

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN
CHURCH IN AMERICA**

Financial Statements and
Independent Auditors' Report
with Supplemental Schedule

Year Ended January 31, 2011

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Financial Statements and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Synod Council
New England Synod of the
Evangelical Lutheran Church in America
Worcester, Massachusetts

We have audited the accompanying statement of financial position of the New England Synod of the Evangelical Lutheran Church in America (the Synod) as of January 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Synod's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Synod's 2010 financial statements and, in our report dated April 22, 2010, we expressed a qualified opinion on those financial statements for the reason described in the third paragraph.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Synod is financially interrelated with Lutheran Outdoor Ministries of New England, Inc. (LOMNE) and, under accounting principles generally accepted in the United States of America, is required to present consolidated financial statements with LOMNE. These financial statements only present the financial position, results of activities and cash flows of the Synod.

In our opinion, except for the matter described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the New England Synod of the Evangelical Lutheran Church in America as of January 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Synod Council
New England Synod of the
Evangelical Lutheran Church in America

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of expenses by operations is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements and we express no opinion on it.

A handwritten signature in cursive script that reads "P.L. Jones & Associates, P.C.".

P.L. Jones & Associates, P.C.

April 8, 2011

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Statement of Financial Position

January 31, 2011

(With Summarized Financial Information for 2010)

Assets

| | 2011 | 2010 |
|-----------------------------|---------------------|---------------------|
| Current Assets: | | |
| Cash | \$ 474,590 | \$ 166,056 |
| Accounts receivable | 855 | 24,864 |
| Prepaid expenses | <u>37,707</u> | <u>24,539</u> |
| Total Current Assets | <u>513,152</u> | <u>215,459</u> |
| Property and Equipment, net | <u>1,415,539</u> | <u>365,987</u> |
| Other Assets: | | |
| Investments | 2,986,997 | 2,636,589 |
| Assets held for sale | 755,000 | 1,502,000 |
| Notes receivable | 117,937 | 125,464 |
| Other long-term assets | <u>44,331</u> | <u>48,356</u> |
| Total Other Assets | <u>3,904,265</u> | <u>4,312,409</u> |
| Total Assets | <u>\$ 5,832,956</u> | <u>\$ 4,893,855</u> |

Liabilities and Net Assets

| | | |
|----------------------------------------------------|---------------------|---------------------|
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 55,414 | \$ 50,625 |
| Mission support due to the ELCA | 244,686 | 118,680 |
| Grant commitments payable | 2,038 | 20,193 |
| Deferred revenue | 9,194 | 6,490 |
| Agency funds payable | <u>56,613</u> | <u>82,975</u> |
| Total Current Liabilities | <u>367,945</u> | <u>278,963</u> |
| Contingencies | - | - |
| Net Assets: | | |
| Unrestricted: | | |
| Council designated for mission development efforts | 2,228,374 | 2,521,305 |
| Undesignated | 1,771,586 | 770,128 |
| Other Council designations | <u>719,222</u> | <u>620,431</u> |
| Total Unrestricted Net Assets | 4,719,182 | 3,911,864 |
| Temporarily restricted | 587,222 | 544,421 |
| Permanently restricted | <u>158,607</u> | <u>158,607</u> |
| Total Net Assets | <u>5,465,011</u> | <u>4,614,892</u> |
| Total Liabilities and Net Assets | <u>\$ 5,832,956</u> | <u>\$ 4,893,855</u> |

The accompanying notes are an integral part of these financial statements.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Statement of Activities

Year Ended January 31, 2011
(With Summarized Financial Information for 2010)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals | |
|---------------------------------------|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| | | | | 2011 | 2010 |
| Support: | | | | | |
| Mission support | \$ 2,001,913 | \$ - | \$ - | \$ 2,001,913 | \$ 2,087,333 |
| Other support: | | | | | |
| Contributions | 13,613 | 1,450 | - | 15,063 | 22,268 |
| Grants | 17,000 | - | - | 17,000 | 68,500 |
| | <u>2,032,526</u> | <u>1,450</u> | <u>-</u> | <u>2,033,976</u> | <u>2,178,101</u> |
| Total Support | | | | | |
| Other Revenue: | | | | | |
| Program fees and events | 44,492 | - | - | 44,492 | 38,108 |
| Special events | 138,650 | - | - | 138,650 | 143,214 |
| Contributions | 50,125 | 5,533 | - | 55,658 | 145,948 |
| Contribution of church properties | 1,173,111 | - | - | 1,173,111 | 1,466,972 |
| Net investment return | 275,344 | 112,208 | - | 387,552 | 531,435 |
| Interest income | 10,334 | - | - | 10,334 | 10,037 |
| Loss on assets held for sale | (517,876) | - | - | (517,876) | (66,820) |
| Other income | 502 | - | - | 502 | 10,820 |
| | <u>1,174,682</u> | <u>117,741</u> | <u>-</u> | <u>1,292,423</u> | <u>2,279,714</u> |
| Total Other Revenue | | | | | |
| Net Assets Released from Restrictions | 76,390 | (76,390) | - | - | - |
| | <u>3,283,598</u> | <u>42,801</u> | <u>-</u> | <u>3,326,399</u> | <u>4,457,815</u> |
| Total Support and Other Revenue | | | | | |
| Expenses: | | | | | |
| Program expenses: | | | | | |
| ELCA mission support | 1,081,086 | - | - | 1,081,086 | 1,148,033 |
| Mission programs | 489,534 | - | - | 489,534 | 617,751 |
| Administrative expenses: | | | | | |
| Ministry and support | 784,123 | - | - | 784,123 | 752,752 |
| Special events | 121,537 | - | - | 121,537 | 118,911 |
| | <u>2,476,280</u> | <u>-</u> | <u>-</u> | <u>2,476,280</u> | <u>2,637,447</u> |
| Total Expenses | | | | | |
| Changes in Net Assets | 807,318 | 42,801 | - | 850,119 | 1,820,368 |
| Net Assets, beginning of year | 3,911,864 | 544,421 | 158,607 | 4,614,892 | 2,794,524 |
| Net Assets, end of year | <u>\$ 4,719,182</u> | <u>\$ 587,222</u> | <u>\$ 158,607</u> | <u>\$ 5,465,011</u> | <u>\$ 4,614,892</u> |

The accompanying notes are an integral part of these financial statements.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Statement of Cash Flows

Year Ended January 31, 2011
(With Summarized Financial Information for 2010)

| | 2011 | 2010 |
|--------------------------------------------------------------------------------------------------------|-------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Changes in net assets | <u>\$ 850,119</u> | <u>\$ 1,820,368</u> |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 20,448 | 21,826 |
| Non cash contributions | (1,028,747) | (1,302,000) |
| Unrealized gain on investments | (307,839) | (455,909) |
| Gain on sale of congregational assets | (144,364) | (164,972) |
| Loss on assets held for sale | 517,876 | 66,820 |
| Fair value adjustment of other long-term assets | (65) | (775) |
| Expenses paid directly from investments | 11,711 | 10,803 |
| (Increase) decrease in: | | |
| Accounts receivable | 24,009 | (8,690) |
| Prepaid expenses | (13,168) | (15,174) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 4,789 | 9,197 |
| Mission support due to the ELCA | 126,006 | (19,281) |
| Grant commitments payable | (18,155) | (40,007) |
| Deferred revenue | 2,704 | 6,490 |
| Agency funds payable | <u>(26,362)</u> | <u>(30,530)</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>18,962</u> | <u>(101,834)</u> |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | - | (25,065) |
| Expenditures to acquire assets held for sale | (109,628) | - |
| Expenditures to acquire congregational assets sold | (49,342) | - |
| Purchases of investments | (322,552) | (140,073) |
| Proceeds from investments | 272,362 | 38,793 |
| Proceeds from sale of assets held for sale | 297,499 | 98,180 |
| Proceeds from sale of congregational assets | 193,706 | 78,100 |
| Collection of notes receivable | <u>7,527</u> | <u>6,991</u> |
| Net Cash Provided by Investing Activities | <u>289,572</u> | <u>56,926</u> |
| Net Increase (Decrease) in Cash | 308,534 | (44,908) |
| Cash, beginning of year | <u>166,056</u> | <u>210,964</u> |
| Cash, end of year | <u>\$ 474,590</u> | <u>\$ 166,056</u> |
| Supplemental Disclosure: | | |
| Note receivable was received from sale of congregational assets in 2010 | <u>\$ -</u> | <u>\$ 123,000</u> |

The accompanying notes are an integral part of these financial statements.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - The New England Synod of the Evangelical Lutheran Church in America (the Synod) is a not-for-profit organization organized under the laws of the State of Pennsylvania, and is one of sixty-five autonomous synods of the Evangelical Lutheran Church in America (ELCA). The Synod's constituent congregations reside within the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, and the counties of Clinton, Essex and Franklyn in the State of New York. The Synod is supported primarily by voluntary contributions from its constituent congregations. In accordance with the Synod's agreement with the Church-wide Agency, 54% of total unrestricted support (mission support) is remitted to the ELCA. Such amounts are used for the broader expression and global mission of the Church.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation - The Synod's governing Council also serves as the governing body of Lutheran Outdoor Ministries of New England, Inc. (LOMNE) resulting in control of that organization. Accordingly, the Synod is required to present consolidated financial statements with LOMNE. These financial statements are not consolidated as required by accounting principles generally accepted in the United States of America. Accordingly, these statements are intended solely for the information and use of the Synod council and management. Selected financial information for LOMNE as of January 31, 2011 and 2010 and for the years then ended is summarized as follows:

| | 2011 | 2010 |
|---------------------------|--------------|--------------|
| Total assets | \$ 4,442,000 | \$ 4,578,000 |
| Total liabilities | 190,000 | 228,000 |
| Total net assets | 4,252,000 | 4,350,000 |
| Total support and revenue | 2,557,000 | 2,490,000 |
| Total expenses | 2,655,000 | 2,428,000 |

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation - The Synod presents information regarding its financial position and activities according to three classifications of net assets described as follows:

Unrestricted - All resources over which the Synod has discretionary control. The Synod may elect to designate such resources for specific purposes. This designation may be removed at the Synod's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income and appreciation may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments and relevant state law.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Synod's financial statements for the year ended January 31, 2010, from which the summarized information was derived.

Cash and Cash Equivalents - For purposes of these financial statements, the Synod considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

The Synod maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Synod has not experienced any losses in such accounts. The Synod believes it is not exposed to any significant credit risk on cash and cash equivalents.

Property and Equipment - Property and equipment are carried at cost or at fair value as of the date of the gift. Depreciation and amortization are computed using the straight-line method over the assets' useful life.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Any investments which are not readily marketable are carried at estimated fair value as provided by the investment managers. The Synod reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of these investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Investment return, including income, gains and losses, is recorded in unrestricted net assets unless its use is temporarily or permanently restricted by explicit donor stipulations or by law.

Endowment Funds - The Synod's endowment consists of a donor restricted fund established to provide scholarships for seminary students. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed or legal restrictions.

The Synod has interpreted state law as allowing the utilization of appreciation on permanently restricted assets unless explicit donor stipulations specify how net appreciation must be used. As a result of this interpretation, the Synod classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Synod in a manner consistent with the standard of prudence prescribed by state law.

In accordance with the Uniform Prudent Management of Institutional Funds Act, the Synod may consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purpose of the organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the organization; and the investment policies of the organization.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Synod has adopted investment and spending policies for its endowment assets that attempt to provide a predictable stream of funding for its programs while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Synod, the endowment assets are invested in an ELCA sponsored managed endowment fund. The Synod expects its endowment assets will provide a spendable return consistent with a long-term goal of preserving the funds in real terms. Actual returns in any given year may vary from this amount.

The Synod has a policy of appropriating for expenditure each year only the actual distributions of the managed investment fund. In establishing this policy, the Synod considered the long-term expected return on its endowment. This is consistent with the Synod's objective to maintain the purchasing power of its endowment assets.

Grant Commitments Payable - Grant commitments payable consists of amounts approved by the Synod to be spent in the development of churches and other mission outreach efforts in the Synod.

Deferred Revenue - Deferred revenue consists primarily of registration fees collected prior to year end for retreats that will take place in the spring and fall.

Agency Funds Payable - Agency funds payable represent amounts collected from constituent congregations and other donors with instructions to forward the funds to specific organizations.

Contributions, Gifts and Grants - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contribution of assets other than cash are recorded at their estimated fair value on the date of the gift. Restricted gifts or promises to give are required to be reported as restricted support in the period received and are then reclassified to unrestricted net assets upon satisfaction of the donor restriction.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax Status - The Synod is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. Under Internal Revenue Service and state regulations regarding churches, the Synod is not required to file income tax returns in any federal or state jurisdiction.

Functional Expenses - The expenses incurred to provide the various programs and other activities of the Synod have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

Donated Services - The Synod receives a significant amount of donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statement of activities because these services do not meet the criteria for recognition under generally accepted accounting principles.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications - Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

2. PROPERTY AND EQUIPMENT

Property and equipment, together with estimated useful lives, consists of the following at January 31, 2011 and 2010:

| | Estimated Useful Lives | 2011 | 2010 |
|--------------------------------|-----------------------------------|---------------------|-------------------|
| Land | - | \$ 161,075 | \$ 16,075 |
| Buildings and improvements | 40 years | 1,444,507 | 519,507 |
| Furniture and equipment | 5-10 years | 157,155 | 157,155 |
| Software | 5 years | <u>3,741</u> | <u>3,741</u> |
| | | 1,766,478 | 696,478 |
| Less: accumulated depreciation | | <u>(350,939)</u> | <u>(330,491)</u> |
| Property and Equipment, net | | <u>\$ 1,415,539</u> | <u>\$ 365,987</u> |

Depreciation and amortization expense for the years ended January 31, 2011 and 2010 was \$20,448 and \$21,826, respectively.

3. INVESTMENTS

Investments, which are stated at fair value, are composed of the following at January 31, 2011 and 2010:

| | 2011 | | 2010 | |
|-------------------------|---------------------|-----------------------|---------------------|-----------------------|
| | Cost | Fair Value | Cost | Fair Value |
| ELCA Endowment | | | | |
| Fund Pooled Trust | \$ 1,425,181 | \$ 1,169,518 | \$ 1,092,636 | \$ 1,029,306 |
| Mutual funds | 1,115,346 | 1,465,814 | 1,414,123 | 1,232,030 |
| Equities | 3,000 | 4,905 | 3,000 | 4,905 |
| Certificates of deposit | 67,780 | 67,780 | 87,083 | 87,083 |
| Money market accounts | <u>278,980</u> | <u>278,980</u> | <u>283,265</u> | <u>283,265</u> |
| | <u>\$ 2,890,287</u> | <u>\$ 2,986,997</u> | <u>\$ 2,880,107</u> | <u>\$ 2,636,589</u> |

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

3. INVESTMENTS (continued)

Investments are included in the following classes of net assets for the years ending January 31, 2011 and 2010:

| | 2011 | 2010 |
|-----------------------------------|---------------------|---------------------|
| Donor restricted endowment funds: | | |
| Temporarily restricted | \$ 66,157 | \$ 40,353 |
| Permanently restricted | 158,607 | 158,607 |
| Temporarily restricted | 400,308 | 353,627 |
| Unrestricted | <u>2,361,925</u> | <u>2,084,002</u> |
| | <u>\$ 2,986,997</u> | <u>\$ 2,636,589</u> |

The following tabulation summarizes the relationship between cost and fair value of investments:

| | Cost | Fair Value | Net Investment Gains (Losses) |
|-----------------------------------|---------------------|---------------------|--------------------------------------|
| Balance, January 31, 2011 | <u>\$ 2,890,287</u> | <u>\$ 2,986,997</u> | \$ 96,710 |
| Balance, January 31, 2010 | <u>\$ 2,880,107</u> | <u>\$ 2,636,589</u> | <u>(243,518)</u> |
| Net unrealized investment gains | | | 340,228 |
| Net realized investment losses | | | <u>(32,389)</u> |
| Net investment gains for the year | | | <u>\$ 307,839</u> |

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

3. INVESTMENTS (continued)

Investment return is reflected in the financial statements as follows:

| | Interest and Dividends Net of Fees | Net Realized Investment Losses | Net Unrealized Investment Gains | Total |
|------------------------|-------------------------------------------------------|---------------------------------------------------|----------------------------------------------------|-------------------|
| Unrestricted | \$ 26,046 | \$ (32,389) | \$ 281,687 | \$ 275,344 |
| Temporarily restricted | 53,667 | - | 58,541 | 112,208 |
| Permanently restricted | - | - | - | - |
| | <u>\$ 79,713</u> | <u>\$ (32,389)</u> | <u>\$ 340,228</u> | <u>\$ 387,552</u> |

4. FAIR VALUE MEASUREMENTS

The Synod follows the provisions of the Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic No. 820, "Fair Value Measurements". This Topic defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements.

Determination of Fair Value - The Synod uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based on quoted market prices. However, in some instances, there may be no quoted market prices for the Synod's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

4. FAIR VALUE MEASUREMENTS (continued)

Fair Value Hierarchy - In accordance with ASC Topic 820, the Synod groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Synod's financial assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at January 31, 2011 as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|----------------|----------------|----------------|--------------|
| Mutual funds | \$ 1,465,814 | \$ - | \$ - | 1,465,814 |
| Money market funds | 278,980 | - | - | 278,980 |
| Equities | 4,905 | - | - | 4,905 |
| ELCA Endowment | | | | |
| Fund Pooled Trust | - | \$ 1,169,518 | - | \$ 1,169,518 |
| Split interest agreements | - | 39,831 | - | 39,831 |
| Charitable gift life insurance | - | 4,500 | - | 4,500 |
| Assets held for sale | - | - | 755,000 | 755,000 |

Level 3 pricing is based on comparable real property values and management's estimates due to current market conditions.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

4. FAIR VALUE MEASUREMENTS (continued)

The following is a reconciliation of assets held in which significant unobservable inputs (Level 3) were used in determining value:

| | |
|----------------------------------------|-------------------|
| Balance, January 31, 2010 | \$ 1,502,000 |
| Carrying costs of assets held for sale | 68,375 |
| Realized loss on sale | (46,911) |
| Proceeds from sale | (297,499) |
| Impairment loss | <u>(470,965)</u> |
| Balance, January 31, 2011 | <u>\$ 755,000</u> |

5. ENDOWMENT ASSETS

Endowment assets include donor restricted and Synod-designated investments. Changes in endowment assets for the year ended January 31, 2011 as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment assets, | | | | |
| beginning of year | \$ - | \$ 40,353 | \$ 158,607 | \$ 198,960 |
| Contributions | - | 16,902 | - | 16,902 |
| Investment return: | | | | |
| Interest and dividend income | - | 9,427 | - | 9,427 |
| Unrealized gains | <u>-</u> | <u>24,725</u> | <u>-</u> | <u>24,725</u> |
| Total investment return | - | 34,152 | - | 34,152 |
| Appropriation for expenditure | <u>-</u> | <u>(25,250)</u> | <u>-</u> | <u>(25,250)</u> |
| Endowment assets, | | | | |
| end of year | <u>\$ -</u> | <u>\$ 66,157</u> | <u>\$ 158,607</u> | <u>\$ 224,764</u> |

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

6. ASSETS HELD FOR SALE

In 2008, the Synod received a donation of two parcels of real estate located in Mt. Holly, Vermont. The donation was recorded at the property's estimated fair value of \$365,000. During 2010, one of these parcels was sold, resulting in a loss of \$66,820. The Synod has not made a final determination as to the use of the remaining parcel, which has a carrying value of \$200,000.

In accordance with the Synod's constitution, the ownership of real property owned by constituent congregations is vested with the Synod if the congregation disbands. In accordance with a policy adopted by the Synod, the net amounts realized from the sale of congregational properties are designated 50% for establishing new congregations or ministries in the conference, 40% for mission development projects throughout the Synod, and 10% is available for use by the congregation's conference for projects related to mission development. If the 50% and 10% designations are not used within a three year period, they are added to the Synod's mission development allocation.

During 2011, the Synod sold a parcel it was holding and recorded an impairment on a second parcel for a total loss of \$517,876. Also during 2011, the Synod acquired the title to the real property of a congregation, a parsonage and land, recording a contribution of \$1,173,111. Of this amount, \$1,028,747 represents the estimated fair value of the church at the time of acquisition and \$144,364 represents the gain on the sale of the parsonage and land which was acquired and sold concurrently.

During 2010, the Synod acquired the title to the real property of two congregations, recording a contribution of \$1,466,972. Of this amount, \$1,302,000 represents the estimated fair value of two parcels of property at the time of acquisition and \$164,972 represents the gain on the sale of a third parcel which was acquired and sold concurrently.

7. IMPAIRMENT OF LONG-LIVED ASSETS

The Synod recorded an impairment loss on long-lived assets which were included under Assets Held for Sale. The Synod held St. Marks Parsonage as well as some land which was sold during fiscal 2011 below fair market value. To reflect a more appropriate fair value of the property, the Synod wrote-down the fair value through an impairment loss. The total impairment loss recorded during 2011 was \$470,965 and is reflected in the loss on assets held for sale in the statement of activities. The amount of the impairment was based upon the selling price of other property.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

8. NOTES RECEIVABLE

The Synod recorded a note receivable in connection with the sale of a congregational property. The note is due in thirty-six monthly installments of \$1,038 including interest at 6.00% through May 2012, at which time the balance of the loan will be due in full. This note is secured by a mortgage on the property. The balance of this note was \$114,127 and \$119,117 on January 21, 2011 and 2010, respectively.

The Synod also has a note receivable from a Congregation due in monthly installments of \$262 including interest at 4.75%. The balance of this note was \$3,810 and \$6,347 at January 31, 2011 and 2010, respectively. The note is due April 2012.

9. OTHER LONG-TERM ASSETS

The Synod is the beneficiary of various gift annuities. At January 31, 2011 and 2010, the present value of estimated future cash flows from these arrangements totaled \$39,831 and \$43,921, respectively. During the terms of the agreements, the values are subject to adjustments for changes in fair value.

The Synod is the owner of a life insurance policy. The cash value at January 31, 2011 and 2010 was \$4,500 and \$44,331, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or use for the years ended January 31, 2011 and 2010:

| | 2011 | 2010 |
|-----------------------------|-------------------|-------------------|
| Youth ministry | \$ 201,275 | \$ 178,507 |
| Congregation revitalization | 199,033 | 180,823 |
| Continuing education | 71,678 | 77,678 |
| Seminarian scholarships | 66,157 | 40,353 |
| Remainder interest gifts | 39,831 | 43,921 |
| Other mission programs | 9,248 | 23,139 |
| | \$ 587,222 | \$ 544,421 |

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support:

| | 2011 | 2010 |
|-------------------------|-------------------|-------------------|
| Seminarian scholarships | <u>\$ 158,607</u> | <u>\$ 158,607</u> |

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or use specified by donors as follows for the years ended January 31, 2011 and 2010.

| | 2011 | 2010 |
|--------------------------------------|------------------|-------------------|
| Purpose restrictions accomplished: | | |
| Seminarian scholarships | \$ 25,250 | \$ 33,625 |
| Other mission programs | 20,875 | 15,745 |
| Congregation revitalization | 12,175 | 5,000 |
| Youth ministry | 8,000 | 9,600 |
| Continuing education and sabbaticals | 6,000 | 1,000 |
| Remainder interest gifts | 4,090 | - |
| Mission development | <u>-</u> | <u>71,803</u> |
| | <u>\$ 76,390</u> | <u>\$ 136,773</u> |

13. EMPLOYEE BENEFITS

The Synod has a defined contribution benefit plan which covers all eligible employees. The Plan is funded on a current basis and is administered by the ELCA Board of Pensions. Retirement plan expense was \$51,381 and \$47,891 for the years ended January 31, 2011 and 2010, respectively.

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Notes to Financial Statements (continued)

14. CONTINGENCIES

In the normal course of operations, the Synod may be subject to certain claims and litigations. As of January 31, 2011, the Synod is not involved in any litigation and management is not aware of any unasserted claims or assessments.

The National Lutheran Campus Ministry holds a mortgage note in the amount of \$90,018 secured by property in New Haven, Connecticut. Under the terms of the agreement, the Synod is not required to repay the loan unless the property ceases to be used in the manner contemplated by the agreement. No amount is included as a liability as no change is contemplated in its use.

15. RELATED PARTY TRANSACTIONS

The Synod provides support to the Lutheran Outdoor Ministries of New England, Inc. in the form of support to the Youth Ministry program, campership grants, and Green project support. In addition, the Synod has declared its intention to contribute income generated from the Vernal M. Schnabel Trust to Calumet for its unrestricted use. The related party transactions are summarized as follows:

| | |
|-----------------------------------------------------------|-----------|
| Vernal M. Schnabel Trust income passed through to Calumet | \$ 29,016 |
| Campership grants | 10,000 |
| Green project support | 15,000 |

16. SUBSEQUENT EVENTS

The Synod has evaluated the financial statement impact of subsequent events occurring through April 8, 2011, the date that the financial statements were available to be issued.

SUPPLEMENTAL SCHEDULE

**NEW ENGLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA**

Schedule of Expenses by Operations

January 31, 2011

(With Summarized Financial Information for 2010)

| | Mission Programs | Ministry and Support | Total 2011 | Total 2010 |
|----------------------------------|-----------------------------|---------------------------------|-------------------------|-------------------------|
| Personnel Expenses: | | | | |
| Salaries and wages | \$ 12,700 | \$ 441,843 | \$ 454,543 | \$ 448,482 |
| Employee benefits | - | 96,635 | 96,635 | 89,279 |
| Payroll taxes | <u>92</u> | <u>12,464</u> | <u>12,556</u> | <u>11,757</u> |
| Total Personnel Expenses | <u>12,792</u> | <u>550,942</u> | <u>563,734</u> | <u>549,518</u> |
| Non-Personnel Expenses: | | | | |
| Grants and support | 390,035 | 552 | 390,587 | 495,117 |
| Professional fees | 28,341 | 85,423 | 113,764 | 111,147 |
| Travel, training and meetings | 48,221 | 59,805 | 108,026 | 100,494 |
| Depreciation and amortization | - | 20,448 | 20,448 | 21,826 |
| Occupancy | - | 12,669 | 12,669 | 24,176 |
| Printing and publications | 7,029 | 5,561 | 12,590 | 14,581 |
| Equipment rental and maintenance | - | 10,954 | 10,954 | 10,170 |
| Insurance | - | 9,516 | 9,516 | 8,335 |
| Telephone | 1,157 | 8,207 | 9,364 | 9,370 |
| Utilities | - | 6,822 | 6,822 | 6,945 |
| Supplies | 284 | 5,726 | 6,010 | 7,564 |
| Postage and shipping | 1,550 | 2,816 | 4,366 | 5,550 |
| Bank charges | - | 3,954 | 3,954 | 4,235 |
| Membership dues and fees | 125 | 585 | 710 | 1,057 |
| Other expenses | <u>-</u> | <u>143</u> | <u>143</u> | <u>418</u> |
| Total Non-Personnel Expenses | <u>476,742</u> | <u>233,181</u> | <u>709,923</u> | <u>820,985</u> |
| | <u>\$ 489,534</u> | <u>\$ 784,123</u> | <u>\$ 1,273,657</u> | <u>\$ 1,370,503</u> |

The accompanying notes are an integral part of these financial statements.