

**Delaware – Maryland Synod of the
Evangelical Lutheran Church in America, Inc.**

**Report on Examination of Financial Statements – Cash Basis
For the Fiscal Years Ended January 31, 2007 and 2006**

KLOSTERMAN & ASSOCIATES
Certified Public Accountants

**To the Executive Board
Delaware – Maryland Synod of the
Evangelical Lutheran Church in America, Inc.**

We have audited the accompanying statement of assets, liabilities, and net assets -cash basis of the Delaware – Maryland Synod of the Evangelical Lutheran Church in America, Inc. (a nonprofit organization) as of January 31, 2007 and 2006, and the related statements of support, revenue, expenses and changes in net asset balances – cash basis, statement of functional expenses – cash basis, and cash flows – cash basis for the fiscal years then ended. These financial statements are the responsibility of the Organization’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 A, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets – cash basis of the Delaware – Maryland Synod of the Evangelical Lutheran Church in America, Inc. as of January 31, 2007 and 2006 and its support, revenue, expenses and changes in net asset balances – cash basis, statement of functional expenses – cash basis, and its cash flows for the fiscal years then ended, on the basis of accounting described in note A.

(Signature on Original)

**Severna Park, Maryland
March 9, 2007**

**DELAWARE – MARYLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS – CASH BASIS
January 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 462,829	\$ 494,010
Prepaid rent	<u>11,667</u>	<u>11,667</u>
Total current assets	<u>474,496</u>	<u>505,677</u>
Long-term investments, at market value		
Bank of America Managed Account	2,117,548	2,059,024
ELCA Mission Certificates	<u>300,000</u>	<u>300,000</u>
Total long-term investments	<u>2,417,548</u>	<u>2,359,024</u>
Property and equipment	<u>124,555</u>	<u>126,497</u>
Other assets		
Prepaid rent	252,777	264,444
Mission Fund Loans	<u>174,510</u>	<u>120,287</u>
Total other assets	<u>427,287</u>	<u>384,731</u>
Total assets	\$ <u>3,443,886</u>	\$ <u>3,375,929</u>
COMMITMENTS (Note C)		
<u>LIABILITIES AND NET ASSETS</u>		
<u>NET ASSETS</u>		
Unrestricted assets	\$ 673,196	\$ 726,313
Temporarily restricted assets	483,448	448,366
Permanently restricted assets	<u>2,287,242</u>	<u>2,201,250</u>
Total net assets	<u>3,443,886</u>	<u>3,375,929</u>
Total liabilities and net assets	\$ 3,443,886	\$3,375,929

See accompanying notes.

**DELAWARE – MARYLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA, INC.
STATEMENT OF SUPPORT, REVENUES, EXPENSES, AND CHANGES
IN NET ASSET BALANCES – CASH BASIS
For the Fiscal Years Ended January 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
UNRESTRICTED NET ASSETS		
Unrestricted revenues and gains		
Contributions	\$2,688,764	\$2,850,560
Investment income	11,040	13,875
Unrealized gain (loss) – investments	23,854	24,897
Other income	<u>26,571</u>	<u>33,048</u>
Total unrestricted revenues and gains	<u>2,750,229</u>	<u>2,922,380</u>
Prior year adjustment- Program Support	(36,304)	--
Net assets released from restrictions		
Restrictions satisfied by payments	<u>70,000</u>	<u>98,000</u>
Total unrestricted revenues, gains, and other support	2,783,925	3,020,380
Expenses	<u>(2,837,042)</u>	<u>(2,901,588)</u>
Increase in unrestricted net assets	<u>(53,117)</u>	<u>118,792</u>
TEMPORARILY RESTRICTED ASSETS		
Contributions – pass through receipts	275,258	407,833
Contributions – restricted use receipts	203,726	304,618
Investment income	96	237
Unrealized gain (loss) – investments	2,547	127
Net assets released from restrictions		
Pass through payment	(264,621)	(407,802)
Restrictions satisfied by payments	(181,924)	(202,317)
Released from restrictions	<u>--</u>	<u>--</u>
Incr in temporary restricted net assets	<u>35,082</u>	<u>102,696</u>
PERMANENTLY RESTRICTED NET ASSETS		
Prior year adjustment- Program Support	36,304	--
Investment income	64,362	145,944
Unrealized gain (loss) – investments	91,369	68,680
Net assets released from restrictions		
Restrictions satisfied by payments	(36,043)	(57,606)
Released from restrictions	<u>(70,000)</u>	<u>(98,000)</u>
Increase in perm. restricted net assets	<u>85,992</u>	<u>59,018</u>
Increase in total net assets	67,957	280,506
Net assets, beginning of year	<u>3,375,929</u>	<u>3,095,423</u>
Net assets, end of year	<u>\$ 3,443,886</u>	<u>\$ 3,375,929</u>

See accompanying notes.

**DELAWARE – MARYLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA, INC.
STATEMENT OF CASH FLOWS-CASH BASIS
For the Fiscal Years Ended January 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATIONS		
Proportionate share receipts	\$ 1,260,899	\$ 1,301,950
Restricted use receipts	1,900,849	2,180,576
Interest income	27,399	13,281
Other income	26,571	33,048
Cash paid to suppliers & employees	(1,385,567)	(1,421,796)
Restricted use payments made	<u>(1,868,410)</u>	<u>(2,078,244)</u>
Net cash from operations	<u>(38,259)</u>	<u>28,815</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net capital gain income reinvested	(96,772)	(66,202)
Net capital gain income received	96,772	66,202
Contributions received	6,000	80,485
Mission fund loans made	(63,500)	(40,000)
Mission fund loans repaid	9,277	79,601
Interest income	107,344	91,215
Mission fund & other grants	(36,043)	(57,606)
Sale of assets	--	--
Purchase of fixed assets	<u>(16,000)</u>	<u>--</u>
Net cash from investing	<u>7,078</u>	<u>153,695</u>
Net increase (decrease) in cash	(31,181)	182,510
Cash balance-beginning of year	<u>494,010</u>	<u>311,500</u>
Cash balance-end of year	<u>\$ 462,829</u>	<u>\$ 494,010</u>

See accompanying notes.

**DELAWARE-MARYLAND SYNOD OF THE
 EVANGELICAL LUTHERAN CHURCH IN AMERICA, INC.
 STATEMENT OF FUNCTIONAL EXPENSES - CASH BASIS
For the Years Ended January 31, 2007 and 2006**

<u>Division</u>	<u>1/31/2007</u>			<u>1/31/2006</u>		
	<u>Program Services</u>	<u>Mgmt & General</u>	<u>Total</u>	<u>Program Services</u>	<u>Mgmt & General</u>	<u>Total</u>
Partnership with ELCA	\$1,422,465	\$ -	\$1,422,465	\$1,468,125	\$ -	\$1,468,125
Mission Congregations	259,360	-	259,360	239,625	-	239,625
Mission Leadership	31,738	-	31,738	32,964	-	32,964
Mission Partnerships	225,110	-	225,110	252,750	-	252,750
Office of the Bishop	11,648	-	11,648	16,457	-	16,457
Support for Region 8	14,059	-	14,059	8,832	-	8,832
Synod Administration		872,662	872,662		882,835	882,835
Total	<u>\$1,964,380</u>	<u>\$872,662</u>	<u>\$2,837,042</u>	<u>\$2,018,753</u>	<u>\$882,835</u>	<u>\$2,901,588</u>

See accompanying notes.

**DELAWARE-MARYLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA, INC.
NOTES TO FINANCIAL STATEMENTS
January 31, 2007 and 2006**

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Delaware-Maryland Synod of the Evangelical Lutheran Church in America, Inc. ("Synod") is one of 65 Synods within the Evangelical Lutheran Church in America ("ELCA"). Each Synod serves the ELCA congregations within a specified geographic area assigned by the constitution of the ELCA. The congregations within each Synod are the principal financial supporters of their respective Synods, and through the Synods, to the ELCA organization. The congregations served by the Synod are in the states of Maryland, Delaware and Pennsylvania. This limited geographic area could lead to risks associated with concentration inherent in any limited distribution of the base of support.

Financial Statement Presentation

The Organization has adopted the Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Organization does not use fund accounting.

The Synod's books are kept on the cash basis of accounting. Under the cash basis, income is recognized when received, and expenses when paid. Cash basis accounting is often used by non-profit organizations, where taxes do not apply, or where accrual basis accounting could lead to distortions. The cash basis falls under the Other Comprehensive Basis of Accounting (OCBOA) standards of the Financial Accounting Standards Board.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**DELAWARE-MARYLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA, INC.
NOTES TO FINANCIAL STATEMENTS, continued
January 31, 2007 and 2006**

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Contributed Services

The Delaware-Maryland Synod of the Evangelical Lutheran Church in America, Inc. is the beneficiary of the services of many volunteers, without which the Synod would not be able to carry on its many functions and services. While no value is specifically assigned to any of these services, the loss of volunteers could have a material negative financial impact on the Synod. All of the officers (except The Bishop), all Synod Council members, and all Division and Commission chairs are volunteers.

Contributions

The Organization has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Investments

The organization has adopted SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

**DELAWARE-MARYLAND SYNOD OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA, INC.
NOTES TO FINANCIAL STATEMENTS, continued
January 31, 2007 and 2006**

NOTE B – PENSION PLAN

Many employees of the Synod are participants in the ELCA Pension Plan, a qualified Defined Contribution Plan under ERISA definitions. For the years ended January 31, 2007 and 2006, the Synod contributed \$139,244 and \$141,267 respectively to the pension plan on behalf of its employees.

NOTE C – COMMITMENTS

Operating Leases

During 1999, the Synod paid \$350,000 to reduce its annual payments for leased space in the Lutheran Center Building located in Baltimore, Maryland. The prepaid lease is being amortized on a straight-line basis over thirty years (30) beginning October 1999. The lease provides for six (6) additional ten (10) year renewal options. In the normal course of business, it is expected that these renewal options will be exercised. The lease also includes a cost sharing agreement that requires a monthly payment of \$6,900 as the Synod's share of operating and maintenance costs associated with their use of the building. If the building is sold or otherwise disposed of, the Synod is entitled to a portion of the net proceeds (18.92%). Total occupancy expense for the year 2007 and 2006 was \$95,918 and \$92,603 respectively. The following is a schedule by year of future minimum rental payments:

<u>January 31,</u>	<u>1/31/07</u>		<u>1/31/06</u>	
	<u>Prepaid Rent</u>	<u>Cost Sharing</u>	<u>Prepaid Rent</u>	<u>Cost Sharing</u>
2007	\$ --	\$ --	\$ 11,667	\$ 82,800
2008	11,667	82,800	11,667	82,800
2009	11,667	82,800	11,667	82,800
2010	11,667	82,800	11,667	82,800
2011	11,667	82,800	11,667	82,800
2012	11,667	82,800	--	--
Thereafter	<u>206,109</u>	<u>1,462,800</u>	<u>217,776</u>	<u>1,545,600</u>
	\$ <u>264,444</u>	\$ <u>1,876,800</u>	\$ <u>276,111</u>	\$ <u>1,959,600</u>