

**GRACE CHURCH
OF OVERLAND PARK**

FINANCIAL STATEMENTS

**Year Ended May 31, 2023
with
Independent Auditors' Report**

GRACE CHURCH OF OVERLAND PARK

FINANCIAL STATEMENTS

May 31, 2023

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Keller & Owens, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grace Church of Overland Park

Opinion

We have audited the financial statements of **Grace Church of Overland Park** (a Kansas non-profit corporation) (the "Church"), which comprise the statement of financial position as of May 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year 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 **Grace Church of Overland Park** as of May 31, 2023, 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 (GAAS). 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 **Grace Church of Overland Park** 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the year ended May 31, 2023, **Grace Church of Overland Park** adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update 2016-02, *Leases (Topic 842)*. 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.

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 **Grace Church of Overland Park**'s ability to continue as a going concern for 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 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 **Grace Church of Overland Park**'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 **Grace Church of Overland Park**'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.

Report on Summarized Comparative Information

We have previously audited **Grace Church of Overland Park**'s May 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Keller & Owens, LLC". The signature is written in a cursive, flowing style.

Overland Park, Kansas
September 15, 2023

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF FINANCIAL POSITION

May 31, 2023

(With comparative totals as of May 31, 2022)

ASSETS

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,788,328	\$ 5,110,908
Investments	200	308
Accounts receivable	83,324	3,603
Inventory	5,263	8,513
Prepaid expenses	176,286	125,795
Right-of-use asset - operating leases, net	105,879	-
Property and equipment, net	<u>22,339,500</u>	<u>16,601,943</u>
 Total Assets	 <u>\$ 24,498,780</u>	 <u>\$ 21,851,070</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 1,151,689	\$ 308,874
Retainage payable	452,568	-
Accrued expenses	500,369	399,452
Deferred revenue	118,219	104,212
Operating lease liability	110,842	-
Long-term debt, net	<u>5,000,015</u>	<u>3,883,932</u>
 Total Liabilities	 7,333,702	 4,696,470
 Net Assets:		
Without donor restrictions	17,035,243	17,047,817
With donor restrictions	<u>129,835</u>	<u>106,783</u>
Total Net Assets	<u>17,165,078</u>	<u>17,154,600</u>
 Total Liabilities and Net Assets	 <u>\$ 24,498,780</u>	 <u>\$ 21,851,070</u>

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF ACTIVITIES

Year Ended May 31, 2023

(With comparative totals for the year ended May 31, 2022)

	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Support and Revenue:				
Cash contributions	\$ 7,676,391	\$ 269,950	\$ 7,946,341	\$ 10,252,966
Gain on the extinguishment of Paycheck				
Protection Program loan	-	-	-	738,702
Contributed financial instruments	294,157	-	294,157	642,730
Program and activity fees	223,398	-	223,398	168,548
Other income	286,216	-	286,216	125,196
Investment return, net	22,431	-	22,431	773
Gain on disposal of property	348,339	-	348,339	14,476
Net assets released from restrictions	<u>246,898</u>	<u>(246,898)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Gains	9,097,830	23,052	9,120,882	11,943,391
Expenses:				
Program services:				
Ministry	6,693,091	-	6,693,091	6,160,209
Outreach	<u>1,360,214</u>	<u>-</u>	<u>1,360,214</u>	<u>1,342,434</u>
Total Program Services	8,053,305	-	8,053,305	7,502,643
Supporting services:				
Management and general	1,008,151	-	1,008,151	965,842
Fundraising	<u>48,948</u>	<u>-</u>	<u>48,948</u>	<u>54,360</u>
Total Supporting Services	1,057,099	-	1,057,099	1,020,202
Total Expenses	9,110,404	-	9,110,404	8,522,845
 Change in Net Assets	 (12,574)	 23,052	 10,478	 3,420,546
Net Assets, Beginning of Year	<u>17,047,817</u>	<u>106,783</u>	<u>17,154,600</u>	<u>13,734,054</u>
Net Assets, End of Year	<u>\$ 17,035,243</u>	<u>\$ 129,835</u>	<u>\$ 17,165,078</u>	<u>\$ 17,154,600</u>

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended May 31, 2023

(With comparative totals for the year ended May 31, 2022)

	2023						2022
	Program Services			Supporting Services			
	Ministry	Outreach	Total	Management and General	Fundraising	Total	
Missionary & partner support	\$ -	\$ 802,353	\$ 802,353	\$ -	\$ -	\$ 802,353	\$ 890,200
Benevolence	25,715	3,750	29,465	-	-	29,465	32,074
Wages, benefits, & taxes	4,490,729	276,758	4,767,487	460,098	38,308	5,265,893	4,600,815
Utilities	230,976	-	230,976	51,961	5,773	288,710	257,907
Professional services	161,189	8	161,197	32,905	3,656	197,758	168,525
Insurance	54,260	557	54,817	10,570	1,196	66,583	72,529
Marketing & printing	5,218	493	5,711	16,730	-	22,441	43,264
Technology	73,689	5,178	78,867	65,333	-	144,200	126,471
Supplies	400,974	71,149	472,123	36,712	-	508,835	525,414
Meetings, conferences, and events	176,798	9,269	186,067	4,562	-	190,629	154,796
Travel	51,117	174,200	225,317	8,889	-	234,206	106,243
Equipment & facility rental	140,110	14,614	154,724	11,862	-	166,586	157,267
Fees	4,771	1,495	6,266	88,569	-	94,835	114,061
Repairs & maintenance	143,415	-	143,415	35,586	-	179,001	216,051
Taxes & assessments	13,583	-	13,583	3,396	-	16,979	17,144
Other	5,103	390	5,493	2,117	15	7,625	6,097
Interest	39,115	-	39,115	9,779	-	48,894	101,420
Depreciation	676,329	-	676,329	169,082	-	845,411	932,567
Total Expenses	<u>6,693,091</u>	<u>1,360,214</u>	<u>8,053,305</u>	<u>1,008,151</u>	<u>48,948</u>	<u>9,110,404</u>	<u>8,522,845</u>

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF CASH FLOWS Year Ended May 31, 2023

(With comparative totals for the year ended May 31, 2022)

	2023	2022
Cash Flows from Operating Activities:		
Cash received from donations and other activities	\$ 8,413,530	\$ 10,670,715
Cash paid to employees, vendors, and others	(7,663,756)	(7,443,701)
Interest paid	(33,150)	(91,492)
Net Cash Provided by Operating Activities	716,624	3,135,522
Cash Flows from Investing Activities:		
Purchases of property and equipment	(5,740,000)	(395,026)
Proceeds from sale of assets	454,034	21,850
Proceeds from the sale of investments	293,407	555,058
Net Cash (Used) Provided by Investing Activities	(4,992,559)	181,882
Cash Flows from Financing Activities:		
Payment of short-term trade account used to finance land, buildings, and equipment acquisition	(146,984)	(22,215)
Deferred financing costs	(86,385)	-
Proceeds from building construction loan	7,584,720	-
Principal payments on long-term debt	(6,397,996)	(186,742)
Net Cash Provided (Used) by Financing Activities	953,355	(208,957)
Net Change in Cash and Cash Equivalents	(3,322,580)	3,108,447
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	5,110,908	2,002,461
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 1,788,328	\$ 5,110,908

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF CASH FLOWS (continued) Year Ended May 31, 2023

(With comparative totals for the year ended May 31, 2022)

Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities

	2023	2022
Change in Net Assets	\$ 10,478	\$ 3,420,546
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	845,411	932,567
Amortization of debt issuance costs	15,744	9,928
Realized and unrealized loss (gain) on investments	858	(487)
Gain on forgiveness of paycheck protection program loan	-	(738,702)
Donated securities	(294,157)	(552,994)
Gain on disposal of assets	(348,339)	(14,476)
Noncash lease expense on operating leases	4,963	-
(Increase) decrease in operating assets:		
Accounts receivable	(79,721)	4,029
Prepaid expenses	(50,491)	(14,409)
Inventory	3,250	4,044
Increase (decrease) in operating liabilities:		
Accounts payable	493,704	(7,878)
Accrued expenses	100,917	63,400
Deferred revenue	14,007	29,954
Net Cash Provided by Operating Activities	\$ 716,624	\$ 3,135,522

NONCASH INVESTING AND FINANCING ACTIVITIES

Purchases of Property and Equipment:

Using trade payables	\$ 496,095	\$ 146,984
Using retainage payables	\$ 452,568	\$ -

Supplemental Disclosure of Cash Flow Information:

Right-of-Use Asset Obtained in Exchange for Operating Lease Liability	\$ 203,885	\$ -
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See accompanying notes

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Grace Church of Overland Park (the "Church") is a Kansas nonprofit corporation. The Church was incorporated on January 7, 1997, under the laws of the State of Kansas. The Church exists to fulfill the Great Commandment and Great Commission through its vision: "Help everyone become an outward focused follower of Jesus." The Church calls others into a personal relationship with Jesus and encourages sharing the gospel message with others. The Church's donors reside primarily in the greater Kansas City metropolitan area.

Ministry programs include numerous activities in accomplishing the Church's purpose, including worship services, educational training, youth ministry, and children's ministry. Outreach programs include local and global evangelistic efforts, support of missionary endeavors, short-term mission trips, and church planting.

Advertising – The Church incurs costs to promote their activities through various media types. These costs are expensed as incurred and amounted to \$9,123 and \$37,018 for the years ended May 31, 2023 and 2022, respectively.

Basis of Accounting – The Church prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Cash and Cash Equivalents – The Church considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long term purposes, to be cash and cash equivalents. The Church has classified any cash or money market accounts held by external investment managers as investments as these funds are not intended for current operations.

Concentration of Cash Risk – The Church maintains its cash in bank accounts in amounts that may exceed federally insured limits at times. The Church has not experienced any losses in these accounts in the past, and management believes the Church is not exposed to significant credit risks as it periodically evaluates the strength of the financial institutions in which it deposits funds.

Deferred Financing Costs – Deferred financing costs of \$84,705 and \$14,064 are included as a reduction in the mortgage liability for the years ended May 31, 2023 and 2022, respectively. All costs are considered to be long-term. The amounts are being amortized over the terms of the applicable loans. Amortization expense is included as a component of interest expense.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Goods and Services – Contributed goods are recorded at fair value at the date of donation, and contributed services are recorded at the fair value of services received. No significant contributions of such goods or services were received during the years ended May 31, 2023 and 2022, and accordingly, no amounts have been recognized on the Statement of Activities.

A significant portion of the Church's functions are conducted by unpaid volunteer officers and committees. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition.

Donated Stock – The Church received \$294,157 and \$522,994 of donated stock during the years ended May 31, 2023 and 2022, respectively. The Church immediately liquidates these contributions upon receipt. The Church also received \$1,123 and \$119,736 of cryptocurrency during the years ended May 31, 2023 and 2022, respectively. These amounts are reflected in contributed financial instruments on the Statement of Activities.

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

Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include supplies, professional services, equipment and facility rental, technology, repairs and maintenance, depreciation, and interest, which are allocated on a square footage basis, as well as wages, benefits, and taxes which are allocated on the basis of estimates of time and effort.

Income Taxes – The Church is a nonprofit organization exempt from Federal income taxes, with certain exceptions, under Section 501(c)(3) of the Internal Revenue Code. The Church has been classified as a publicly-supported entity which is not a private foundation under Section 509(a) of the Code.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued) – The Church’s policy is to record a liability for any tax position that is beneficial to the Church, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of May 31, 2023 and 2022, and, accordingly, no liability has been accrued.

Leases – The Church has entered into operating leases for a church building and copy machines. The obligations associated with these leases have been recognized as a liability in the statement of financial position based on future lease payments, discounted by the Church’s incremental borrowing rate.

Lease terms may include options to extend or terminate certain leases. The value of a lease is reflected in the valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

Net Assets – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for general use and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for various reserves.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Church had none of this type for the years ended May 31, 2023 and 2022. When the donor restriction expires, that is, when a stipulated time or purpose restriction 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.”

Property and Equipment – Expenditures for property and equipment over \$1,500 with an anticipated useful life of more than one year are recorded at cost and depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued) – Estimated useful lives are as follows:

Building and building improvements	7 – 40 years
Land improvements	7 – 35 years
Furniture and equipment	3 – 7 years
Vehicles	5 years

Recently Adopted Accounting Standards – Effective June 1, 2022, the Church adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, using the modified retrospective transition approach and electing the effective date option. The Church has elected the package of practical expedients permitted in Accounting Standards Codification (“ASC”) Topic 842. Accordingly, the Church accounted for its existing leases as operating leases under the new guidance, without reassessing (1) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments as of May 31, 2022 would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. As a result of the adoption of new lease accounting guidance, the Church recognized on June 1, 2022, (a) a lease liability of \$202,543, which represents the present value of the remaining lease payments of \$215,920, discounted using the Church’s incremental borrowing rate of 5%, and (b) right-of-use assets totaling \$194,714. There was no cumulative effect adjustment to the opening balance of net assets as of June 1, 2022. Deferred rent expense of (\$7,829) was added to the opening balance of the right-of-use asset.

Reclassification – A reclassification has been made to the accompanying financial statements to maintain consistency between reporting periods. The reclassification had no impact on previously reported net assets.

Revenue Recognition – Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Funds collected prior to meeting such conditions are recorded as refundable advances in the statement of financial position.

Program revenues are recorded when the performance obligation is satisfied, i.e. over the period of class enrollment or at points in time when underlying events or services occur.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events – Management has evaluated events and transactions that have occurred since May 31, 2023, and reflected their effects, if any, in these financial statements through September 15, 2023, the date the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, are comprised of the following:

	<u>2023</u>	<u>2022</u>
Cash, and cash equivalents	\$ 1,788,328	\$ 5,110,908
Investments	200	308
Accounts receivable	<u>83,324</u>	<u>3,603</u>
Total financial assets at year-end	1,871,852	5,114,819
Less: board designations	(1,856,410)	(1,403,332)
Less: donor imposed restrictions	<u>(129,835)</u>	<u>(106,783)</u>
Total financial assets available to meet general expenditures over the next 12 months	<u>\$ (114,393)</u>	<u>\$ 3,604,704</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Church had \$7,415,280 in available credit on a \$12.5 million construction loan to cover costs associated with construction of a new church building in Olathe, Kansas.

The Church also operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted sources. Board designations can be released by the board at any time. Revenue is substantially comprised of contributions and service fees.

3. LONG-TERM DEBT

On October 19, 2022, the Church signed a \$12.5 million mortgage note refinancing existing debt and providing additional financing for construction. The note is secured by a mortgage on Church properties located in Johnson County, Kansas. The outstanding balance on this note at May 31, 2023 was \$5,084,720.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

3. LONG-TERM DEBT (continued)

The mortgage note has the following payment terms: interest only payments monthly beginning November 19, 2022 through the earlier of (1) the two-year draw period ending in October 2024, (2) construction completion, or (3) the loan being fully funded, after which the remaining principal balance will be amortized over 28 years with monthly principal and interest payments through maturity in October 2052. Management expects construction to be completed in September 2023 and regular monthly payments to begin in February 2024.

The mortgage has a fixed interest rate of 4.95%. Interest may be adjusted on the fourth anniversary of the loan date and every three years after until maturity to the lender's prevailing interest rate, with each adjustment limited to not exceed a 2% increase or decrease. There are no note covenants.

The following is a schedule of long-term debt as of May 31, 2023 and 2022, respectively:

	2023	2022
Long -Term Debt	\$ 5,084,720	\$ 3,897,996
Less:		
Unamortized loan issuance costs	(84,705)	(14,064)
Total Long-Term Debt	\$ 5,000,015	\$ 3,883,932

Estimated maturities of long-term debt are as follows:

Year ending May 31,	
2024	\$ 20,245
2025	83,527
2026	87,757
2027	92,201
2028	96,869
Thereafter	4,704,121
Total	\$ 5,084,720

Interest expense was \$48,894 and \$101,420 for the years ended May 31, 2023 and 2022, respectively.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

3. LONG-TERM DEBT (continued)

On October 12, 2016, the Church signed a term note for \$4,925,000. Proceeds from the note were used to retire the construction financing mortgage. The note has the following payment terms: monthly principal and interest payments of \$21,528 are due on the note beginning December 1, 2016, through maturity on November 1, 2023, at which time the balance of the loan is due in full. The note bears a fixed interest rate of 2.27% and is secured by assets of the Church. The balance of this note as of May 31, 2023 is \$-0- as the Church paid off the loan during the year.

On May 1, 2020, the Church was approved for a \$738,702 Paycheck Protection Program (“PPP”) loan from a financial institution under the CARES Act, at a fixed interest rate of 1.00%. On July 6, 2021, the Church received notification that principal and interest of this loan was forgiven in full. The Church recognized a gain on extinguishment of debt in the 2022 Statement of Activities in accordance with FASB ASC 470.

4. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation are summarized as follows at May 31:

	<u>2023</u>	<u>2022</u>
Land	\$ 2,520,324	\$ 2,400,953
Land improvements	650,128	650,128
Building and building improvements	17,532,956	17,308,190
Furniture and equipment	2,600,887	2,717,950
Vehicles	114,412	100,978
Construction in progress	<u>6,669,780</u>	<u>532,163</u>
	30,088,487	23,710,362
Less accumulated depreciation	<u>(7,748,987)</u>	<u>(7,108,419)</u>
Property and Equipment, Net	<u>\$ 22,339,500</u>	<u>\$ 16,601,943</u>

Depreciation expense was \$845,411 and \$932,567 for the years ended May 31, 2023 and 2022, respectively. Interest of \$65,576 was capitalized as a component of construction in progress and computed as the weighted average interest of debt multiplied by cumulative monthly construction costs incurred in relation to construction in progress.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

5. LEASES

The Church has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing leases, to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis. The weighted-average discount rate is based on the discount rate implicit in the lease. The Church elected the option to use the incremental borrowing rate, determined using a period comparable to the lease term, as the discount rate for the lease where the implicit rate is not readily determinable. Lastly, the Church elected the practical expedient to not separate lease and non-lease components.

The right-of-use assets and corresponding liabilities associated with future lease payments at May 31, 2023 totaled \$105,879 and \$110,842, respectively.

The weighted average discount rate was 5%, and the weighted average remaining lease term was 2.2 years. A total of \$108,787 was paid for amounts included in the measurement of lease liabilities for operating cash flows. Total operating lease costs were \$113,750 for the year ended May 31, 2023.

The following operating lease payments are expected to be paid for each of the following years ended May 31:

<u>Years Ended May 31,</u>	
2024	\$ 72,589
2025	15,124
2026	15,124
2027	12,950
2028	<u>1,731</u>
Total remaining cash payments	117,518
Less: present value discount	<u>(6,676)</u>
Total lease liability	<u>\$ 110,842</u>

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2023

6. EMPLOYEE BENEFITS

The Church has a 403(b) defined contribution salary deferral plan covering eligible employees. Under the plan, employees can contribute the maximum amount allowed by the Internal Revenue Code. Contributions by the Church under this plan are made at the discretion of the Board. Contributions of \$209,741 and \$116,175 were made for the years ended May 31, 2023 and 2022, respectively. Full-time and part-time employees who are 21 years of age or older are eligible to participate in the Church's plan.

7. BOARD-DESIGNATED NET ASSETS

Board-designated net assets consist of the following at May 31:

	2023	2022
Outreach	\$ 50,761	\$ 331,373
Capital expenditures	822,454	237,079
Operating reserves	475,000	410,000
Debt reduction	444,000	405,740
Church multiplication	63,775	19,140
Ministry	420	-
Total Board-Designated Net Assets	\$ 1,856,410	\$ 1,403,332

8. NET ASSETS WITH DONOR RESTRICTIONS

The following table sets forth information about net assets with donor restrictions as to purpose for the year ended May 31, 2023.

	Ministries & Programs	Outreach	Total
Beginning balance	\$ 13,607	\$ 93,176	\$ 106,783
Contributions with donor restrictions	3,475	266,475	269,950
Releases from restriction	(12,570)	(234,328)	(246,898)
Ending balance	\$ 4,512	\$ 125,323	\$ 129,835

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NOTES TO FINANCIAL STATEMENTS

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8. NET ASSETS WITH DONOR RESTRICTIONS (continued)

The following table sets forth information about net assets with donor restrictions as to purpose for the year ended May 31, 2022.

	<u>Ministries & Programs</u>	<u>Outreach</u>	<u>Total</u>
Beginning balance	\$ 15,393	\$ 40,192	\$ 55,585
Contributions with donor restrictions	7,733	167,600	175,333
Releases from restriction	<u>(9,519)</u>	<u>(114,616)</u>	<u>(124,135)</u>
Ending balance	<u>\$ 13,607</u>	<u>\$ 93,176</u>	<u>\$ 106,783</u>

9. COMMITMENTS

In 2016, the Church entered into an agreement to purchase land in Olathe, Kansas. In October 2019, the Church entered into a street construction agreement with a developer to equally divide the future construction costs of Lindenwood Street located on the west side of the purchased land. The Church has paid no funds towards this agreement and currently has no cost estimates.

10. SUBSEQUENT EVENTS

The Church's new building located in Olathe, Kansas is substantially complete as of the report date. However, a certificate of substantial completion has not been issued as of the report date. The total estimated cost of the project is \$12.3 million.