

**WISCONSIN EVANGELICAL LUTHERAN
SYNOD KINGDOM WORKERS, INC.**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc.
Wauwatosa, Wisconsin

We have audited the accompanying financial statements of Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, 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 the 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 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 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 auditors consider internal control relevant to the Organization'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 Organization'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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc. as of December 31, 2014, 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.

Other matter

As discussed in Note 11 to the financial statements, an error resulting in the understatement of previously reported assets and net assets of December 31, 2013 were discovered by management of the Organization during the year. Accordingly, beginning of year net assets has been restated to correct the error.



Certified Public Accountants

Milwaukee, Wisconsin
April 9, 2015

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2014

ASSETS

Current assets

Cash and cash equivalents	\$ 552,649
Contributions and grants receivable	498,000
Other receivables	548
Investments	654,944
Prepaid expenses	<u>83,261</u>

Total current assets 1,789,402

Property and equipment, net 121,912

Total assets \$ 1,911,314

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 21,783
Current portion of capital lease obligation	2,404
Deferred revenue	38,011
Other liabilities	<u>714</u>

Total current liabilities 62,912

Capital lease obligation, less current portion 9,868

Net assets

Unrestricted	744,667
Temporarily restricted	<u>1,093,867</u>

Total net assets 1,838,534

Total liabilities and net assets \$ 1,911,314

See notes to financial statements.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2014

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>Total</u>
<u>Support and other revenue</u>			
Contributions and grants	\$ 892,524	\$ 1,532,766	\$2,425,290
Convention sponsors and grants	-	62,299	62,299
In-kind service contributions	62,121	-	62,121
Rent income	38,472	-	38,472
Investment and interest income	6,087	-	6,087
Other income	7,210	-	7,210
Gain on disposal of assets	1	-	1
Net assets released from donor restrictions	<u>925,632</u>	<u>(925,632)</u>	<u>-</u>
Total support and other revenue	<u>1,932,047</u>	<u>669,433</u>	<u>2,601,480</u>
<u>Expenses</u>			
Program services	1,416,444	-	1,416,444
Supporting activities:			
Management and general	282,047	-	282,047
Fundraising	<u>274,713</u>	<u>-</u>	<u>274,713</u>
Total expenses	<u>1,973,204</u>	<u>-</u>	<u>1,973,204</u>
Change in net assets	<u>(41,157)</u>	<u>669,433</u>	<u>628,276</u>
<u>Net assets</u>			
Beginning of year, restated	<u>785,824</u>	<u>424,434</u>	<u>1,210,258</u>
End of year	<u>\$ 744,667</u>	<u>\$ 1,093,867</u>	<u>\$1,838,534</u>

See notes to financial statements.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2014

	Program Services	Supporting Activities		Total
		Management and General	Fund- Raising	
Salaries and wages	\$ 407,682	\$ 128,781	\$ 136,197	\$ 672,660
In-kind services	44,205	11,944	5,972	62,121
Employee benefits	151,159	30,404	34,933	216,496
Employee training	24,335	7,586	827	32,748
Contracted services	139,733	-	3,240	142,973
Rent expense	70,262	38,908	31,436	140,606
Travel and meals	319,189	12,636	16,714	348,539
Office expense	72,043	7,458	32,265	111,766
Accounting and audit	1,726	9,437	506	11,669
Legal expense	1,874	9,631	-	11,505
Public relations	24,481	3,005	2,173	29,659
Computer expense	27,853	3,938	2,219	34,010
Maintenance and supplies	44,017	510	16	44,543
Utilities	3,379	-	-	3,379
Insurance	23,329	1,000	-	24,329
Meetings	5,063	1,100	309	6,472
Depreciation	26,789	8,027	622	35,438
Grant expense	23,356	1,264	70	24,690
Miscellaneous	<u>5,969</u>	<u>6,418</u>	<u>7,214</u>	<u>19,601</u>
Total functional expenses	<u>\$ 1,416,444</u>	<u>\$ 282,047</u>	<u>\$ 274,713</u>	<u>\$ 1,973,204</u>

See notes to financial statements.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

STATEMENT OF CASH FLOWS
Year Ended December 31, 2014

<u>Cash flows from operating activities</u>	
Change in net assets	\$ 628,276
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	35,438
Gain on disposal of fixed assets	(1)
Unrealized loss on investments	786
Changes in operating assets and liabilities:	
Contributions and grants receivable	(398,000)
Other receivables	6,830
Prepaid expenses	(81,189)
Accounts payable	1,647
Deferred revenue	38,011
Custodial funds	(68,093)
Other liabilities	<u>(4,295)</u>
Net cash provided by operating activities	<u>159,410</u>
<u>Cash flows from investing activities</u>	
Purchase of property and equipment	(73,148)
Purchase of temporary investments	(266,812)
Sale of temporary investments	<u>500,000</u>
Net cash provided by (used for) investing activities	<u>160,040</u>
<u>Cash flows from financing activities</u>	
Repayment of capital lease obligation	<u>(1,728)</u>
<u>Cash and cash equivalents</u>	
Net increase (decrease)	317,722
Beginning	<u>234,927</u>
Ending	<u>\$ 552,649</u>
<u>Supplementary cash flow information</u>	
Cash paid for interest	<u>\$ 983</u>
<u>Noncash investing and financing activities</u>	
Noncash property and equipment addition with capital lease	<u>\$ 14,000</u>

See notes to financial statements.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2014

Note 1 - Nature of activities and significant accounting policies

A. Nature of activities

Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc. (Organization) is a not-for-profit organization whose mission is to share the gospel of Jesus Christ with all people. The organization serves churches and communities in the United States of America and abroad by providing support for various volunteer programs. The organization works with three major ministries of Faith in Action, Builders for Christ and the Lutheran Health Alliance. The Organization is primarily supported through contribution and grants. Approximately 32% of its contributions and grants for the year ended December 31, 2014 were from one contributor.

B. Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

C. Basis of presentation

The Organization is required to report information regarding its financial position and its activities in the following three classes of net assets:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets - net assets that result from contributions whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets - net assets resulting from contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Organization.

As of December 31, 2014, the Organization only had unrestricted and temporarily restricted net assets.

D. 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.

E. Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2014

Note 1 - Nature of activities and significant accounting policies, continued

F. Contributions and grants receivable

Unconditional promises to give are recognized as revenue in the period the promise is received. Conditional contributions receivable are recognized only when the conditions on which they depend are substantially met. The Organization considers all contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. The Organization received a conditional promise to give of \$25,000 for the year ended December 31, 2014. The promise to give is conditional on the Organization raising matching gifts from new donors and previous one-time donors becoming recurring donors.

G. Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Quoted market prices in active markets are used as the basis for measurement. Unrealized gains and losses are included in change in net assets in the statement of activities.

H. Property and equipment and depreciation

All acquisitions and improvements of property and equipment in excess of \$1,000 are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

I. Deferred revenue

Fees received in advance for upcoming events are recorded as liabilities. The fees will be recognized as revenue in the period the event occurs. Costs incurred related to upcoming events are included in prepaid expenses until the event occurs.

J. Contribution recognition

Unconditional contributions are recognized as revenue when they are promised or received, as applicable, and are available for unrestricted use unless specifically restricted by donor. Contributions that are restricted by the donor 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 reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2014

Note 1 - Nature of activities and significant accounting policies, continued

J. Contribution recognition, continued

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated services recognized as revenue for the year ended December 31, 2014 was \$62,121. The corresponding expense is shown in the statement of functional expenses as in-kind services for \$62,121. Of this amount, \$44,205 is included in program services, \$11,944 is included in management and general and \$5,972 is included in fundraising on the statement of functional expenses. In addition to the services recognized as revenue, numerous volunteers of the Organization provided services throughout the year that have not been recognized as contributions in the financial statements since the recognition criteria were not met. The Organization estimates 25,376 volunteer hours were contributed during the year ended December 31, 2014 that contributed to carrying out the valuable mission of the Organization.

K. Investment income

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 in which the income and gains are recognized.

L. Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

M. Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization had no unrelated business taxable income for the year ended December 31, 2014. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). The Organization is also exempt from Wisconsin income taxes.

Penalties and interest assessed by income taxing authorities are included in management and general expenses, if applicable. The Organization had no interest and penalties related to income taxes for the year ended December 31, 2014. The Organization's federal returns are subject to examination generally for three years after they are filed and their state returns are subject to examination generally for four years after they are filed.

N. Subsequent events

The Organization has evaluated events and transactions for potential recognition of disclosure in the financial statements through April 9, 2015, the date on which the financial statements were available to be issued.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2014

Note 2 - Concentration of credit risk

The Organization maintains its cash accounts at two financial institutions. Aggregate deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization's cash deposits may exceed this insured limit at times during the year. The Organization has not experienced any losses in these accounts. Management believes the Organization is not exposed to any significant credit risk on cash.

Note 3 - Investments

Investments consist of the following at December 31, 2014:

Church Extension Fund (CEF) saving certificates	\$ 617,384
Equities mutual funds	<u>37,560</u>
	<u>\$ 654,944</u>

Investment income for the year ended December 31, 2014 consists of the following:

Net realized and unrealized loss	\$ (786)
Interest and dividends	<u>6,811</u>
	<u>\$ 6,025</u>

Note 4 - Property and equipment, net

Property and equipment consists of the following at December 31, 2014:

Leasehold improvements	\$ 38,482
Builders for Christ equipment and vehicles	59,251
Malawi vehicles	80,419
Apache vehicle	6,900
Office furniture and equipment	<u>54,903</u>
	239,955
Less accumulated depreciation	<u>118,043</u>
	<u>\$ 121,912</u>

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2014

Note 5 - Capital lease obligation

The Organization has a capital lease agreement for a copier. The economic substance of the lease is that the Organization is financing the acquisition of the asset through the lease, and accordingly, it is recorded in the Organization's assets and liabilities. The following is an analysis of the leased asset included in property and equipment at December 31, 2014:

Office equipment	\$ 14,000
Accumulated depreciation	<u>(2,100)</u>
	<u>\$ 11,900</u>

The following is a schedule by years of the future minimum payments required under the lease together with their present value as of December 31, 2014:

Year Ending <u>December 31,</u>	
2015	\$ 3,615
2016	3,615
2017	3,615
2018	3,615
2019	<u>904</u>
Total minimum lease payments	\$ 15,364
Less amount representing interest	<u>(3,092)</u>
Present value of minimum lease payments	<u>\$ 12,272</u>

Note 6 - Board designated unrestricted net assets

The Organization's Board of directors has chosen to place a limitation on unrestricted net assets as of December 31, 2014 as follows:

Unrestricted net assets	
Board designated:	
SPUR	\$ 222,876
Staff education	5,493
Reserve	79,860
Support/Admin	39,637
Designated for property and equipment	121,912
Undesignated	<u>274,889</u>
Total unrestricted net assets	<u>\$ 744,667</u>

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2014

Note 7 - Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2014 consist of the following:

Temporarily restricted net assets:

Purpose restrictions:

2015 Convention	\$ 62,299
Apache missions	79,834
Chile missions	10,605
Malawi missions	99,463
Mozambique missions	16,199
Southeast Asia missions	32,540
Zambia missions	15,266
Home missions	31,000
Other missions	39,546
Disaster relief	8,477
Evangelism mentoring teams	7,187
Media resources	9,561
RMT	41,959
Travel/Canvass/Witness	14,252
WELS Layworker fund	27,679
Foundation support fund	100,000
Time restriction:	
Contributions and grants receivable	<u>498,000</u>
	<u>\$ 1,093,867</u>

Note 8 - Operating lease

The Organization leases its office space under an operating lease. The lease term extends through November 30, 2017. The Organization also leases two living spaces in Malawi under operating leases. These lease terms extend through April 2015. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of December 31, 2014, are:

Year Ending
December 31,

2015	\$ 124,666
2016	128,313
2017	<u>120,733</u>
	<u>\$ 373,712</u>

Total rent expense for the year ended December 31, 2014 was \$140,606.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2014

Note 8 - Operating lease, continued

The Organization subleases its office space under two operating lease agreements. The lease terms extend through November 30, 2017. Rental income under these leases was \$38,472 for the year ended December 31, 2014. The leases presently provide for remaining gross lease income during the lease term as follows:

Year Ending <u>December 31,</u>	
2015	\$ 39,398
2016	40,373
2017	<u>34,363</u>
	<u>\$ 114,134</u>

Note 9 - Retirement plan

The Organization has a 403(b) plan called the Shepherd Plan. The plan covers employees who work more than 30 hours per week. Contributions to the plan consist of salary reduction elections by the employee and \$2,496 per fulltime employee contributed by the Organization. Total expense for the retirement plan in 2014 was \$32,650.

Note 10 - Fair value measurements

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. Accounting standards have established a hierarchy of valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets, Level 2 consists of inputs observable in the marketplace other than quoted prices in active markets for identical assets, and Level 3 consists of significant inputs unobservable in the marketplace.

The following are the major categories of assets measured at fair value on a recurring basis as of December 31, 2014.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Church Extension Fund (CEF) saving certificates	\$ -	\$ 617,384	\$ -	\$ 617,384
Equities mutual funds:				
Domestic	25,154	-	-	25,154
International	<u>12,406</u>	<u>-</u>	<u>-</u>	<u>12,406</u>
	<u>\$ 37,560</u>	<u>\$ 617,384</u>	<u>\$ -</u>	<u>\$ 654,944</u>

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2014

Note 11 - Prior period adjustment

Temporarily restricted net assets at December 31, 2013 have been increased by \$100,000 due to an error discovered during the year. In addition, the change in net assets for the year ended December 31, 2013 has increased by \$100,000 due to this error. The Organization should have previously recognized an unconditional contribution receivable for \$100,000 at December 31, 2013. The correction has no effect on the results of the current year's activities. In addition, approximately \$209,000 of temporarily restricted net assets as of December 31, 2013 were reclassified to unrestricted net assets-Board designated.