
PATHFINDER CHURCH
FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022



Contents

	Page
Independent Auditor's Report	1-2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows.....	8
Notes to Financial Statements	9-19

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Pathfinder Church

Opinion

We have audited the accompanying financial statements of Pathfinder Church (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022 and 2021, and the related statements of activities and cash flows for the fiscal years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pathfinder Church as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pathfinder Church and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathfinder Church's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pathfinder Church's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pathfinder Church's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Fick, Eggemeyer & Williamson

Fick, Eggemeyer & Williamson CPAs
Saint Louis, Missouri
September 22, 2023

PATHFINDER CHURCH
STATEMENT OF FINANCIAL POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,093,435	\$ 1,681,853
Accounts receivable, net	1,833	2,792
Prepaid expenses	62,733	96,736
Total Current Assets	2,158,001	1,781,381
Notes Receivable - Related Party	29,531	33,682
Fixed Assets:		
Land and land improvements	2,422,932	2,422,932
Buildings and building improvements	25,661,188	25,318,670
Furniture/fixtures/technology	2,048,976	1,874,401
Construction in progress	-	241,710
Total Fixed Assets	30,133,096	29,857,713
Accumulated depreciation	(18,170,657)	(17,514,750)
Total Fixed Assets, Net of Depreciation	11,962,439	12,342,963
Other Assets:		
Other assets	301,325	256,044
Operating lease asset	155,258	0
Total Other Assets	456,583	256,044
Total Assets	\$ 14,606,554	\$ 14,414,070
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 119,041	\$ 277,542
Construction payables	-	215,000
Accrued expenses	177,982	145,055
Deferred tuition and revenue	131,917	114,014
Current maturities operating lease	30,126	-
Current maturities long term debt	110,000	-
Total Current Liabilities	569,066	751,611
Long-Term Liabilities:		
Loan payable less current maturities	5,140,000	4,985,000
Operating lease less current maturities	125,132	-
Total Long-Term Liabilities	5,265,132	4,985,000
Total Liabilities	5,834,198	5,736,611
Net Assets		
Without Donor Restrictions		
Investment in fixed assets, net of related debt	6,822,439	7,357,963
General ministry	5,332,407	4,147,178
School ministry	(3,778,898)	(3,268,696)
Board designated endowment	46,535	44,107
Total Without Donor Restrictions	8,422,483	8,280,552
With Donor Restrictions	349,873	396,907
Total Net Assets	8,772,356	8,677,459
Total Liabilities and Net Assets	\$ 14,606,554	\$ 14,414,070

PATHFINDER CHURCH
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Without Donor Restrictions General Ministries	Without Donor Restrictions School Ministries	Without Donor Restrictions Total	With Donor Restrictions	Total
Support and Revenue:					
Contributions	\$ 4,693,299	\$ 54,508	\$ 4,747,807	\$ 58,520	\$ 4,806,327
Registration and tuition	-	2,502,175	2,502,175	-	2,502,175
Program revenue	184,962	139,558	324,520	332,013	656,533
Food service sales	25,456	-	25,456	-	25,456
Released for capital expenditures	64,990	(64,990)	-	-	-
Released from restrictions	255,674	122,095	377,769	(377,769)	-
Church support to other funds	(150,000)	209,798	59,798	(59,798)	-
Total Support and Revenue	<u>5,074,381</u>	<u>2,963,144</u>	<u>8,037,525</u>	<u>(47,034)</u>	<u>7,990,491</u>
Expenses:					
Program expenses:					
Church ministries	3,586,213	-	3,586,213	-	3,586,213
School ministries	-	3,473,346	3,473,346	-	3,473,346
Auxiliary ministries	247,482	-	247,482	-	247,482
Total program expenses	<u>3,833,695</u>	<u>3,473,346</u>	<u>7,307,041</u>	<u>-</u>	<u>7,307,041</u>
Support services:					
Management & general	429,623	-	429,623	-	429,623
Fundraising	170,332	-	170,332	-	170,332
Total support services	<u>599,955</u>	<u>-</u>	<u>599,955</u>	<u>-</u>	<u>599,955</u>
Total Expenses	<u>4,433,650</u>	<u>3,473,346</u>	<u>7,906,996</u>	<u>-</u>	<u>7,906,996</u>
Investment and Financing Activities:					
Loss on retirement of assets	(2,575)	-	(2,575)	-	(2,575)
Interest income	13,977	-	13,977	-	13,977
Total Investment and Financing Activities	<u>11,402</u>	<u>-</u>	<u>11,402</u>	<u>-</u>	<u>11,402</u>
Changes in Net Assets	652,133	(510,202)	141,931	(47,034)	94,897
Beginning Net Assets	<u>11,549,248</u>	<u>(3,268,696)</u>	<u>8,280,552</u>	<u>396,907</u>	<u>8,677,459</u>
Ending Net Assets	<u>\$ 12,201,381</u>	<u>\$ (3,778,898)</u>	<u>\$ 8,422,483</u>	<u>\$ 349,873</u>	<u>\$ 8,772,356</u>

PATHFINDER CHURCH
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions General Ministries	Without Donor Restrictions School Ministries	Without Donor Restrictions Total	With Donor Restrictions	Total
Support and Revenue:					
Contributions	\$ 4,609,135	\$ 63,526	\$ 4,672,661	\$ 103,978	\$ 4,776,639
Registration and tuition	-	2,047,063	2,047,063	-	2,047,063
Program revenue	123,292	99,773	223,065	333,655	556,720
Food service sales	17,872	-	17,872	-	17,872
Released for capital expenditures	81,771	(81,771)	-	-	-
Released from restrictions	355,239	181,238	536,477	(536,477)	-
Church support to other funds	(204,000)	155,198	(48,802)	48,802	-
Total Support and Revenue	<u>4,983,309</u>	<u>2,465,027</u>	<u>7,448,336</u>	<u>(50,042)</u>	<u>7,398,294</u>
Expenses:					
Program expenses:					
Church ministries	3,473,530	-	3,473,530	-	3,473,530
School ministries	-	3,012,369	3,012,369	-	3,012,369
Auxiliary ministries	196,738	-	196,738	-	196,738
Total program expenses	<u>3,670,268</u>	<u>3,012,369</u>	<u>6,682,637</u>	<u>-</u>	<u>6,682,637</u>
Support services:					
Management & general	424,258	-	424,258	-	424,258
Fundraising	168,703	-	168,703	-	168,703
Total support services	<u>592,961</u>	<u>-</u>	<u>592,961</u>	<u>-</u>	<u>592,961</u>
Total Expenses	<u>4,263,229</u>	<u>3,012,369</u>	<u>7,275,598</u>	<u>-</u>	<u>7,275,598</u>
Investment and Financing Activities:					
Loss on retirement of assets	(16,460)	-	(16,460)	-	(16,460)
Interest income	2,404	-	2,404	-	2,404
Settlement of interest rate swaps	(15,300)	-	(15,300)	-	(15,300)
Realized derivative gain	42,530	-	42,530	-	42,530
Total Investment and Financing Activities	<u>13,174</u>	<u>-</u>	<u>13,174</u>	<u>-</u>	<u>13,174</u>
Changes in Net Assets	733,254	(547,342)	185,912	(50,042)	135,870
Beginning Net Assets	<u>10,815,994</u>	<u>(2,721,354)</u>	<u>8,094,640</u>	<u>446,949</u>	<u>8,541,589</u>
Ending Net Assets	<u>\$ 11,549,248</u>	<u>\$ (3,268,696)</u>	<u>\$ 8,280,552</u>	<u>\$ 396,907</u>	<u>\$ 8,677,459</u>

PATHFINDER CHURCH

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	Program Services				Management & General	Fundraising	Total
	Church Ministries	School Ministries	Auxiliary Ministries				
Salaries and Wages	\$ 1,933,584	\$ 2,542,785	\$ 95,929	\$ 347,606	\$ 118,124	\$ 5,038,028	
Facilities and Maintenance Costs	282,024	141,012	4,273	-	-	427,309	
Depreciation	545,839	235,798	7,145	-	-	788,782	
Food Service Cost of Sales	22,430	-	-	-	-	22,430	
Interest Expense	125,799	62,899	1,906	-	-	190,604	
Program Costs	<u>676,537</u>	<u>490,852</u>	<u>138,229</u>	<u>82,017</u>	<u>52,208</u>	<u>1,439,843</u>	
Total Expenses	<u>\$ 3,586,213</u>	<u>\$ 3,473,346</u>	<u>\$ 247,482</u>	<u>\$ 429,623</u>	<u>\$ 170,332</u>	<u>\$ 7,906,996</u>	

PATHFINDER CHURCH

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

	Program Services				Management & General	Fundraising	Total
	Church Ministries	School Ministries	Auxiliary Ministries				
Salaries and Wages	\$ 1,780,140	\$ 2,177,814	\$ 114,898	\$ 325,068	\$ 107,423	\$ 4,505,343	
Facilities and Maintenance Costs	318,287	159,143	4,823	-	-	482,253	
Depreciation	502,273	217,762	6,599	-	-	726,634	
Food Service Cost of Sales	17,804	-	-	-	-	17,804	
Interest Expense	108,696	54,348	1,647	-	-	164,691	
Loss on Extinguishment of Bonds	24,268	12,134	368	-	-	36,770	
Program Costs	722,062	391,168	68,403	99,190	61,280	1,342,103	
Total Expenses	\$ 3,473,590	\$ 3,012,369	\$ 196,738	\$ 424,258	\$ 168,703	\$ 7,275,598	

PATHFINDER CHURCH
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
Cash Flows from Operating Activities:		
Changes in net assets	\$ 94,897	\$ 135,870
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	788,782	726,634
Loss on disposal of fixed assets	2,575	16,459
Loss on debt extinguishment	0	36,770
Deferred financing cost amortization	14,178	11,742
Realized derivative (gain) loss	0	(42,530)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	959	2,459
(Increase) decrease in prepaid expenses	34,003	(36,756)
(Increase) decrease in notes receivable - related party	4,151	(28,337)
(Increase) decrease in other assets	(59,459)	(8,000)
Increase (decrease) in accounts payable	(158,501)	178,686
Increase (decrease) in construction payables	(215,000)	215,000
Increase (decrease) in accrued expenses	32,927	(5,983)
Increase (decrease) in deferred tuition and revenue	17,903	38,097
Total adjustments to reconcile changes in net assets	462,518	1,104,241
Net cash provided by operating activities	557,415	1,240,111
 Cash Flows from Investing Activities:		
Fixed asset additions	(410,833)	(1,702,022)
Net cash used by investing activities	(410,833)	(1,702,022)
 Cash Flows from Financing Activities:		
Proceeds from bank loan	750,000	5,440,000
Principal payment on loan payable	(485,000)	(455,000)
Principal payments of bonds payable	-	(4,690,000)
Payment of deferred financing costs	-	(43,204)
Net cash provided by (used by) financing activities	265,000	251,796
 Increase (decrease) in cash and cash equivalents	411,582	(210,115)
 Cash and cash equivalents, beginning of year	1,681,853	1,891,968
 Cash and cash equivalents, end of year	\$ 2,093,435	\$ 1,681,853
 Supplemental Cash Flow Information:		
Cash paid for interest expense	\$ 175,818	\$ 121,013
Cash paid for deferred financing costs	\$ -	\$ 43,204
Non-cash operating lease asset and liability	\$ 162,656	\$ -
Non-cash construction in progress payable	\$ -	\$ 215,000

PATHFINDER CHURCH
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022

1. NATURE OF ORGANIZATION

Pathfinder Church (the “Church”), operating under the legal name of St. John Evangelical Lutheran Church (U.A.C.) Ellisville, Missouri, is incorporated as a not-for-profit corporation under the laws of the State of Missouri and began ministry in 1851. With an effective date of February 1, 2019, the Church has registered with the State of Missouri for doing business as Pathfinder Church. The mission of the Church is: “Bringing together imperfect people, in pursuit of a whole life”.

In addition to a wide range of ministry and youth programs, the Church operates a school (preschool through eighth grade), and cafe services.

These financial statements include the activities of the Church’s general operating funds, the school, and other auxiliary organizations whose net assets are considered restricted for specific purposes that are typically not part of the general operating fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

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 (“U.S. GAAP”).

- Net asset classifications are shown as both “without donor restrictions” and “with donor restrictions.” The Church has presented these two classes of net assets on the financial statements.

Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of management and the Board of Directors.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Church or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

- Investment returns, if applicable, are reported net of external and direct internal investment expenses.
- The Church presents its expenses by both their natural classification and their functional classification on the statement of functional expenses. The method used to allocate costs among programs and supporting activities is disclosed in the notes to the financials.
- Disclosures related to liquidity and availability of resources are presented in the notes to the financials, including qualitative information that discloses how the Church manages its liquid resources to meet its cash flow needs and quantitative information regarding the availability of financial assets to meet these needs.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

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 and cash equivalents.

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 three financial institutions. One institution where the Federal Deposit Insurance Corporation ("FDIC") insures balances up to \$250,000, one institution where the National Credit Union Administration ("NCUA") insures balances up to \$250,000 and one financial institution with no coverage. At June 30, 2023 and 2022, cash and cash equivalents of \$1,841,260 and \$1,428,781, respectively, were held in accounts that exceeded coverage by FDIC insurance. The Church has not experienced any losses related to these concentrations.

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 Church'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.

Fixed Assets

Fixed assets include land, land improvements, buildings, building improvements, furniture, fixtures, and technology. Fixed assets purchased by the Church are recorded at cost. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the year of disposition. 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 years 2023 or 2022. Depreciation expense was \$788,782 and \$726,634 during 2023 and 2022, respectively.

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

Technology	3-5 years
Furniture and fixtures	3-10 years
Land improvements	3-20 years
Building improvements	5-20 years
Buildings	40 years

All expenditures of \$5,000 and over for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Other Assets

Beginning in 2023, other assets include payments of \$51,633 for three-year license contracts for security cameras and related equipment installed during the fiscal year. These assets are being amortized using the straight-line method over the life of the contract and the expense of \$2,868 is included in Facilities and Maintenance Costs and have a net balance of \$48,765 at June 30, 2023.

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 the purpose of the contribution is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Revenues from program and tuition fees are recognized in the period that the services were provided, regardless of when such fees are invoiced. The Church considers all outstanding receivables to be fully collectible and thus no allowance for doubtful accounts is considered necessary.

The Church has conducted financial campaigns to support various purposes including mainly capital construction and the retirement of debt.

Contracts with Customers

The Church recognized \$2,581,528 and \$2,146,105 of revenue from contracts from the year ending June 30, 2023 and 2022. No impairment losses were recognized on receivables or contract assets.

Disaggregated Revenue

Revenues from program and tuition fees are recognized in the period that the services were provided, regardless of when such fees are invoiced. Due to the nature of the Church's revenue, economic factors do not materially affect the nature, timing, and uncertainty of contract revenues and cash flows.

Contract Balances

The beginning and ending contract-type balances were as follows:

	<u>2023</u>	<u>2022</u>
Accounts Receivable	\$ 1,759	\$ 2,792
Unbilled Receivables	-	-
Prepaid Revenues	109,219	111,645

Performance Obligations

- Performance obligations for program and tuition fees are satisfied when services are provided and details are shown on the Statement of Activities.
- The Church does not charge interest on accounts receivable.
- The Church has no formal obligation for refunds and approaches each situation on an individual basis.

Significant Judgements

There were no significant judgements used for the recognition of revenue for the years ending June 30, 2023 and 2022. Also, during 2023 and 2022 there were no changes in the judgements utilized for determining the timing of the satisfaction of performance obligations or transaction prices allocated to performance obligations.

The Church bills for services using an agreed upon rate. Adjusting consideration for the effects of the time value of money is not necessary for the Church's contract receivables. The financial statements include no estimates of variable consideration or noncash consideration. The Church does not allocate costs to goods or services.

Practical Expedients Used for Financing Components

There is no financing component to the Church's recognition of revenue.

Donated Services

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.

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 Church to operate its church and related faith-based ministries; a school that serves more than 330 students ranging from Early Childhood Education through eighth grade; and auxiliary faith-based ministries sponsored by the Church or School.

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

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.

Program and Supporting Activities - Functional Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The functional expenses are allocated to programs, management and general, and fundraising using management's estimate of either employee time incurred, or facility square footage allocated to each program.

The expenses that are allocated include the following:

Expense	Method
Salaries and wages	Actual and effort allocation by management
Facilities and maintenance costs	Square footage of building usage
Depreciation	Square footage of building usage
Food service cost of sales	Actual and effort allocation by management
Interest expense	Square footage of building usage
Program costs	Actual and effort allocation by management

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.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Church's program services and support services. Non-operating activities are limited to resources that generate a return from investment and other activities considered to be of a more unusual or nonrecurring nature.

Deferred Tuition and Revenue

Deferred tuition and revenue represent revenues collected but not earned as of fiscal year end. This is primarily composed of revenue for tuition, registration fees, and church activities collected in advance of the next fiscal year.

New Accounting Pronouncement

During 2023, the Church adopted ASU 2016-02 *Leases (Topic 842)*, which superseded existing guidance for accounting for leases under *Topic 840, Leases*. The adoption of the guidance requires the recognition of the remaining value of operating leases as assets and liabilities on the statement of financial position as right of use assets and future minimum lease obligations, respectively.

Subsequent Events

The Church has evaluated subsequent events through September 22, 2023, the date which the financial statements were available to be issued and noted no reportable events.

3. NOTES RECEIVABLES – RELATED PARTY

In accordance with personnel policy, two current ministry directors have received loans to help purchase housing while employed with the Church. One loan was paid in full during the fiscal year ending June 30, 2022. Per the loan agreement, the fixed interest rate was 4.0% and the loan term was 5 years. The balance on the loan was \$5,345 for the fiscal year ending June 30, 2021. This loan was fully repaid during the fiscal year ending June 30, 2022. During the fiscal year ended June 30, 2022, a new loan was made to a different ministry director with a fixed interest rate of 3.25% and a loan term of 7 years. The balance on the loan was \$20,856 and \$33,682 for the fiscal years ending June 30, 2023 and 2022. The Church considers the note receivable to be fully collectible, thus no credit allowance is considered necessary.

4. DEFERRED FINANCING COSTS

Issuance and administrative costs associated with the December 6, 2021 bank loan have been capitalized and are being amortized over the term of the loan. The unamortized balance recorded in other assets on the Statements of Financial Position is \$20,856 and \$35,034 as of June 30, 2023 and 2022.

Prior to the bank loan, the deferred financing costs associated with the January 4, 2007 Colorado Educational and Cultural Facilities Authority ("CECFA") Bond Issue and certain letter of credit fees were capitalized and amortized over the term of the bonds. The balance recorded in other assets on

the Statements of Financial Position is \$38,314 as of June 30, 2021. The unamortized balance of \$32,836 was written off in conjunction with the bond redemption in December 2021 along with \$3,934 of other assets.

The Church has concluded that the difference between this presentation and that required by *FASB ASU 2015-3, Simplifying the Presentation of Debt Issuance Costs* is immaterial to the financial statements taken as a whole. The amortization expense associated with the deferred financing costs for the fiscal years ending June 30, 2023 and 2022 was \$14,148 and \$11,605, respectively.

5. CASH SURRENDER VALUE OF LIFE INSURANCE

In prior years, the Church was donated ownership of cash value life insurance policies with the New York Life Insurance Company and Thrivent Financial where the Church is named as the sole beneficiary. The policies' cash surrender values of \$231,705 and \$221,010 as of June 30, 2023 and 2022, respectively, arose from primarily past premiums paid and dividends accruing. The policies' cash surrender values are included in other assets on the Statements of Financial Position.

6. OPERATING LEASE

The Church entered into a new lease agreement with Ricoh USA, Inc, in February 2023 which went into effect with equipment deliveries in April 2023. The lease agreement is for the use of six copy and print machines. Lease payments are \$3,014 per month and the lease term expires March 2028. The right-of-use operating lease asset and associated lease liability are \$155,258 as of June 30, 2023. The future lease payments for the year ending June 30, 2024 are \$36,171. Total lease payments during 2023 were \$9,043.

7. 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 Church has the ability to access.
Level 2	Inputs to the valuation methodology include <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. 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, prepaid expenses, 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 previous swap contract associated with the bonds liability as of June 30, 2021 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, 2023 and 2022.

8. LONG-TERM LIABILITIES

The liabilities consist of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Bank Loan	\$ 5,250,000	4,985,000
Less: Current maturities	<u>(110,000)</u>	<u>-</u>
	<u>\$ 5,140,000</u>	<u>\$ 4,985,000</u>

On December 6, 2021, the Church fully redeemed its bond financing using a new \$6,190,000 delayed draw term loan from Fifth Third Bank that matures January 31, 2025. The Church made an initial draw of \$5,440,000 comprised of \$4,690,000 for bond redemption and \$750,000 for infrastructure and facility investments. Pursuant to the agreement, the Church made another \$750,000 draw on November 30, 2022. Interest on the term loan accrues at a floating rate of prime less 1.65% and is paid monthly. The Church may prepay portions or all of the loan at any time without penalty and there are no unused commitment fees. The loan is secured by substantially all of the assets of the Church.

At June 30, 2022, the required periodic principal payment on the term loan is comprised solely of \$595,000 due on January 31, 2024 with any subsequently remaining outstanding balance due at loan maturity. The loan agreement further provides that any other principal payments made by the Church prior to January 31, 2024 will serve to reduce the \$595,000 requirement dollar-for-dollar. The \$485,000 payment from January 2023 reduced the \$595,000 requirement to \$110,000. The Church plans to make a payment of \$525,000 to fulfill this requirement before January 31, 2024.

In 2012, the Church's Board of Directors implemented an internal debt amortization schedule so that the Church would continue repayment of debt obligations for the purpose of retiring the bond obligation at the originally intended date in 2029. On May 23, 2021 in conjunction with approving incurrence of up to \$1,500,000 of additional debt to fund certain improvements, the Congregation ratified the existing internal debt amortization schedule and added two additional years to the schedule in equal amounts of \$750,000 to incorporate the additional debt. Based on the term loan debt outstanding at June 30, 2023, the planned prepayment schedule is as follows:

Year Ended June 30,	As Contractually Required	As Planned by the Church
2024	\$ 110,000	525,000
2025	5,140,000	560,000
2026	-	600,000
2027	-	635,000
2028	-	655,000
2029	-	775,000
2030	-	750,000
2031	-	750,000
	\$ 5,250,000	\$ 5,250,000

At the time of new term loan, the Church terminated the existing LIBOR based interest rate swaps at a cost of \$15,300. An interest rate swap based on prime rate was acquired to manage the Church's exposure to volatility in prime rate and effectively fix the interest rate to 4.55% on a portion of the loan. The swap agreement has an initial notional amount of \$4,400,000, an expiration of January 31, 2028, and scheduled reductions in the notional amount as follows:

From and Including	To but Excluding	Notional Swap Amount
12/6/2021	1/3/2023	\$ 4,400,000
1/3/2023	1/2/2024	4,000,000
1/2/2024	1/2/2025	3,600,000
1/2/2025	1/2/2026	3,200,000
1/2/2026	1/4/2027	2,700,000
1/4/2027	1/3/2028	2,125,000
1/3/2028	1/31/2028	1,475,000

As the underlying variable rate on the term loan is identical to the receive leg portion of the interest rate swap, the Church has determined this hedging strategy is a perfect hedge for the swap notional amounts. The Church has adopted the "short cut" method of accounting for the new swaps for simplicity of the financial statement presentation and as implementation of fair value accounting for the swap would not be material. As of June 30, 2023 and 2022, the swap has a mark-to-market unrealized gain of \$339,157 and \$230,222 respectively.

Prior to the new term loan, the Church borrowed the principal sum of \$11,815,000, from the Colorado Educational and Cultural Facilities Authority ("CECFA") on January 1, 2007. 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 originally had a maturity date of January 1, 2029 and required monthly payments of interest and annual payments of principal over a 22-year amortization period. As of June 30, 2021, the daily variable interest rate was .05%. Under the terms of the indenture, the Church was 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 one month of default interest thereon until all of the bonds have been paid in full. As part of this requirement, the Church had entered into a letter of credit and reimbursement agreement with Fifth Third Bank. This agreement was set to expire on January

31, 2022 and had an annual fee of 150 basis points on the amount of coverage provided. Under this former agreement, Fifth Third Bank held a lien on the Church's facilities and other assets, backed by a future advance deed of trust, security agreement and assignment of rents. The balance of this securing letter of credit was \$4,743,967 as of June 30, 2021, and was sufficient to cover all outstanding amounts related to the bond liabilities.

At the time of the bond issuance, the Church entered into separate interest rate swap agreements to minimize the Church's exposure to interest rate volatility and effectively fix the interest rate on a substantial portion of the bond obligation. During fiscal year 2016, there was one remaining swap agreement which was set to expire in February 2017. Concurrent with renewing the letter of credit and reimbursement agreement with Fifth Third Bank, the existing swap was terminated and the associated liability of \$162,300 which was present at the time of termination was rolled into a new swap agreement. The new agreement has an initial notional amount of \$2,638,000, began February 1, 2016. Additionally, a second swap agreement was executed with a forward start date of January 1, 2017. The initial notional amount of the forward start swap was \$1,500,000. As of June 30, 2021, the swap notional amounts total \$3,738,000, and the mark-to-market liability was \$42,530. In conjunction with the swaps, the Church recorded a realized gain of \$42,530 and an unrealized loss of \$74,224 for the years ended June 30, 2022 and 2021, respectively. With the redemption of the bonds, these interest rate swap agreements were terminated at a settlement cost of \$15,300.

As of June 30, 2023 and 2022, the Church maintained a committed secured line of credit with Fifth Third Bank allowing for maximum borrowing of \$1,000,000. As of December 6, 2020 the line of credit was extended through January 31, 2024. At June 30, 2023 and 2022, the rate was at prime less .90%. No amounts were outstanding as of June 30, 2023 or 2022. The church pays a commitment fee on the unused portion of the revolving credit amount at the rate of .25% per annum.

Interest expense and financing fees on all debt during the years ended June 30, 2023 and 2022 was \$190,604 and \$164,691, respectively. These amounts are inclusive of deferred financing costs amortization of \$14,178 and \$11,742 during 2023 and 2022, respectively. Additionally, during the year ended June 30, 2022, \$36,770 of debt extinguishment costs were incurred related to the bond redemption, \$32,836 of which was the write-off of remaining bond deferred financing costs and \$3,394 of other assets related to the bonds.

9. EMPLOYEE BENEFIT PLANS

The 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 \$885,457 and \$789,140 in 2023 and 2022, respectively. An HSA is offered for employees participating in the High Deductible Health Plan and is partially employer funded with a one-time contribution and employees can choose to self-fund up to the IRS limit. Additionally, employees can participate in self-funded flex spending accounts for medical and dependent care.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent those net assets whose use has been limited by donor-imposed stipulations that either can be fulfilled or removed by actions of the Church pursuant to those stipulations subject to a specific purpose, passage of time, spending policy and appropriation, or appropriation when a specific event occurs.

The Church has net assets with donor restrictions as follows for the years ended June 30, 2023 and 2022:

Purpose Restrictions	<u>2023</u>	<u>2022</u>
Net Assets with Restrictions		
Church ministries	\$ 8,365	\$ 33,231
School ministries	256,572	233,386
Auxiliary ministries	84,936	130,290
	<u>\$ 349,873</u>	<u>\$ 396,907</u>
 Auxiliary Ministries		
Soccer Association	29,575	27,275
MOPS	26,166	32,182
Scout Troops	13,978	17,282
Puppet Ministry	9,005	8,406
School of the Arts	5,288	6,087
Trailblazers	717	717
Pastor's Discretionary	207	207
Chris Toomey Mission Fund	\$ -	\$ 38,134
	<u>\$ 84,936</u>	<u>\$ 130,290</u>

Net assets released from net assets with donor restrictions are as follows:

Satisfaction of Purpose Restriction	<u>2023</u>	<u>2022</u>
Church ministries	\$ 28,560	\$ 38,916
School ministries	122,095	181,238
Auxiliary ministries	227,114	316,323
	<u>\$ 377,769</u>	<u>\$ 536,477</u>

11. BOARD DESIGNATED ENDOWMENT

An endowment fund has been established by the Board of Directors as mandated by the Church 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. The assets of the fund are invested in interest bearing checking accounts and may be invested in other instruments as the Board of Directors deems appropriate. As of the years ending June 30, 2023 and 2022, respectively, contributions to the endowment were \$2,428 and \$2,210 and the balance of the endowment was \$46,535 and \$44,107. There were no funds appropriated or expended for both years.

12. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Church's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for the following:

Financial assets at year end:	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 2,093,435	\$ 1,681,853
Accounts Receivable	1,833	2,792
Total financial assets	<u>\$ 2,095,268</u>	<u>\$ 1,684,645</u>
Less those unavailable for general expenditures within one year:		
Purpose restrictions	(349,873)	(396,907)
Quasi-endowment established by the Board of Directors	(46,535)	(44,107)
Planned bond principal repayment approved by the Board of Directors	<u>(525,000)</u>	<u>(485,000)</u>
	<u>(921,408)</u>	<u>(926,014)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,173,860</u>	<u>\$ 758,631</u>

The Church's goal is generally to maintain financial assets to meet operating expenses in the near term. As part of its liquidity plan, excess cash, as it becomes available, is invested in interest bearing checking accounts and certificates of deposit. The Church has a \$1,000,000 line of credit available to meet cash flow needs, if needed.