

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

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

**WISCONSIN EVANGELICAL LUTHERAN
SYNOD KINGDOM WORKERS, INC.**
December 31, 2015

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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, 2015, 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, 2015, 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.

Report on Summarized Financial Information

We have previously audited Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc.'s 2014 financial statements as of and for the year ended December 31, 2014, and our report dated April 9, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized financial information presented herein, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Certified Public Accountants

Milwaukee, Wisconsin
April 15, 2016

FINANCIAL STATEMENTS

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2015

(With Summarized Financial Information as of December 31, 2014)

ASSETS	<u>2015</u>	<u>2014</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 469,425	552,649
Contributions and grants receivable	219,918	498,000
Other receivables	6,558	548
Investments	909,507	654,944
Prepaid expenses	<u>41,783</u>	<u>83,261</u>
Total current assets	1,647,191	1,789,402
Property and equipment, net	<u>83,695</u>	<u>121,912</u>
Total assets	<u>\$ 1,730,886</u>	<u>\$ 1,911,314</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 16,390	\$ 21,783
Current portion of capital lease obligation	2,677	2,404
Deferred revenue	-	38,011
Other liabilities	<u>596</u>	<u>714</u>
Total current liabilities	19,663	62,912
Capital lease obligation, less current portion	<u>7,191</u>	<u>9,868</u>
<u>Net assets</u>		
Unrestricted	895,677	744,667
Temporarily restricted	798,437	1,093,867
Permanently restricted	<u>9,918</u>	<u>-</u>
Total net assets	<u>1,704,032</u>	<u>1,838,534</u>
Total liabilities and net assets	<u>\$ 1,730,886</u>	<u>\$ 1,911,314</u>

See notes to financial statements.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

	Unrestricted	Temporarily	Temporarily	Totals	
		Restricted	Restricted	2015	2014
<u>Support and other revenue</u>					
Contributions and grants	\$ 1,059,603	\$ 983,463	\$ 9,918	\$ 2,052,984	\$ 2,425,290
Convention sponsors and grants	-	80,444	-	80,444	62,299
In-kind service contributions	65,056	-	-	65,056	62,121
Rent income	39,398	-	-	39,398	38,472
Investment and interest income	4,674	-	-	4,674	6,087
Other income	16,003	-	-	16,003	7,210
Loss on disposal of assets	(5,278)	-	-	(5,278)	1
Net assets released from donor restrictions	<u>1,359,337</u>	<u>(1,359,337)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and other revenue	<u>2,538,793</u>	<u>(295,430)</u>	<u>9,918</u>	<u>2,253,281</u>	<u>2,601,480</u>
<u>Expenses</u>					
Program services	1,765,753	-	-	1,765,753	1,416,444
Supporting activities:					
Management and general	306,671	-	-	306,671	282,047
Fundraising	<u>315,359</u>	<u>-</u>	<u>-</u>	<u>315,359</u>	<u>274,713</u>
Total expenses	<u>2,387,783</u>	<u>-</u>	<u>-</u>	<u>2,387,783</u>	<u>1,973,204</u>
Change in net assets	<u>151,010</u>	<u>(295,430)</u>	<u>9,918</u>	<u>(134,502)</u>	<u>628,276</u>
<u>Net assets</u>					
Beginning of year, restated	<u>744,667</u>	<u>1,093,867</u>	<u>-</u>	<u>1,838,534</u>	<u>1,210,258</u>
End of year	<u>\$ 895,677</u>	<u>\$ 798,437</u>	<u>\$ 9,918</u>	<u>\$ 1,704,032</u>	<u>\$ 1,838,534</u>

See notes to financial statements.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

	<u>Supporting Activities</u>			<u>Totals</u>	
	<u>Program Services</u>	<u>Management</u>	<u>Fund- Raising</u>	<u>2015</u>	<u>2014</u>
		<u>and General</u>			
Salaries and wages	\$ 613,581	\$ 145,827	\$ 126,179	\$ 885,587	\$ 672,660
In-kind services	65,056	-	-	65,056	62,121
Employee benefits	189,412	33,096	32,535	255,043	216,496
Employee training	13,858	7,891	478	22,227	32,748
Contracted services	19,211	-	41,800	61,011	142,973
Rent expense	77,649	42,106	30,869	150,624	140,606
Travel and meals	272,458	15,457	14,011	301,926	348,539
Office expense	87,446	12,263	52,805	152,514	111,766
Accounting and audit	277	13,604	-	13,881	11,669
Legal expense	4,628	6,424	-	11,052	11,505
Public relations	16,726	3,130	6,285	26,141	29,659
Computer expense	27,299	4,767	8,867	40,933	34,010
Maintenance and supplies	34,663	1,549	873	37,085	44,543
Utilities	4,261	-	-	4,261	3,379
Insurance	26,235	1,000	-	27,235	24,329
Meetings	9,946	6,860	25	16,831	6,472
CLE event	198,909	-	-	198,909	-
Depreciation	22,243	11,795	622	34,660	35,438
Interest expense	1,211	2	-	1,213	983
Grant expense	-	-	-	-	24,690
Miscellaneous	<u>80,684</u>	<u>900</u>	<u>10</u>	<u>81,594</u>	<u>19,601</u>
Total functional expenses	<u>\$ 1,765,753</u>	<u>\$ 306,671</u>	<u>\$ 315,359</u>	<u>\$ 2,387,783</u>	<u>\$ 1,974,187</u>

See notes to financial statements.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2015

(With Summarized Financial Information for the Year Ended December 31, 2014)

	<u>Totals</u>	
	<u>2015</u>	<u>2014</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (134,502)	\$ 628,276
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	34,660	35,438
Gain on disposal of fixed assets	5,278	(1)
Unrealized loss on investments	1,611	786
Changes in operating assets and liabilities:		
Contributions and grants receivable	278,082	(398,000)
Other receivables	(6,010)	6,830
Prepaid expenses	41,478	(81,189)
Accounts payable	(5,393)	1,647
Deferred revenue	(38,011)	38,011
Custodial funds	-	(68,093)
Other liabilities	<u>(118)</u>	<u>(4,295)</u>
Net cash provided by operating activities	<u>177,075</u>	<u>159,410</u>
<u>Cash flows from investing activities</u>		
Purchase of property and equipment	(7,629)	(73,148)
Sale of campers	700	-
Insurance proceeds	5,208	-
Purchase of temporary investments	(456,174)	(266,812)
Sale of temporary investments	<u>200,000</u>	<u>500,000</u>
Net cash provided by (used for) investing activities	<u>(257,895)</u>	<u>160,040</u>
<u>Cash flows from financing activities</u>		
Repayment of capital lease obligation	<u>(2,404)</u>	<u>(1,728)</u>
<u>Cash and cash equivalents</u>		
Net increase (decrease)	(83,224)	317,722
Beginning	<u>552,649</u>	<u>234,927</u>
Ending	<u>\$ 469,425</u>	<u>\$ 552,649</u>
<u>Supplementary cash flow information</u>		
Cash paid for interest	<u>\$ 1,213</u>	<u>\$ 983</u>
<u>Noncash investing and financing activities</u>		
Noncash property and equipment addition with capital lease	<u>\$ -</u>	<u>\$ 14,000</u>

See notes to financial statements.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2015

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 35% of its contributions and grants for the year ended December 31, 2015 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, 2015, 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, 2015

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, 2015. 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, 2015

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, 2015 was \$65,056. The corresponding expense is shown in the statement of functional expenses as in-kind services for \$65,056. This entire amount is included in program services 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 88,998 volunteer hours were contributed during the year ended December 31, 2015 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, 2015. 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, 2015. 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 15, 2016, 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, 2015

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, 2015:

Church Extension Fund (CEF) saving certificates	\$ 870,564
Equities mutual funds	<u>38,943</u>
	<u>\$ 909,507</u>

Investment income for the year ended December 31, 2015 consists of the following:

Net realized and unrealized loss	\$ (1,611)
Interest and dividends	<u>6,285</u>
	<u>\$ 4,674</u>

Note 4 - Property and equipment, net

Property and equipment consists of the following at December 31, 2015:

Leasehold improvements	\$ 38,482
Buildings for Christ equipment and vehicles	51,731
Malawi vehicles	70,919
Office furniture and equipment	<u>61,826</u>
	222,958
Less accumulated depreciation	<u>139,263</u>
	<u>\$ 83,695</u>

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

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, 2015:

Office equipment	\$ 14,000
Accumulated depreciation	<u>(4,200)</u>
	<u>\$ 9,800</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, 2015:

<u>Year Ending</u> <u>December 31,</u>	
2016	\$ 3,615
2017	3,615
2018	3,615
2019	<u>904</u>
Total minimum lease payments	11,749
Less amount representing interest	<u>(1,881)</u>
Present value of minimum lease payments	<u>\$ 9,868</u>

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

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, 2015 as follows:

Unrestricted net assets	
Board designated:	
SPUR	\$ 561,570
Contribution matching	21,752
Reserve	79,860
Support and administration	24,180
Designated for property and equipment	83,695
Undesignated	<u>124,620</u>
Total unrestricted net assets	<u>\$ 895,677</u>

Note 7 - Temporarily and permanently restricted net assets

Temporarily and permanently restricted net assets as of December 31, 2015 consist of the following:

Temporarily restricted net assets:	
Purpose restrictions:	
Apache missions	\$ 120,163
Chile missions	32,359
Malawi missions	47,858
Mozambique missions	16,199
Southeast Asia missions	3,469
Zambia missions	6,475
Home missions	22,400
Other missions	42,994
Lutheran Health Alliance	50,110
Disaster relief	13,507
Evangelism mentoring teams	4,777
Media resources	10,445
RMT	65,544
Travel/Canvass/Witness	20,458
WELS Layworker fund	27,679
Foundation support fund	34,000
Time restriction:	
Contributions and grants receivable	<u>280,000</u>
	<u>\$ 798,437</u>
Permanent restricted net assets:	
Endowment	
Contributions receivable	<u>\$ 9,918</u>

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

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 2016. Future minimum lease payments under operating leases that have remaining terms in excess of one year as of December 31, 2015, are:

Year Ending	
<u>December 31,</u>	
2016	\$ 128,313
2017	<u>120,733</u>
	<u>\$ 249,046</u>

Total rent expense for the year ended December 31, 2015 was \$150,624.

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 \$39,398 for the year ended December 31, 2015. The leases presently provide for remaining gross lease income during the lease term as follows:

Year Ending	
<u>December 31,</u>	
2016	\$ 40,373
2017	<u>34,363</u>
	<u>\$ 74,736</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 2015 was \$49,090.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2015

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, 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Church Extension Fund (CEF) saving certificates	\$ -	\$ 870,564	\$ -	\$ 870,564
Equities mutual funds:				
Domestic	26,893	-	-	26,893
International	<u>12,050</u>	<u>-</u>	<u>-</u>	<u>12,050</u>
	<u>\$ 38,943</u>	<u>\$ 870,564</u>	<u>\$ -</u>	<u>\$ 909,507</u>