

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

FINANCIAL STATEMENTS

DECEMBER 31, 2017

**WISCONSIN EVANGELICAL LUTHERAN
SYNOD KINGDOM WORKERS, INC.**
December 31, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc.
Waukesha, 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, 2017, 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, 2017, 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 2016 financial statements as of and for the year ended December 31, 2016, and our report dated April 6, 2017, 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

Green Bay, Wisconsin
April 6, 2018

FINANCIAL STATEMENTS

Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc.
STATEMENTS OF FINANCIAL POSITION
December 31, 2017
(With Summarized Financial Information as of December 31, 2016)

ASSETS	<u>2017</u>	<u>2016</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 445,160	\$ 501,098
Contributions and grants receivable	28,000	69,182
Other receivables	8,200	9,547
Investments	1,377,340	914,536
Prepaid expenses	<u>24,247</u>	<u>207,298</u>
Total current assets	1,882,947	1,701,661
Property and equipment, net	<u>167,588</u>	<u>74,839</u>
Total assets	<u>\$ 2,050,535</u>	<u>\$ 1,776,500</u>
LIABILITIES AND NET ASSETS		
<u>Current liabilities</u>		
Accounts payable	\$ 61,396	\$ 25,774
Current portion of capital lease obligation	6,876	2,982
Deferred revenue	-	80,883
Other liabilities	<u>5,989</u>	<u>1,176</u>
Total current liabilities	74,261	110,815
Capital lease obligation, less current portion	<u>12,914</u>	<u>4,209</u>
Total liabilities	<u>87,175</u>	<u>115,024</u>
<u>Net assets</u>		
Unrestricted	1,216,261	806,894
Temporarily restricted	735,959	844,597
Permanently restricted	<u>11,140</u>	<u>9,985</u>
Total net assets	<u>1,963,360</u>	<u>1,661,476</u>
Total liabilities and net assets	<u>\$ 2,050,535</u>	<u>\$ 1,776,500</u>

Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
				<u>2017</u>	<u>2016</u>
<u>Support and other revenue</u>					
Contributions and grants	\$ 1,637,681	\$ 953,944	\$ 1,155	\$ 2,592,780	\$ 2,011,231
Contributions promised	-	25,000	-	25,000	57,849
Convention sponsors and grants	-	116,231	-	116,231	110,600
Donated services	156,944	14,703	-	171,647	108,369
Donated assets	-	-	-	-	15,782
Rent income	34,363	-	-	34,363	40,373
Investment and interest income	112,498	-	-	112,498	38,008
Other income	33,314	27,181	-	60,495	12,195
Gain on disposal of assets	10,690	-	-	10,690	-
Net assets released from donor restrictions	<u>1,245,697</u>	<u>(1,245,697)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and other revenue	<u>3,231,187</u>	<u>(108,638)</u>	<u>1,155</u>	<u>3,123,704</u>	<u>2,394,407</u>
<u>Expenses</u>					
Program services	1,891,776	-	-	1,891,776	1,565,609
Supporting activities:					
Management and general	503,731	-	-	503,731	379,905
Fundraising	<u>426,313</u>	<u>-</u>	<u>-</u>	<u>426,313</u>	<u>491,449</u>
Total expenses	<u>2,821,820</u>	<u>-</u>	<u>-</u>	<u>2,821,820</u>	<u>2,436,963</u>
Change in net assets	<u>409,367</u>	<u>(108,638)</u>	<u>1,155</u>	<u>301,884</u>	<u>(42,556)</u>
<u>Net assets</u>					
Beginning of year	<u>806,894</u>	<u>844,597</u>	<u>9,985</u>	<u>1,661,476</u>	<u>1,704,032</u>
End of year	<u>\$ 1,216,261</u>	<u>\$ 735,959</u>	<u>\$ 11,140</u>	<u>\$ 1,963,360</u>	<u>\$ 1,661,476</u>

Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	Program Services	Supporting Activities		Totals	
		Management and General	Fund- Raising	2017	2016
Salaries and wages	\$ 670,331	\$ 217,632	\$ 168,364	\$ 1,056,327	\$ 1,083,436
In-kind services	46,871	17,960	-	64,831	49,868
Employee benefits	208,738	48,695	29,729	287,162	299,458
Employee training	21,736	508	-	22,244	11,805
Contracted services	149,116	2,423	36,798	188,337	82,647
Rent expense	56,648	71,147	21,783	149,578	145,414
Travel and meals	305,206	33,396	22,460	361,062	264,437
Office expense	76,146	30,230	71,407	177,783	168,321
Accounting and audit	-	15,940	-	15,940	13,169
Legal expense	234	13,967	-	14,201	21,233
Public relations	54,756	3,434	67,402	125,592	79,853
Computer expense	28,746	9,196	4,824	42,766	48,818
Maintenance and supplies	31,856	674	1,488	34,018	27,717
Utilities	1,293	-	-	1,293	2,627
Insurance	19,317	1,094	1,634	22,045	17,237
Meetings	5,812	18,706	66	24,584	24,802
CLE event	138,052	-	-	138,052	-
Depreciation	23,168	17,820	-	40,988	34,709
Interest expense	1,439	573	358	2,370	951
Miscellaneous	<u>52,311</u>	<u>336</u>	<u>-</u>	<u>52,647</u>	<u>60,461</u>
Total functional expenses	<u>\$ 1,891,776</u>	<u>\$ 503,731</u>	<u>\$ 426,313</u>	<u>\$ 2,821,820</u>	<u>\$ 2,436,963</u>

Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017
(With Summarized Financial Information for the Year Ended December 31, 2016)

	Totals	
	2017	2016
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 301,884	\$ (42,556)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	40,988	34,709
Gain on disposal of fixed assets	(10,690)	-
Net gain on investments	(62,101)	(26,156)
Changes in operating assets and liabilities:		
Contributions and grants receivable	41,182	150,736
Other receivables	1,347	(2,989)
Prepaid expenses	183,051	(165,515)
Accounts payable	35,622	9,384
Deferred revenue	(80,883)	80,883
Other liabilities	4,813	580
 Net cash provided by operating activities	 455,213	 39,076
 <u>Cash flows from investing activities</u>		
Purchase of property and equipment	(133,737)	(10,071)
Proceeds from sale of property and equipment	10,690	-
Donations of investments	(250,300)	-
Purchase of investments	(524,182)	(678,431)
Sale of investments	392,345	683,776
 Net cash used for investing activities	 (505,184)	 (4,726)
 <u>Cash flows from financing activities</u>		
Repayment of capital lease obligation	(5,967)	(2,677)
 <u>Cash and cash equivalents</u>		
Net increase (decrease)	(55,938)	31,673
Beginning	501,098	469,425
 Ending	 \$ 445,160	 \$ 501,098
 <u>Supplementary cash flow information</u>		
Cash paid for interest	\$ 2,081	\$ 938
 <u>Noncash investing and financing activities</u>		
Noncash property and equipment addition with capital lease	\$ 18,566	\$ -
Contributed property and equipment	\$ -	\$ 15,782

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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 individual church members, congregations, and communities in the United States of America and abroad by providing support and training volunteers for various mission and outreach ministry needs and opportunities. The Organization works through two major ministries: Builders for Christ and Kingdom Workers Ministry Programs. The Organization is primarily supported through contribution and grants. Approximately 31% of its contributions and grants for the year ended December 31, 2017 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.

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, 2017

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.

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, 2017

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, 2017 was \$171,647. The corresponding expense is shown in the statement of functional expenses as in-kind services for \$64,831 and public relations for \$106,816. These amounts are included in program services for \$89,598, management and general for \$17,960, and fundraising for \$64,089. 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 91,040 volunteer hours were contributed during the year ended December 31, 2017 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, 2017. 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, 2017. 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 6, 2018, 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, 2017

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, 2017:

Cash and equivalents	\$ 46,846
Church Extension Fund (CEF) saving certificates	176,668
Equities mutual funds:	
Domestic	478,840
International	306,824
Corporate Bonds	<u>368,162</u>
	<u>\$ 1,377,340</u>

Investment income for the year ended December 31, 2017 consists of the following:

Net realized and unrealized gain	\$ 92,674
Interest and dividends	<u>19,717</u>
	<u>\$ 112,391</u>

Note 4 - Endowment funds

In 2015, the Organization received a gift in the form of a term endowment. The endowment is governed by the Wisconsin Uniform Prudent Management of Institutional Funds Act. At December 31, 2017, the endowment consists of investments in a money market deposit account, mutual funds, and equity securities, and is accompanied by donor restrictions. The endowment permits the Organization to expend both principal and investment income on specific programs produced by Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc. Unexpended funds are reported as a component of unrestricted net assets.

The investment and spending policies for endowment assets are intended to provide a consistent source of funding to specific programs while maintaining a reasonable rate of return on endowment assets over the long-term. Endowment assets are invested in a well-diversified portfolio, which consists of cash, bonds and equity securities.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2017

Note 4 - Endowment funds, continued

Expenditures from endowment funds are determined annually based on an approved percentage of the fair market value of the funds. The fair market value of the Trust are determined by averaging the value of the Trust on December 31 for the past three years. Investment income is credited to the endowment corpus. Annual distributions may not exceed actual amounts expended by Wisconsin Evangelical Lutheran Synod Kingdom Workers, Inc. in connection to the working capital needs of the organization, and shall consist of at least 3% to 5% percent of the average value of the fund over a fiscal year ending December 31. If the income in any year exceeds the minimum threshold amount, all income may be expended in accordance with donor restrictions.

Donor restricted endowment assets are as follows as of December 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at fair market value, beginning of year	\$ 106,087	\$ -	\$ 9,985	\$ 116,072
Contributions	3,970	-	1,155	5,125
Interest and dividends	2,329	-	-	2,329
Realized and unrealized gain	19,514	-	-	19,514
Net assets released from restrictions	(528)	-	-	(528)
Endowment net assets at fair value, end of year	<u>\$ 131,372</u>	<u>\$ -</u>	<u>\$ 11,140</u>	<u>\$ 142,512</u>

Note 5 - Property and equipment, net

Property and equipment consists of the following at December 31, 2017:

Leasehold improvements	\$ 38,482
Buildings for Christ equipment and vehicles	98,441
Malawi vehicles	74,625
Office furniture and equipment	<u>125,339</u>
Sub-total	336,887
Less accumulated depreciation	<u>169,299</u>
Total property and equipment, net	<u>\$ 167,588</u>

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2017

Note 6 - Capital lease obligation

The Organization has capital lease agreements for a copier and a phone system. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Organization's assets and liabilities. The following is an analysis of the leased assets included in property and equipment at December 31, 2017:

Copier	\$ 14,000
Phone System	18,286
Accumulated depreciation	<u>(11,414)</u>
	<u>\$ 20,872</u>

The following is a schedule by years of the future minimum payments required under the leases together with their present value as of December 31, 2017:

<u>Year Ending</u> <u>December 31,</u>	
2018	\$ 8,451
2019	5,740
2020	4,836
2021	<u>4,030</u>
Total minimum lease payments	23,057
Less amount representing interest	<u>(3,267)</u>
Present value of minimum lease payments	<u>\$ 19,790</u>

Note 7 - 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, 2017 as follows:

Unrestricted net assets	
Board designated:	
Contribution matching	\$ 8,552
Reserve	79,860
Evaluation	84,340
Endowment	131,372
Designated for property and equipment	167,588
Undesignated	<u>744,549</u>
Total unrestricted net assets	<u>\$ 1,216,261</u>

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2017

Note 8 - Temporarily and permanently restricted net assets

Temporarily and permanently restricted net assets as of December 31, 2017 consist of the following:

Temporarily restricted net assets:

Purpose restrictions:

Apache missions	\$ 138,421
Builders For Christ	162,962
Malawi missions	62,424
Mission workers	93,817
Southeast Asia missions	132,241
Zambia missions	4,380
Home missions	11,600
Other missions	24,624
Disaster relief	13,507
Media resources	10,539
RMT	41,317
Foundation support fund	8,000

Time restriction:

Contributions and grants receivable	<u>32,127</u>
	<u>\$ 735,959</u>

Permanent restricted net assets:

Endowment	
Donor restricted contributions	<u>\$ 11,140</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 2017 was \$25,425.

WISCONSIN EVANGELICAL LUTHERAN SYNOD KINGDOM WORKERS, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
Year Ended December 31, 2017

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, 2017.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 46,846	\$ -	\$ -	\$ 46,846
Church Extension Fund (CEF) saving certificates	-	176,668	-	176,668
Equities mutual funds:				
Domestic	478,840	-	-	478,840
International	306,824	-	-	306,824
Fixed income securities:				
Corporate Bonds	<u>-</u>	<u>368,162</u>	<u>-</u>	<u>368,162</u>
	<u>\$ 832,510</u>	<u>\$ 544,830</u>	<u>\$ -</u>	<u>\$ 1,377,340</u>