

---

**ST. JOHN LUTHERAN CHURCH  
FINANCIAL STATEMENTS  
JUNE 30, 2013**

---



## **Contents**

---

### **Page**

<b>Independent Auditors' Report .....</b>	<b>1</b>
---	----------

### **Financial Statements**

Statement of Financial Position.....	2
Statement of Activities .....	3
Statement of Cash Flows.....	4
Notes to Financial Statements .....	5-11

## Independent Auditors' Report

To the Board of Directors  
St. John Lutheran Church  
St. Louis, Missouri

We have audited the accompanying financial statements of St. John Lutheran Church (the "Organization"), a not-for-profit organization, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities 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 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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.

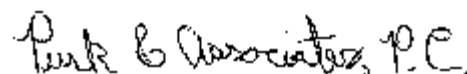
### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. John Lutheran Church as of June 30, 2013, 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.

### *Change in Accounting Policy*

As discussed in Note 12 to the financial statements, the Organization changed its accounting policy regarding the classification of cash equivalents during 2013. As a result, cash and cash equivalents have been restated as of July 1, 2012. Our opinion is not modified with respect to that matter.

October 30, 2013  
St. Louis, MO



Certified Public Accountants

1034 S. Brentwood Boulevard, Suite 2000  
St. Louis, MO 63117  
office: 314.884.4000  
fax: 314.884.4001

---

**ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI**

---

**STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2013****Assets****Current Assets - Unrestricted:**

Cash and cash equivalents	\$	1,032,416
Investments, at fair value		150,000
Accounts receivable		20,492
Inventories		39,872
Prepaid expenses		115,925
		<u>1,358,705</u>

**Notes Receivable-Related Parties**4,430**Fixed Assets:**

Land		1,689,179
Buildings		23,423,181
Furniture/fixtures/technology		1,640,321
		<u>26,752,681</u>
Less accumulated depreciation		<u>(12,326,980)</u>
		<u>14,425,701</u>

**Other Assets**269,329**Total Assets**\$ 16,058,165**Liabilities and Net Assets****Current Liabilities:**

Accounts payable	\$	166,097
Accrued expenses		236,206
Deferred tuition and revenue		322,939
		<u>725,242</u>

**Long-Term Liabilities:**

Bond liability		7,645,000
Swap contract liability		590,864
		<u>8,235,864</u>

**Net Assets:****Unrestricted**

Investment in fixed assets		6,189,837
General ministry		471,171
School ministry		(193,258)
Swap contract liability		<u>(590,864)</u>
Total Unrestricted		<u>5,876,886</u>

**Temporarily Restricted**

1,196,832

**Permanently Restricted**23,341**Total Net Assets**7,097,059**Total Liabilities and Net Assets**\$ 16,058,165

---

**ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI**

---

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013****Unrestricted Net Assets****Support, gains and revenue**

Contributions	\$ 3,734,868
Registration and tuition	2,088,228
Program revenue	514,213
Bookstore and food service sales	248,034
Interest income	17,579
Unrealized derivative gain	<u>235,948</u>
Total support, gains and revenue	6,838,870

**Net assets released from restrictions**

Bond sinking fund requirement	2,628,996
Restrictions satisfied by payments	550,322
Transfer to school	<u>90,000</u>
Total net assets released from restrictions	<u>3,269,318</u>

Total support, gains, revenue and net assets released from restrictions	10,108,188
--	------------

**Expenses and losses:**

Program expenses	
Church ministry	3,498,563
School ministry	3,071,086
Auxiliary ministry	553,600
Management and general	635,515
Fundraising	<u>144,353</u>
Total expenses	<u>7,903,117</u>
Increase in unrestricted net assets	2,205,071

**Temporarily Restricted Net Assets****Support and revenue**

Contributions	\$ 573,076
Special contributions	<u>700,822</u>
Total support and revenue	1,273,898

**Net assets released from restrictions**

Bond sinking fund requirement	2,628,996
Restrictions satisfied by payments	550,322
Transfer to school	<u>90,000</u>
Total net assets released from restrictions	<u>3,269,318</u>

Decrease in temporarily restricted net assets	(1,995,420)
---	-------------

**Permanently Restricted Net Assets****Support and revenue**

Contributions	\$ <u>1,521</u>
Increase in permanently restricted net assets	<u>1,521</u>

Change in Net Assets	211,172
----------------------	---------

Beginning Net Assets	<u>6,885,887</u>
----------------------	------------------

Ending Net Assets	<u><u>\$ 7,097,059</u></u>
-------------------	----------------------------

---

**ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI**

---

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013****Cash Flows from Operating Activities:**

Net increase in net assets	\$ 211,172
Adjustments to reconcile net decrease in net assets to net cash provided by operating activities:	
Depreciation	800,091
Deferred financing cost amortization	74,957
Unrealized derivative gain	(235,948)
Changes in operating assets and liabilities:	
Decrease in other current assets & notes receivable	29,069
Decrease in accounts payable	(47,837)
Decrease in accrued expenses	(5,878)
Decrease in deferred tuition and revenue	(225,806)
Other	(9,874)
	<u>378,774</u>
<b>Net cash provided by operating activities</b>	<u><b>589,946</b></u>

**Cash Flows from Investing Activities:**

Capital additions	(81,980)
Purchases of investments	(150,000)
Maturities of investments	675,000
<b>Net cash provided by investing activities</b>	<u><b>443,020</b></u>

**Cash Flows from Financing Activities:**

Deposits to bond sinking fund	(2,854,932)
Payment of financing costs	(22,941)
<b>Net cash used by financing activities</b>	<u><b>(2,877,873)</b></u>

<b>Decrease in cash and cash equivalents</b>	<u><b>(1,844,907)</b></u>
--	---------------------------

<b>Cash and cash equivalents, beginning of year, as previously reported</b>	377,607
---	---------

Reclassification of cash equivalents as of July 1, 2012	<u>2,499,716</u>
---	------------------

<b>Cash and cash equivalents, beginning of year, as restated</b>	<u><b>2,877,323</b></u>
--	-------------------------

<b>Cash and cash equivalents, end of year</b>	<u><u><b>\$ 1,032,416</b></u></u>
---	-----------------------------------

**Supplemental Cash Flow Information:**

Cash paid for interest expense and financing fees	\$ <u>367,125</u>
Non-cash financing activities:	
Bond principal payments paid from bond sinking fund	\$ <u><u>3,060,000</u></u>

# ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI

---

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2013

### 1. NATURE OF ORGANIZATION

St. John Lutheran Church – Ellisville, Missouri (the “Organization” or “Church”) is incorporated as a not-for-profit corporation under the laws of the State of Missouri and began ministry in 1851. The mission statement of the Organization is: “To save the lost and strengthen the saved to live bold and courageous lives of Christian witness before a non-believing world.”

In addition to a wide range of ministry programs and worship venues, the church operates a school (preschool through eighth grade), youth programs, bookstore, and food services.

These financial statements include the activities of the Church’s general operating funds, the school, and temporarily and permanently restricted funds designated by donors for specific purposes that are typically not part of the general operating fund.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### **Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) ASC 958-205, *Presentation of Financial Statements for Not-For-Profit Entities*. Under FASB ASC 958-205, 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.

Unrestricted net assets represent those net assets that are not subject to donor-imposed stipulations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily restricted net assets represent those net assets whose use has been limited by donor-imposed stipulations that either can be fulfilled or removed by actions of the Organization pursuant to those stipulations or expire by the passage of time.

Permanently restricted net assets represent those net assets whose use has been limited by donor-imposed stipulations that must be maintained permanently by the Organization.

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

---

## ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2013

---

#### Cash and Cash Equivalents

The Church considers cash held in checking and money market accounts with original maturities of less than 90 days to be cash equivalents.

#### Fixed Assets

Fixed assets include: land, buildings, and furniture, fixtures and technology. Fixed assets purchased by the Organization are recorded at cost. Donated assets are recorded at fair value at the date of the donation. Periodically, the Church reviews its long-lived fixed assets for impairment and records an adjustment to reduce the asset to the lower of historical cost, net of depreciation or its fair value. No impairments were recorded in fiscal 2013. Depreciation expense was \$800,091 during 2013.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	40 years
Building Improvements	20 years
Equipment	3-10 years

All expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

#### Revenue Recognition

Contributions and offerings received are presented as restricted support if they are received with donor stipulations that limit the use of the contributions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the contribution is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

No amounts have been reflected in the statements for donated services as such services have not met the recognition criteria under Financial Accounting Standards Board ("FASB") *Accounting Standards Codification* ("ASC") 958-605, *Not-for-Profit Entities, Revenue Recognition*; however, a substantial number of volunteers have donated significant amounts of time to the Church's ministry program services.

The Organization has conducted financial campaigns to support various purposes including mainly capital construction and the retirement of debt. The most recent campaign began December 2010 and will conclude in December 2013. As of June 30, 2013 total pledges to the campaign were \$3,034,788 and total receipts were \$2,416,082. It is the opinion of management that these giving intentions do not meet the requirements of GAAP financial statement recognition until the contributions are received.

#### Description of Program Services and Supporting Activities

The following program services and supporting activities are included in the accompanying financial statements:

**Program** – Includes those expenditures that enable the Organization to operate its church and related faith-based ministries; a school that serves more than 400 students ranging from Early Childhood Education through eighth grade; and auxiliary faith-based ministries sponsored by the Church.



---

## ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2013

---

**Management and General** - Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy; implement and administer a proper internal control structure; and manage the financial and budgetary responsibilities of the Organization.

**Fundraising** - Provides the structure necessary to encourage and secure private financial support in the form of contributions, offerings, and targeted campaigns, as well as through fundraising events.

#### **Functional Expense Allocation**

Expenses are charged to program services and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

#### **Tax Exempt Status**

The Church is a charitable non-profit organization exempt from income taxes under the Internal Revenue Code section 501(c)(3), and accordingly, is not subject to federal income taxes on income received from its exempt purposes. Therefore, no liability or expense for income taxes is recorded. As a church, it is not required to file an annual information return (Form 990) with the Internal Revenue Service.

#### **Concentrations of Credit Risk**

Financial instruments that potentially subject the Church to concentration of credit risk consist principally of cash and cash equivalents and investments held in financial institutions where the Federal Deposit Insurance Corporation (FDIC) insures balances up to specified limits. In addition, \$661,163 is held in an account not covered by FDIC insurance.

The Church is supported by contributions from its members and the public. It is always considered reasonably possible that benefactors, grantors, or contributors might be lost in the near term. However, the Organization's operating budget is not dependent on a few major contributors. The majority of the Church's members reside in the St. Louis, Missouri metro area.

#### **Subsequent Events**

The Organization has evaluated subsequent events through October 30, 2013, the date which the financial statements were available to be issued.

### **3. DEFERRED FINANCING COSTS**

Issuance and administrative costs associated with the January 4, 2007 Colorado Educational and Cultural Facilities Authority ("CECFA") Bond Issue and certain letter of credit fees have been capitalized and are being amortized over the term of the bonds. The remaining balance recorded in other assets is \$142,308 as of June 30, 2013.

---

## ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2013

---

#### 4. INVESTMENTS

At June 30, 2013, Investments consist of a certificate of deposit which is valued at cost, which approximates fair value.

#### 5. FAIR VALUE MEASUREMENT

FASB ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
Level 2	Inputs to the valuation methodology include <ul style="list-style-type: none"><li>• Quoted prices for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets of the Church are measured at fair value based on level 1 inputs. The carrying amount of cash, cash equivalents, accounts receivable, inventories, and investments approximates fair value due to the short maturity of these items and is considered to be the equivalent of a quoted market price and a level 1 input. Financial liabilities of the Church such as accounts payable, accrued expenses, and deferred tuition and revenue are stated at their carrying values due to the short maturity of these financial instruments. The swap contract liability is carried at fair value, marked-to-market using level 2 measurements.

Non-financial assets, including fixed assets, are stated at fair value when there is an impairment adjustment recognized. Management has determined that no impairment indicators existed at June 30, 2013.

---

**ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEARS ENDED JUNE 30, 2013**

---

**6. DEBT**

Long-term debt consists of the following as of June 30, 2013:

Bonds Payable	\$	7,645,000
Less current maturities		<u>-</u>
	\$	<u><u>7,645,000</u></u>

On January 1, 2007, the Organization borrowed the principal sum of \$11,815,000, from the Colorado Educational and Cultural Facilities Authority ("CECFA"). The proceeds of its \$11,815,000 adjustable interest rate demand revenue bonds, series 2007 (St. John Evangelical Lutheran School Project) were issued pursuant to a bond trust indenture dated as of January 1, 2007 between CECFA and a U.S. chartered bank, as Trustee. The bonds have a maturity date of January 1, 2029 and require monthly payments of interest and annual payments of principal over a 22-year amortization period. As of June 2013, the daily variable interest rate was .20%. Under the terms of the indenture, the Organization is required to maintain a letter of credit in full force and effect in an amount equal to the principal amount of the outstanding bonds plus the amount required for interest thereon until all of the bonds have been paid in full. As part of this requirement, the Organization has entered into a letter of credit and reimbursement agreement with Fifth Third Bank maturing on January 31, 2016. Fifth Third Bank holds a lien on the Organization's facilities and other assets.

Additionally, to minimize the risk of interest rate increases, the Organization has authorized the execution of two separate interest rate swaps of varying rates and termination dates of February 2014 and February 2017. The market-to-market valuation effective June 30, 2013 on the \$6,672,200 notional swap amounts indicated a \$590,864 potential loss if settled at such date.

As of June 30, 2013, the Organization maintains a committed secured line of credit with Fifth Third Bank allowing for maximum borrowing of \$1,000,000 at LIBOR plus 225 basis points. No amounts were outstanding as of June 30, 2013. The line of credit expires on January 31, 2015 and is subject to renewal terms upon expiration.

On December 12, 2012, the Organization paid \$2,650,000 towards the bond obligation, in addition to the \$410,000 amount contractually required. As a result, future bond repayment requirements have been considered prepaid. However, the Organization's Board of Directors has implemented an internal amortization schedule so that the Organization will continue repayment of the bond obligation under a modified amortization schedule for the purpose of retiring the bond obligation at the originally intended date.

---

**ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI**

---

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2013**

The scheduled payments of principal on the bonds are as follows:

Year Ended June 30,	As Contractually Required	As Planned by the Organization
2014	-	590,921
2015	-	290,000
2016	-	310,000
2017	-	340,000
2018	-	365,000
After 2018	7,645,000	5,749,079
	<u>\$ 7,645,000</u>	<u>\$ 7,645,000</u>

Interest expense and financing fees on all debt during the year ended June 30, 2013 was \$442,082.

**7. NOTES RECEIVABLE – RELATED PARTIES**

In accordance with personnel policy, a current ministry director has received a loan to help purchase housing while employed with St. John. Per the loan agreement, the interest rate is 5.0% and the loan term is 5 years. The loan will mature on December 31, 2014.

**8. EMPLOYEE BENEFIT PLANS**

St. John Lutheran Church is a member of Concordia Plan Services, a nationally available benefit plan for all affiliates of the Lutheran Church, Missouri Synod. This plan provides health, disability, life, employee savings, and pension benefits. Annual cost, net of employee contributions for the health plan, was \$77,246 in 2013. Additionally, employees can participate in self-funded flex spending accounts for medical and dependent care.

**9. NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from temporarily restricted funds by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors during 2013.

School support	\$ 152,045
Ministries	2,809,378
Missions	<u>307,895</u>
	<u>\$ 3,269,318</u>

**10. TEMPORARILY RESTRICTED FUNDS**

These funds mainly include the gifts for special financial campaigns and activities of missions, the Parent Teacher League, and other smaller ministries or sub-organizations.

---

**ST. JOHN LUTHERAN CHURCH - ELLISVILLE, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2013**

---

Net assets at the end of June 30, 2013 are temporarily restricted for the following purposes:

School support	\$	14,814
Ministries		1,047,408
Missions		<u>134,610</u>
	\$	<u><u>1,196,832</u></u>

**11. PERMANENTLY RESTRICTED FUND**

An Endowment fund has been established by the Organization Constitution and Bylaws. The Bylaws require accumulated donations of \$100,000 of permanent funding to function as corpus of the Endowment before any funds in excess of that restriction can be expended or designated by the Board of Directors.

**12. RESTATEMENT**

Cash and cash equivalents was restated as of July 1, 2012. The Church changed its accounting policy during 2013 regarding certain cash equivalents previously recorded as investments. Previously, the Board's intent was to hold these cash equivalents for long-term investment purposes. During 2013, the Board changed its intent, in connection with the Church's decision to substantially reduce its outstanding bond liability during 2013, and all cash equivalents are classified as current in accordance with the cash and cash equivalents policy in Note 1. As a result, \$2,499,716 was reclassified from investments to cash and cash equivalents as of July 1, 2012.