	\$ 86,414
NET ASSETS		
Unrestricted	24,894	30,132
Temporarily restricted	434,788	447,195
Total net assets	<u>459,682</u>	<u>477,327</u>
Total liabilities and net assets	<u>\$ 634,580</u>	<u>\$ 563,741</u>

The accompanying notes are an integral part of this statement.

Emanuel Lutheran Church

Statement of Activities For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 199,762	\$ -	\$ 199,762
Fundraising income	-	-	-
Investment income	5	-	5
Investment gains and losses	-	23,511	23,511
Dividends	-	14,617	14,617
Net assets released from restrictions	50,535	(50,535)	-
Total revenues and other support	250,302	(12,407)	237,895
 EXPENSES			
Operating expenses			
Pastor expense	51,166	-	51,166
Staff salaries and wages	49,813	-	49,813
Employee benefits	16,575	-	16,575
Payroll taxes	4,245	-	4,245
Sexton contract services	9,260	-	9,260
ELCA support	13,000	-	13,000
Insurance	6,442	-	6,442
Scholarships	30,946	-	30,946
Outreach, program, and benevolence expenses	23,307	-	23,307
Utilities	12,125	-	12,125
Repairs and maintenance	14,759	-	14,759
Administrative office expense	3,003	-	3,003
Postage and printing	3,395	-	3,395
Travel	8,528	-	8,528
Youth and Sunday School	6,635	-	6,635
Depreciation	1,971	-	1,971
Miscellaneous	370	-	370
	255,540	-	255,540
Change in net assets	(5,238)	(12,407)	(17,645)
Net assets at January 1, 2013	30,132	447,195	477,327
Net assets at December 31, 2013	\$ 24,894	\$ 434,788	\$ 459,682

The accompanying notes are an integral part of this statement.

Emanuel Lutheran Church

Statement of Activities For the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 208,802	\$ 20,000	\$ 228,802
Fundraising income	4,423	-	4,423
Investment income	-	12	12
Investment gains and losses	-	29,771	29,771
Dividends	-	19,220	19,220
Net assets released from restrictions	63,708	(63,708)	-
Total revenues and other support	276,933	5,295	282,228
 EXPENSES			
Operating expenses			
Pastor expense	56,449	-	56,449
Staff salaries and wages	47,240	-	47,240
Employee benefits	18,321	-	18,321
Payroll taxes	2,585	-	2,585
Sexton contract services	9,960	-	9,960
ELCA support	12,000	-	12,000
Insurance	5,307	-	5,307
Scholarships	21,506	-	21,506
Outreach, program, and benevolence expenses	23,112	-	23,112
Utilities	11,226	-	11,226
Repairs and maintenance	15,189	-	15,189
Fundraising	1,295	-	1,295
Administrative office expense	2,752	-	2,752
Postage and printing	2,972	-	2,972
Travel	7,756	-	7,756
Loan interest	8,295	-	8,295
Youth and Sunday School	8,955	-	8,955
Depreciation	607	-	607
Miscellaneous	1,718	-	1,718
	257,245	-	257,245
 Change in net assets	 19,688	 5,295	 24,983
Net assets at January 1, 2012	10,444	441,900	452,344
Net assets at December 31, 2012	\$ 30,132	\$ 447,195	\$ 477,327

The accompanying notes are an integral part of this statement.

Emanuel Lutheran Church

Statements of Cash Flow

For the Years Ended December 31, 2013 and December 31, 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase/(decrease) in net assets	\$ (17,645)	\$ 24,983
Adjustments to reconciled change in net assets to to net cash provided by operating activities		
Depreciation	1,971	607
Investment realized and unrealized gains	(23,511)	(29,771)
Increase/(decrease) in operating liabilities		
Deferred income	88,484	27,203
Net cash provided by operating activities	<u>49,299</u>	<u>23,022</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans payable	-	(80,000)
CASH FLOWS FOR INVESTING ACTIVITIES		
Property and equipment purchases	(7,203)	(11,824)
Net proceeds from investments	35,919	31,976
Net cash provided by investing activities	<u>28,716</u>	<u>20,152</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	78,015	(36,826)
Cash at January 1	<u>105,329</u>	<u>142,155</u>
Cash at December 31	<u>\$ 183,344</u>	<u>\$ 105,329</u>

Cash paid for interest for 2013 was \$0 and was \$8,295 for 2012.

The accompanying notes are an integral part of this statement.

Emanuel Lutheran Church

Notes to the Financial Statements
December 31, 2013 and December 31, 2012

Note A. Summary of significant accounting policies

Church and basis of presentation

Emanuel Lutheran Church (Church) is a non-for-profit religious Organization located in Ludington, Michigan, which provides religious services to its church parishioners. The Church is organized under the laws of the State of Michigan and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business income.

The financial statements of Emanuel Lutheran Church have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The Church 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. Unrestricted net assets include resources over which the Governing Board has discretionary control. Temporarily restricted net assets are resources which are subject to donor imposed restrictions, which will be satisfied by the actions of the Church or passage of time. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in unrestricted support at the time of receipt.

Revenues are reported as increases in unrestricted net assets unless the use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Program activities

Emanuel Lutheran Church was created for the purpose of providing religious services and assistance to its parishioners and the surrounding community. Program activity costs include the cost of supplies, operating costs, and food for Christian education, fellowship programs, and spiritual life services; missions and outreach program costs, pastoral ministry wages and benefits, and other direct expenses.

Emanuel Lutheran Church

Notes to the Financial Statements
December 31, 2013 and December 31, 2012

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Church considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at market value in the Statement of Financial Position. Market values for investments are based on quoted market prices. Gains and losses on disposition are accounted for on a specific identification basis. Net realized and unrealized gains and losses are included in the Statement of Activities.

Property and equipment

Property and equipment are recorded at cost, estimated cost for which cost records were not available, or estimated fair market value at the date donated. Property and equipment with an initial cost of more than \$1,000 and an estimated useful life in excess of one year are recorded as assets. Depreciation is recorded over the assets estimated useful lives using the straight line method.

Promises to Give

Unconditional promises to give are recognized as revenues or gains 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 only when the conditions on which they depend are substantially met and the promises become unconditional.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Church generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Church with specific assistance programs, solicitations, and various committee assignments.

Emanuel Lutheran Church

Notes to the Financial Statements
December 31, 2013 and December 31, 2012

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Church.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Note B. Cash and Cash Equivalents

Financial instruments that potentially subject the Church to concentrations of credit risk consist of cash deposits. As of December 31, 2013, \$183,343 of the Church's cash and restricted cash was insured by the Federal Deposit Insurance Corporation. As of December 31, 2012, \$105,329 of the Church's cash and cash equivalents was covered by the Federal Deposit Insurance Corporation.

Emanuel Lutheran Church

Notes to the Financial Statements
December 31, 2013 and December 31, 2012

Note C. Investments

Investments are stated at fair market value as of December 31, 2013 and December 31, 2012 consisted of the following:

Investment type:	December 31, 2013 Fair Value	December 31, 2012 Fair Value	Classification
Cash and money market funds	\$ 25,697	\$ 34,030	Level 1
Equities	178,770	135,372	Level 1
Fixed income	183,358	230,086	Level 1
Alternative strategies	38,641	34,284	Level 2
Real estate investment trusts	8,322	13,423	Level 3
Total	\$ <u>434,788</u>	\$ <u>447,195</u>	

Financial standards establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of fair value are described as follows:

Level 1: Inputs to the valuation methods are unadjusted quoted prices for identical assets or liabilities in active markets that the organization has ability to access.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Emanuel Lutheran Church

Notes to the Financial Statements
December 31, 2013 and December 31, 2012

The following schedule summarizes the investment return for the years ended December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Interest and dividends	\$ 14,617	\$ 19,220
Realized gains	19,175	13,595
Unrealized gains	4,116	16,176
Total investment income	<u>\$ 37,908</u>	<u>\$ 48,991</u>

Note D. Endowment Funds

The Church has an endowment fund with the Mason County Community Foundation. The Emanuel Lutheran Missionary Support Fund was established in 2000 by the Church primarily to receive Fund contributions to support missionary work. The agreement with the Mason County Community Foundation and Emanuel Lutheran Missionary Support Fund's allows income and a portion of the principal be used for the Church's support of mission work.

The Community Foundation invests the contributions in various types of marketable equity and debt securities, U.S. Treasuries, commercial paper, and certificates of deposit. The majority of investments are uninsured and uncollateralized.

Contributions to endowment funds made by third party donors have been excluded from the assets of the Church.

The Board of Trustees of the Mason County Community Foundation has the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to a specified organization if, in the sole judgment of the Board, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. The authority to modify restrictions is sometimes referred to as "variance power" and is a legal standard imposed on all community foundations.

Emanuel Lutheran Church

Notes to the Financial Statements
December 31, 2013 and December 31, 2012

A summary of the revenues, expenses, and changes in net assets at fair value of the fund for the years ended December 31, 2013 and December 31, 2012 follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Revenues		
Contributions	\$ -	\$ -
Dividends and interest	652	583
Realized and unrealized gains/(losses)	<u>1,747</u>	<u>1,618</u>
Total revenues	2,399	2,201
Expenses		
Grant disbursements	800	800
Investment fees	<u>101</u>	<u>97</u>
Total expenses	901	897
Revenue over expenses	<u>1,498</u>	<u>1,304</u>
Net assets, January 1	<u>19,998</u>	<u>18,694</u>
Net assets, December 31	<u>\$ 21,496</u>	<u>\$ 19,998</u>

Emanuel Lutheran Church

Notes to the Financial Statements
December 31, 2013 and December 31, 2012

Note E. Property and Equipment

The Church does not have property and equipment records, and the corresponding accumulated depreciation, for assets placed in service prior to January 1, 2012. The net effect on the financial statements has not been evaluated. However, the equipment purchases after January 1, 2012 have been recorded in the schedules noted below.

Fixed asset activity for the year ended December 31, 2012 was as follows:

	January 1, 2012	Additions	Deletions	December 31 2012
Equipment	\$ -	\$ 11,824	\$ -	\$ 11,824
Less accumulated depreciation	-	607	-	607
Total computers and equipment, net	<u>\$ -</u>	<u>\$ 11,217</u>	<u>\$ -</u>	<u>\$ 11,217</u>

Fixed asset activity for the year ended December 31, 2013 was as follows:

	January 1, 2013	Additions	Deletions	December 31 2013
Equipment	\$ 11,824	\$ 7,203	\$ -	\$ 19,027
Less accumulated depreciation	607	1,971	-	2,578
Total computers and equipment, net	<u>\$ 11,217</u>	<u>\$ 5,232</u>	<u>\$ -</u>	<u>\$ 16,449</u>

Emanuel Lutheran Church

Notes to the Financial Statements
December 31, 2013 and December 31, 2012

Note F. Deferred revenue

Donations that are restricted for a specific purpose have been reflected as deferred revenue in the financial statements. Deferred revenue consisted of the following at December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Altar Guild Funds	\$ 1,443	\$ 1,202
Building Fund Donations	22,830	14,709
Contingency Funds	30,366	35,566
Memorials	90,610	22,750
Memorial Gardens	1,207	1,444
Outreach Projects	6,611	4,911
Other	4,506	834
Women of Emanuel Church	866	866
Youth activities and Sunday School	4,737	4,132
Christian Education	5,380	-
Pastoral Support	6,342	-
	<u>\$ 174,898</u>	<u>\$ 86,414</u>

Note G. Long-term debt

The Church had loans from various members totaling \$80,000 at January 1, 2012. These loans were paid off during the year ended December 31, 2012.

Note H. Date of management review

In preparing the financial statements, the Church has evaluated events and transactions for potential recognition or disclosure through January 9, 2015 the date the financial statements were available to be issued.