

CHURCHOME

Consolidated Financial Statements

For the Years Ended June 30, 2023 and 2022

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Independent Auditor's Report

**To the Board of Directors
Churchome
Kirkland, Washington**

Opinion

We have audited the financial statements of Churchome and its subsidiaries (collectively, the Church), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Church as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Church adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, and related ASUs, for the year ended June 30, 2023. Our opinion is not modified with respect to this matter.

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.



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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 the Church's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's 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 auditor's 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 GAAS 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 GAAS, 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 the 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 the 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.

Clark Nuber P.S.

Certified Public Accountants
October 25, 2023

CHURCHOME

Consolidated Statements of Activities For the Years Ended June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,372,572	\$ 7,085,820
Certificates of deposit	10,077,500	
Employee Retention Credits receivable (Note 2)		1,556,103
Prepaid expenses	591,431	450,462
Other assets and security deposit	348,137	180,575
Total Current Assets	15,389,640	9,272,960
Property and equipment, net (Note 3)	12,138,999	12,404,026
Capitalized software costs (Note 1)	3,118,653	1,131,298
Property held for sale (Note 4)		7,003,458
Deferred compensation investments (Note 6)	6,551,921	5,611,775
Operating lease right-of-use asset (Note 5)	381,884	
Total Other Assets	22,191,457	26,150,557
Total Assets	\$ 37,581,097	\$ 35,423,517
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 24,419	\$ 500,764
Deposit on property sale (Note 4)		1,750,000
Other current liabilities	573,812	362,207
Current portion of operating lease liabilities (Note 5)	239,931	
Total Current Liabilities	838,162	2,612,971
Deferred compensation liabilities (Note 6)	8,745,859	7,894,079
Long-term portion of operating lease liabilities (Note 5)	147,929	
Total Liabilities	9,731,950	10,507,050
Net Assets:		
Without donor restrictions	27,418,455	24,500,396
With donor restrictions	430,692	416,071
Total Net Assets	27,849,147	24,916,467
Total Liabilities and Net Assets	\$ 37,581,097	\$ 35,423,517

See accompanying notes.

CHURCHHOME

Consolidated Statements of Activities For the Years Ended June 30, 2023 and 2022

	2023	2022
Change in Net Assets Without Donor Restrictions		
Revenue and Support:		
Tithes and offerings	\$ 6,982,902	\$ 8,791,291
Offerings released from restrictions	445,946	1,274,131
Paycheck Protection Program loan forgiveness (Note 2)		1,570,313
Rental income	182,663	735,457
Interest income	340,262	477
Other income	227,942	43,398
Total Revenue and Support	8,179,715	12,415,067
Expenses:		
Personnel costs	9,627,771	7,911,744
General operating costs	2,389,994	2,214,352
Professional and temporary services	1,927,509	1,973,515
Benevolence, missions and outreach	1,824,992	1,111,758
Events, conferences and retreats	1,677,964	1,427,479
Occupancy costs	1,179,955	1,804,300
Depreciation	1,083,777	1,370,519
Total Expenses	19,711,962	17,813,667
Change in Net Assets Without Donor Restrictions Before Gains and Losses	(11,532,247)	(5,398,600)
Gains and Losses:		
Gain on sale of assets (Note 4)	16,006,409	25,026
Gain on property transaction (Note 4)		15,548,391
Employee Retention Credits (Note 2)	(1,556,103)	1,556,103
Total Change in Net Assets Without Donor Restrictions	2,918,059	11,730,920

See accompanying notes.

CHURCHOME

Consolidated Statements of Activities (Continued) For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Change in Net Assets With Donor Restrictions		
Mission offerings	442,041	757,494
Offerings designated for various ministry programs	18,526	22,643
Offerings released from restrictions	<u>(445,946)</u>	<u>(1,274,131)</u>
Total Change in Net Assets With Donor Restrictions	<u>14,621</u>	<u>(493,994)</u>
Total Change in Net Assets	2,932,680	11,236,926
Net assets, beginning of year	<u>24,916,467</u>	<u>13,679,541</u>
Net Assets, End of Year	<u>\$ 27,849,147</u>	<u>\$ 24,916,467</u>

See accompanying notes.

CHURCHOME

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2023

	Program Services					Supporting Services		
	Gatherings and Content	Pastoral and Groups	Youth Ministries	Missions and Outreach	Total Program Services	General and Administrative	Facilities and Tenant Costs	Total Supporting Services
Personnel costs	\$ 2,492,988	\$ 2,588,320	\$ 978,205	\$ -	\$ 6,059,513	\$ 3,568,258	\$ -	\$ 3,568,258
General operating costs	222,958	106,702	17,374	5,582	352,616	1,982,868	54,510	2,037,378
Professional and temporary services	802,684	119,704	4,564		926,952	999,552	1,005	1,000,557
Benevolence, missions and outreach	18,088	92,158	18,482	1,575,224	1,703,952	121,040		121,040
Events, conferences and retreats	425,231	513,025	182,454	28,843	1,149,553	528,411		528,411
Occupancy costs	9,716	951,176			960,892	139,238	79,825	219,063
Depreciation		1,012,373			1,012,373		71,404	71,404
	<u>\$ 3,971,665</u>	<u>\$ 5,383,458</u>	<u>\$ 1,201,079</u>	<u>\$ 1,609,649</u>	<u>\$ 12,165,851</u>	<u>\$ 7,339,367</u>	<u>\$ 206,744</u>	<u>\$ 7,546,111</u>

See accompanying notes.

CHURCHOME

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2022

	Program Services					Supporting Services		
	Gatherings and Content	Pastoral and Groups	Youth Ministries	Missions and Outreach	Total Program Services	General and Administrative	Facilities and Tenant Costs	Total Supporting Services
Personnel costs	\$ 1,830,934	\$ 2,386,114	\$ 803,470	\$ 9,087	\$ 5,029,605	\$ 2,882,139	\$ -	\$ 2,882,139
General operating costs	115,443	69,719	23,790	26,778	235,730	1,938,304	40,318	1,978,622
Professional and temporary services	427,506	28,757	5,192		461,455	1,477,084	34,976	1,512,060
Benevolence, missions and outreach	12,225	116,495	14,738	884,652	1,028,110	83,648		83,648
Events, conferences and retreats	288,383	353,979	79,352	68,242	789,956	624,701	12,822	637,523
Occupancy costs	8,380	1,346,451	15,783		1,370,614	313,710	119,976	433,686
Depreciation		1,089,974			1,089,974		280,545	280,545
	\$ 2,682,871	\$ 5,391,489	\$ 942,325	\$ 988,759	\$10,005,444	\$ 7,319,586	\$ 488,637	\$ 7,808,223

See accompanying notes.

CHURCHOME

Consolidated Statements of Cash Flows For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities:		
Total change in net assets	\$ 2,932,680	\$ 11,236,926
Adjustments to reconcile total change in net assets to cash used in operating activities-		
Depreciation	1,677,964	1,370,519
Gain on sale of assets		(25,026)
Gain on property transaction	(16,006,409)	(15,548,391)
Paycheck Protection Program loan forgiveness		(1,570,313)
Changes in assets and liabilities:		
Employee Retention Credits receivable	1,556,103	(1,556,103)
Prepaid expenses	(140,969)	(88,550)
Capitalized software costs	(1,987,355)	
Other assets and security deposit	(167,563)	477,848
Accounts payable	(476,345)	308,480
Other current liabilities	123,240	(723,705)
Operating leases liabilities, net of right-of-use assets	5,976	
Net Cash Used in Operating Activities	(12,482,678)	(6,118,315)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(1,412,937)	(5,882,642)
Proceeds and deposits from sales of property	21,259,867	1,826,365
Purchases of certificates of deposit	(17,577,500)	
Proceeds from certificates of deposit	7,500,000	
Net Cash Provided by (Used in) Investing Activities	9,769,430	(4,056,277)
Net Change in Cash and Cash Equivalents	(2,713,248)	(10,174,592)
Cash and cash equivalents, beginning of year	7,085,820	17,260,412
Cash and Cash Equivalents, End of Year	\$ 4,372,572	\$ 7,085,820

See accompanying notes.

CHURCHHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2023 and 2022

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities and Basis of Consolidation - Churchhome and its subsidiaries (collectively, the Church) are headquartered in Kirkland, Washington and are organized for the purposes of carrying on the affairs and ministries of a local church body.

Churchhome was incorporated as a nonprofit religious corporation under the laws of the State of Washington in March 1992. Churchhome operates church locations in the greater Seattle and Los Angeles areas. In March 2020 the Church launched the Church@Home model. Church@Home allows for people to experience church with community, everywhere. Regardless of where you are located, you can gather with people in person or digitally (per local and CDC guidelines) to experience Churchhome weekly services, connect with God and with people. Church@Home is not limited by borders, buildings or locations. Churchhome is primarily supported by the tithes and offerings of its members.

The consolidated financial statements include the accounts of Churchhome and its consolidated subsidiaries which include an affiliate of Churchhome that is organized as a separate nonprofit corporation and various wholly-owned LLCs. All material inter-entity transactions have been eliminated.

Basis of Accounting - The Church presents consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation - The Church follows U.S. GAAP as applied to nonprofit organizations, which require the Church to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by actions of the Church or the passage of time or are to be maintained in perpetuity by the Church. Net assets with donor restrictions consisted of amounts restricted for missions and other ministry programs.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. The Church reports restricted contributions whose restrictions are met in the year they are received as contributions with donor restrictions.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2023 and 2022

Note 1 - Continued

Contributions Received - Contributions received (tithes and offerings) are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Gifts received of long-lived assets, in the absence of donor-imposed use restrictions, are reported as without donor restrictions.

Donated Services and Materials - A large number of people have contributed significant amounts of time to the activities of the Church without compensation. The consolidated financial statements do not reflect the value of those contributed services because, although clearly substantial, the services do not meet the recognition criteria required by U.S. GAAP and no reliable basis exists for determining an appropriate value for those services. The Church's policy is to recognize donated materials in the consolidated financial statements at their estimated fair values as of the date of their receipt.

Functional Allocation of Expenses - The cost of providing various programs and other activities is summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Church allocates certain categories of expenses that are attributable to each program and supporting services. Those expenses include interest and amortization, depreciation, and facilities expense, and are allocated on a square footage basis. Other expenses, such as salaries, benefits, and departmental supplies are directly attributed to each program or supporting service.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, cash and cash equivalents includes time deposits, commercial paper and all highly liquid debt instruments with original maturities of three months or less. Amounts on deposit with banks may occasionally exceed the FDIC insurance limit of \$250,000. It is the Church's policy to evaluate the financial condition of the banks in which funds are on deposit on a regular basis, to determine the extent of credit risk for deposits in excess of FDIC insurance limits. Cash and cash equivalents include \$3,500,000 and \$6,350,000 of commercial paper as of June 30, 2023 and 2022, respectively.

Certificates of Deposit - The Church holds certificates of deposit that are valued at cost. Interest income is recognized as it accrues over the term of each certificate of deposit.

Property, Equipment and Depreciation - Property and equipment purchases are stated at cost. Donated assets are stated at fair value on the date of receipt. Donated services that enhance nonfinancial assets are capitalized at fair value at the date the services are provided. Depreciation is provided by use of the straight-line method over the estimated useful lives of the related assets ranging from five to ten years for equipment and thirty to forty years for buildings and improvements. All acquisitions of property and equipment in excess of \$5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Capitalized Software Costs - The Church is investing in applications to be used in the Church's program and administrative activities. The costs associated are capitalized and will be amortized to expense over the estimated useful lives beginning when the applications are placed in service in a future years.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2023 and 2022

Note 1 - Continued

Leases - Effective July 1, 2022, the Church adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)* (ASC Topic 842) using the modified retrospective approach with comparative accounting periods continuing to be presented under previous lease guidance (ASC Topic 840). The Church has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Church accounted for its existing leases under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. Additionally, the Church did not elect the practical expedient to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the entity's right-of-use (ROU) assets. As a result of the adoption of the new lease accounting guidance, the Church recognized on July 1, 2022 (a) a lease liability of \$815,589 and (b) a right-of-use asset of \$807,834.

The Church determines if an arrangement contains a lease at inception. Operating leases are included in ROU assets and lease liabilities in the consolidated statement(s) of financial position. ROU assets represent a right to use an underlying asset for the lease term and operating lease liabilities represent the Church's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Church's leases do not provide an implicit rate of return; thus, the Church uses the risk-free discount rate, determined using a period comparable with that of the lease term from the later of the lease commencement date or implementation date. The ROU asset also includes prepaid lease payments and unamortized initial direct costs, and excludes lease incentives. The Church has lease agreements with lease and non-lease components which are accounted for as a single lease component. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Church will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. A ROU asset and operating lease liability is not recognized for leases with an initial term of 12 months or less or when total lease payments are less than \$5,000.

Federal Income Tax - Churchome and Churchome Los Angeles are nonprofit corporations that have been notified by the Internal Revenue Service (IRS) that they are exempt from federal income tax under Internal Revenue Code Section (IRC) 501(c)(3), except to the extent of unrelated business taxable income, if any. All wholly-owned subsidiaries of Churchome and their activities generally fall under the tax-exempt status of Churchome.

Reclassifications - Certain amounts in the fiscal 2022 financial statements presented have been reclassified to conform to the fiscal 2023 financial statement presentation. These reclassifications have no effect on previously reported total assets, total liabilities, total net assets, or change in net assets.

Subsequent Events - The Church has evaluated subsequent events through October 25, 2023, the date on which the consolidated financial statements were available to be issued.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2023 and 2022

Note 2 - Government COVID-Relief Funding

Paycheck Protection Program Loans - In response to the ongoing COVID-19 pandemic, the U.S. Congress passed the Consolidated Appropriations Act, 2021, in December 2020. Included in this act was the Second Draw Program for Paycheck Protection Program loans. On February 2, 2021, the Church obtained a second PPP loan under the Second Draw Program with a principal balance of \$1,570,313 and an annual interest rate of 1%. Subject to the terms and conditions of the loan, the Church received forgiveness for the entirety of the outstanding loan balance on August 26, 2021. During the year ending June 30, 2022, the Church recognized Paycheck Protection Program loan forgiveness revenue of \$1,570,313 when the loan was forgiven by the lender.

Employee Retention Credits - Included in the CARES Act was the Employee Retention Credit (ERC) program to allow eligible employers to claim a credit against qualified wages paid to employees. The ERC program was expanded by the Taxpayer Certainty and Disaster Relief Act of 2020, enacted December 27, 2020. In order to be eligible, an employer must have experienced either a full or partial suspension of operations because of government orders related to COVID-19, or decline of gross receipts of a specified amount in a calendar quarter when compared to the same calendar quarter in 2019. Credits can be obtained on a retroactive basis dating back to March 27, 2020.

The Church applied for funding under the ERC program for various quarters during the years ended June 30, 2022 and 2021. Total revenue from ERC credits recognized during the year ended June 30, 2022 totaled \$1,556,103, with the amount receivable outstanding as of June 30, 2022. Collection on the amount outstanding is subject to IRS processing and approval by the IRS.

In October 2023, prior to issuance of these financial statements, the Church was informed by the IRS that the applications for funding under the ERC program were denied. Management of the Church believes the denial is in error and is appealing the matter with the IRS. However, until the matter is resolved, the Church as recorded a full allowance against the receivable balance and recorded a loss for the year ended June 30, 2023 of \$1,556,103.

Note 3 - Property and Equipment

The Church's property and equipment consisted of the following at June 30:

	2023	2022
Land	\$ 5,649,634	\$ 2,949,634
Buildings and improvements	15,074,399	12,381,897
Furniture, equipment and technology	6,208,061	5,012,232
Projects in progress	107,574	5,878,218
Total property and equipment	27,039,668	26,221,981
Less accumulated depreciation	(14,900,669)	(13,817,955)
Total Property and Equipment, Net	\$ 12,138,999	\$ 12,404,026

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Notes to Consolidated Financial Statements For the Years Ended June 30, 2023 and 2022

Note 4 - Property Held for Sale

The cost basis of assets reported as held for sale on the consolidated statements of financial position consisted of the following properties at June 30:

	<u>2023</u>	<u>2022</u>
Downtown Seattle property	\$ -	\$ 2,999,964
University District property		<u>4,003,494</u>
Total Property Held for Sale	<u>\$ -</u>	<u>\$ 7,003,458</u>

Downtown Seattle - In July 2020, the Church placed the Downtown Seattle Property for sale. During the year ended June 30, 2022, the Church signed a sales agreement with a third party and received a deposit of \$1.75 million that was carried on the consolidated statement of financial position as a liability as of June 30, 2022. During the year ended June 30, 2023, the Church closed on the sale of the property for a gross sales price of \$17.5 million and net cash proceeds of \$16.5 million. The net cash proceeds less the net book value of the property resulted in a gain on sale of \$13.5 million.

University District - During the year ended June 30, 2022, the Church placed the University District Property for sale. During the year ended June 30, 2023, the Church closed on the sale of the property to a third party for a gross sales price of \$7 million and net cash proceeds of \$6.5 million. The net cash proceeds less the net book value of the property resulted in a gain on sale of \$2.5 million.

Issaquah Plateau - In March 2014, the Church placed the Issaquah Plateau Property up for sale. The property was held on the books of the Church at the net book value of \$21.3 million as of June 30, 2021. In July 2019, the Church entered into a stipulation and immediate possession and use agreement with the Issaquah School District (the District) for the Issaquah Plateau Property claimed under eminent domain. Under the terms of the agreement the Church received proceeds of \$36.8 million, which is net of the amount deducted to pay another party for real estate development services and for commissions, as its portion of the compensation offered by the District for the property, and the District received possession and use of the property. Through June 30, 2021, the Church was still completing steps necessary to complete the recognition of the gain on the sale, which were completed during the year ended June 30, 2022. Accordingly, the Church has recognized a gain on sale of \$15,548,391 during the year ended June 30, 2022.

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Notes to Consolidated Financial Statements For the Years Ended June 30, 2023 and 2022

Note 5 - Lease Obligations

Churchome leases facilities and equipment under various operating lease agreements expiring through February 2026. Additionally, the leases include payments for common area maintenance, utilities, taxes and insurance that are considered variable lease payments and are excluded from determining the lease liability. The future minimum lease payments under lease agreements with remaining terms greater than one year at June 30, 2023, are as follows:

For the Year Ending June 30,

2024	\$ 246,439
2025	95,016
2025	<u>56,360</u>
Total undiscounted cash flows	397,815
Less present value discount	<u>(9,955)</u>
Total Lease Liabilities	<u>\$ 387,860</u>

Total rental expense under all operating lease agreements was approximately \$408,521 and \$1,055,694 for the years ended June 30, 2023 and 2022, respectively.

The components of lease expense for the year ended June 30, 2023 are as follows:

Operating lease cost	\$ 425,949
Variable lease cost	19,632
Short-term and other lease costs	<u>57,975</u>
Total Leasing Expense	<u>\$ 503,556</u>

Supplemental cash flow information related to leases as of June 30, 2023 is as follows:

Operating leases-	
Weighted average remaining lease term (months)	23.8
Weighted average discount rate	2.9%
Cash paid for amounts included in measurement of lease liabilities	\$ 410,301

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Notes to Consolidated Financial Statements For the Years Ended June 30, 2023 and 2022

Note 6 - Deferred Compensation Plans

The Church sponsors a deferred compensation plan for the benefit of certain employees in accordance with Section 414(e) of the IRC. Participating employees are permitted to defer a portion of their salary until termination, retirement, death, or in the event of an unforeseen emergency. The Church matches participants' deferrals up to 7.5% of eligible wages. Assets of the plan are held in a segregated account and totaled \$6,551,921 and \$5,611,775 at June 30, 2023 and 2022, respectively. Assets of the plan consist of marketable securities reported at fair value. Fair value for the investments is determined primarily using unadjusted quoted market prices within active markets (Level 1 inputs). Under the terms of the plan, all deferred compensation and employer contributions, along with all property and rights purchased with those amounts and income attributable to those amounts, remain the property of the Church until paid or made available to the employee or his or her beneficiary. Such amounts are subject to the claims of the Church's general creditors. Participants' rights are equal to those of general creditors in an amount equal to the fair value of the deferred amount for each participant. The Church has reported a liability of \$6,551,921 and \$5,611,775 at June 30, 2023 and 2022, respectively, for amounts due to participants under the plan. The Church has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Management believes it is unlikely that plan assets will need to be used to satisfy the claim of general creditors.

The Church has a deferred compensation plan for one of the founding pastors and during the year ended June 30, 2021 the founding pastor was granted and became vested in the plan. The plan provides for annual fixed payments to be made to the founding pastor for life. The Church accrued the present value of the expected future payments and reported expense of \$2,443,652 during the year ended June 30, 2021. The plan liability at June 30, 2023 totaled \$2,282,303 of which \$88,365 was reported as a current liability. The plan liability at June 30, 2022 totaled \$2,368,152 of which \$85,848 was reported as a current liability.

Note 7 - Defined Contribution Plan

The Church sponsors a defined contribution pension plan allowed under IRC section 403(b). All staff ages 21 years or older may participate after 30 days of employment with an employer match of 3%. For the years ended June 30, 2023 and 2022, the amount of retirement plan expense representing contributions made by the Church, not through salary reduction agreements, was \$199,429 and \$115,811, respectively.

Note 8 - Related Party Transactions

A component of the Church's benevolence, missions and outreach are support payments made to other organizations. Some of these other organizations are categorized as related parties under U.S. GAAP because a member of the Board of Directors and/or a founding pastor of Churchome serve on the governing board or is a leader of the supported organization. Payments made to these related party organizations totaled \$149,807 and \$214,190, for the years ended June 30, 2023 and 2022, respectively.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2023 and 2022

Note 9 - Liquidity and Availability of Financial Assets

The Church has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Church follows an informal guiding principle to maintain enough cash reserves to fund at least 60 days of operating expenses, which are held in an interest-bearing account separate from general operating funds. As of June 30, 2023 and 2022, the liquidity reserve was \$3,500,000 and \$6,350,000, respectively. The Church also maintains at least 20 days of operating expenses in its primary general operating account. These cash reserves funds are set aside with the objective of setting funds aside to be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside of the typical operating events. Cash assets in excess of 20 days of operating expenses plus 60 days of cash reserves can be used for asset replacement or new capital expenditures at the discretion of the leadership team.

The Church's financial assets available within one year of the statement of financial position date for general expenditure were as follows at June 30:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 4,372,572	\$ 7,085,820
Certificates of deposit	10,077,500	
Employee Retention Credits receivable		1,556,103
Deferred compensation assets	<u>6,551,921</u>	<u>5,611,775</u>
Total financial assets	21,001,993	14,253,698
Less donor-imposed restrictions	(430,692)	(416,071)
Less amounts restricted for deferred compensation	<u>(6,551,921)</u>	<u>(5,611,775)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 14,019,380</u>	<u>\$ 8,225,852</u>