

**GRACE CHURCH
OF OVERLAND PARK**

FINANCIAL STATEMENTS

**Year Ended May 31, 2020
with
Independent Auditors' Report**

GRACE CHURCH OF OVERLAND PARK

FINANCIAL STATEMENTS

May 31, 2020

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Keller & Owens, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grace Church of Overland Park

We have audited the accompanying 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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

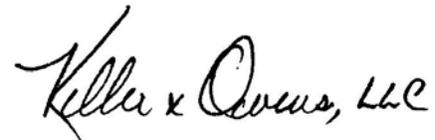
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Grace Church of Overland Park** as of May 31, 2020, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2020, the Church adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, and ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Our opinion is not modified with respect to these matters.

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

Overland Park, Kansas
September 17, 2020

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF FINANCIAL POSITION

May 31, 2020

ASSETS

| | |
|-----------------------------|----------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 3,229,044 |
| Investments | 250,442 |
| Accounts receivable | 2,065 |
| Inventory | 5,140 |
| Prepaid expenses | 106,312 |
| Total Current Assets | <u>3,593,003</u> |
| Property and Equipment, net | <u>17,116,399</u> |
| Total Assets | <u>\$ 20,709,402</u> |

LIABILITIES AND NET ASSETS

| | |
|-----------------------------------|----------------------|
| Current Liabilities: | |
| Accounts payable | \$ 204,530 |
| Accrued expenses | 313,296 |
| Deferred revenue | 11,600 |
| Current portion of long-term debt | 515,564 |
| Total Current Liabilities | <u>1,044,990</u> |
| Long-Term Debt | <u>7,442,190</u> |
| Total Liabilities | 8,487,180 |
| Net Assets: | |
| Without donor restrictions | 12,174,325 |
| With donor restrictions | 47,897 |
| Total Net Assets | <u>12,222,222</u> |
| Total Liabilities and Net Assets | <u>\$ 20,709,402</u> |

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF ACTIVITIES

Year Ended May 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---------------------------------------|-------------------------------|----------------------------|---------------|
| Support and Revenue: | | | |
| Cash contributions | 7,873,272 | \$ 196,823 | \$ 8,070,095 |
| Non-cash contributions | 193,464 | - | 193,464 |
| Program and activity fees | 145,330 | - | 145,330 |
| Other income | 106,961 | - | 106,961 |
| Investment return, net | 17,958 | - | 17,958 |
| Net assets released from restrictions | 531,087 | (531,087) | - |
| Total Support and Revenue | 8,868,072 | (334,264) | 8,533,808 |
| Expenses: | | | |
| Program services: | | | |
| Ministry | 5,560,169 | - | 5,560,169 |
| Outreach | 708,048 | - | 708,048 |
| Total Program Services | 6,268,217 | - | 6,268,217 |
| Support services: | | | |
| General and administration | 1,050,323 | - | 1,050,323 |
| Fundraising | 179,108 | - | 179,108 |
| Total Support Services | 1,229,431 | - | 1,229,431 |
| Total Expenses | 7,497,648 | - | 7,497,648 |
| Change in Net Assets | 1,370,424 | (334,264) | 1,036,160 |
| Net Assets, Beginning of Period | 10,803,901 | 382,161 | 11,186,062 |
| Net Assets, End of Period | \$ 12,174,325 | \$ 47,897 | \$ 12,222,222 |

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended May 31, 2020

| | Program Services | | | Management and General | Fundraising | Total |
|-----------------------------------|-------------------------|-----------------------|-------------------------|---------------------------|-----------------------|-------------------------|
| | Ministry | Outreach | Total | | | |
| Missionary & partner support | \$ - | \$ 390,316 | \$ 390,316 | \$ - | \$ - | \$ 390,316 |
| Benevolence | 53,696 | - | 53,696 | - | - | 53,696 |
| Wages, benefits, & taxes | 3,484,877 | 102,056 | 3,586,933 | 346,068 | 44,241 | 3,977,242 |
| Utilities | 230,674 | - | 230,674 | 51,759 | 5,751 | 288,184 |
| Professional services | 114,404 | 2,159 | 116,563 | 23,150 | 83,611 | 223,324 |
| Insurance | 74,887 | 844 | 75,731 | 12,056 | 1,502 | 89,289 |
| Marketing & printing | 10,554 | 683 | 11,237 | 47,891 | 19,103 | 78,231 |
| Technology | 67,413 | 3,255 | 70,668 | 51,678 | 207 | 122,553 |
| Supplies | 363,756 | 62,395 | 426,151 | 32,961 | 11,439 | 470,551 |
| Meetings, conferences, and events | 99,514 | 13,979 | 113,493 | 4,663 | 7,761 | 125,917 |
| Travel | 26,106 | 130,050 | 156,156 | 6,717 | 4,822 | 167,695 |
| Equipment & facility rental | 91,310 | 2,040 | 93,350 | 19,239 | - | 112,589 |
| Fees | 8,541 | 120 | 8,661 | 84,290 | 660 | 93,611 |
| Repairs & maintenance | 411 | - | 411 | 140,245 | - | 140,656 |
| Taxes & assessments | 29,505 | 93 | 29,598 | 3,256 | - | 32,854 |
| Other | 1,254 | 58 | 1,312 | 533 | 11 | 1,856 |
| Interest | 222,968 | - | 222,968 | 55,742 | - | 278,710 |
| Depreciation & amortization | 680,299 | - | 680,299 | 170,075 | - | 850,374 |
| Total Expenses | <u>\$ 5,560,169</u> | <u>\$ 708,048</u> | <u>\$ 6,268,217</u> | <u>\$ 1,050,323</u> | <u>\$ 179,108</u> | <u>\$ 7,497,648</u> |

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF CASH FLOWS

Year Ended May 31, 2020

| | |
|--|----------------------------|
| Cash Flows from Operating Activities: | |
| Cash received from donations and other activities | \$ 8,315,129 |
| Cash paid to employees, vendors, and others | (6,488,318) |
| Interest paid | <u>(260,231)</u> |
| Net Cash Provided by Operating Activities | 1,566,580 |
| Cash Flows from Investing Activities: | |
| Purchases of property and equipment | (390,533) |
| Proceeds from sale of assets | 8,031 |
| Proceeds from the sale of investments | <u>432,427</u> |
| Net Cash Provided by Investing Activities | 49,925 |
| Cash Flows from Financing Activities: | |
| Proceeds from borrowings on long-term debt | 738,702 |
| Principal payments on long-term debt | <u>(235,521)</u> |
| Net Cash Provided by Financing Activities | <u>503,181</u> |
| Net Change in Cash and Cash Equivalents | 2,119,686 |
| Cash, Cash Equivalents, and Restricted Cash, Beginning of Year | <u>1,109,358</u> |
| Cash, Cash Equivalents, and Restricted Cash, End of Year | <u><u>\$ 3,229,044</u></u> |

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF CASH FLOWS (continued)

Year Ended May 31, 2020

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

| | | |
|---|----|------------------|
| Change in Net Assets | \$ | 1,036,160 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | | 850,374 |
| Amortization of debt issuance costs | | 13,723 |
| Realized and unrealized gain on investments | | (2,565) |
| Donated securities | | (170,723) |
| Loss on disposal of assets | | 3,871 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | | 14,136 |
| Prepaid expenses | | 17,215 |
| Inventory | | (5,140) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | | (209,958) |
| Accrued expenses | | 82,885 |
| Deferred revenue | | <u>(63,398)</u> |
| Net Cash Provided by Operating Activities | \$ | <u>1,566,580</u> |

NONCASH INVESTING AND FINANCING ACTIVITIES

Purchases of Property and Equipment:

| | | |
|----------------------|----|---------------|
| Using trade payables | \$ | <u>30,287</u> |
|----------------------|----|---------------|

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

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 \$35,831 for the year ended May 31, 2020.

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, Cash Equivalents, and Restricted Cash - We consider 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 College has classified any cash or money market accounts held by external investment managers as investments as these funds are not intended for current operations. Included in cash and cash equivalents are amounts restricted by donors for long-term purposes.

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 \$63,967 are included as a reduction in the mortgage liability. 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, 2020

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services and In-Kind Contributions - A substantial number of non-professional volunteers donate significant time to the Church. These donated services are not recognized in the financial statements because they do not meet the criteria for recognition under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-605. Contributed goods and services are recorded at fair value at date of donation. No significant contributions of services were received during the year ended May 31, 2020. The Church received \$170,723 of donated stock and \$22,741 of donated equipment during the year ended May 31, 2020.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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, and interest, which are allocated on a square footage basis, as well as wages, taxes, and benefits, 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.

The Church’s policy with regard to FASB ASC 740-10 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, 2020, and, accordingly, no liability has been accrued.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 year ended May 31, 2020. 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. 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 Issued Accounting Pronouncements - FASB ASC Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Church has implemented Topic 606 and has adjusted the presentation in these financial statements accordingly, utilizing the modified retrospective method of transition, with no cumulative-effect adjustment to net assets.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements (continued) -

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Church has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there was no effect on net assets in connection with the Church's implementation of ASU 2018-08.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU provides additional guidance related to transfers between cash and restricted cash and how entities present, in their statements of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. The Church has adopted these provisions in the accompanying financial statements.

As of January 1, 2019, the Church adopted FASB ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Under ASU 2016-01, not-for-profit entities that are not colleges, universities, voluntary health and welfare entities, or health care entities should report other investments using one of the following measures: (a) fair value or (b) the lower of cost or fair value. If other investments are not equity securities and are carried at the lower of cost or fair value, declines in the value of those investments should be recognized if their aggregate fair value is less than their carrying amount. Recoveries of aggregate fair value in subsequent periods should be recorded in those periods subject only to the limitation that the carrying amount does not exceed the original cost. The Church's certificates of deposit are defined by GAAP as other investments. Prior to adoption, the certificates of deposit were reflected at fair value. Upon electing to report certificates of deposit at the lower of cost or fair value at the adoption date of June 1, 2019, no cumulative-effect adjustment was necessary to be reflected on the 2020 statement of financial position.

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 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, 2020

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Risks and Uncertainties – The COVID-19 outbreak is causing serious health and financial risks globally. In addition, this crisis has the potential to negatively affect the Church by shutting down operations, reducing investment values, reducing the ability to access capital, reducing contributions due to financial uncertainties, reducing collectability of receivables, disrupting supply chains, etc. While management is considering the current and future effects of the pandemic on the Church, an estimate of any negative impacts and the means of mitigation are not known at this time.

Subsequent Events - Management has evaluated events and transactions that have occurred since May 31, 2020, and reflected their effects, if any, in these financial statements through September 17, 2020, 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:

| | |
|---|---------------------|
| Cash and cash equivalents | \$ 3,229,044 |
| Investments | 250,442 |
| Accounts receivable | <u>2,065</u> |
| Total financial assets at year-end | 3,481,551 |
| Less: board designations | (1,028,369) |
| Less: donor imposed restrictions | <u>(47,896)</u> |
| Total financial assets available to meet general expenditures over the next 12 months | <u>\$ 2,405,286</u> |

In addition to financial assets available to meet general expenditures over the next 12 months, the Church 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.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

3. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three-tier hierarchy of inputs is summarized in the three broad levels below:

- Level 1 - inputs are unadjusted quoted market prices in active, independent markets for identical assets and liabilities;
- Level 2 - we invest in CDs traded in the financial markets. These are valued by custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions;
- Level 3 - inputs are unobservable and reflect assumptions on the part of the reporting entity.

The following table sets forth information about the level within the fair value hierarchy at which the Church's financial assets and liabilities are measured on a recurring basis at May 31, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------------------|----------------|-------------------|----------------|-------------------|
| Cash | \$ 442 | \$ - | \$ - | \$ 442 |
| Brokered CDs | <u>-</u> | <u>250,000</u> | <u>-</u> | <u>250,000</u> |
| Total Assets - Recurring Basis | <u>\$ 442</u> | <u>\$ 250,000</u> | <u>\$ -</u> | <u>\$ 250,442</u> |

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

4. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation are summarized as follows at May 31, 2020:

| | |
|-----------------------------------|----------------------|
| Land | \$ 2,400,953 |
| Land improvements | 481,094 |
| Building and improvements | 17,163,242 |
| Furniture and equipment | 2,435,864 |
| Vehicles | 100,978 |
| Construction in process | 171,889 |
| Accumulated depreciation | <u>(5,637,621)</u> |
| Total Property and Equipment, net | <u>\$ 17,116,399</u> |

Depreciation expense was \$850,374 for the year ended May 31, 2020.

5. LONG-TERM DEBT

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, 2020 is \$4,326,337.

On April 30, 2018, the Church signed a term note for \$3,338,000. Proceeds from the note were used to purchase a church building. The note has the following payment terms: monthly principal and interest payments of \$20,260 are due on the note beginning June 1, 2018, through maturity on May 1, 2028, at which time the balance of the loan is due in full. The note bears a fixed interest rate of 5.38% through May 31, 2023, at which time it adjusts. The note is secured by assets of the Church. The balance of this note as of May 31, 2020 is \$2,956,682.

Note covenants require the Church to maintain its primary operating and savings accounts with the lender, submit annual financial reports and operating budgets to the lender, and maintain a key man life insurance policy on a Church employee.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

5. LONG-TERM DEBT (continued)

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%. The agreement calls for payments of principal and interest of \$34,429 per month beginning October 5, 2020 through May 5, 2022. If the Church spends the loan funds on certain qualified expenditures as specified under the rules and regulations referenced in the loan agreement, all or a portion of the PPP loan funds will be forgiven. For any amounts not forgiven, the agreement calls for equal monthly payments of principal and interest in an amount needed to fully amortize the loan by the maturity date. Upon any forgiveness of the loan, the Church will record either a gain on extinguishment of debt in accordance with FASB ASC 470 or contribution revenue in accordance with FASB ASC 958-605. Forgiveness is not guaranteed and conditioned on U.S. Small Business Administration (“SBA”) approval and SBA reimbursement to the Church’s financial institution. Management expects all principal and interest to be forgiven.

| | |
|-----------------------------------|---------------------|
| Debt | \$ 8,021,721 |
| Less: | |
| Unamortized loan issuance costs | (63,967) |
| Current portion of long-term debt | <u>(515,564)</u> |
| Total Long-Term Debt | <u>\$ 7,442,190</u> |

Estimated maturities of long-term debt are as follows:

| <u>Year ending May 31,</u> | |
|----------------------------|---------------------|
| 2021 | \$ 515,564 |
| 2022 | 725,116 |
| 2023 | 264,075 |
| 2024 | 3,935,124 |
| 2025 | 106,976 |
| Thereafter | <u>2,474,866</u> |
| Total | <u>\$ 8,021,721</u> |

Interest expense was \$278,710 for the year ended May 31, 2020.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

6. OPERATING LEASES

In November 2016, the Church entered into a 63-month operating lease on a copier. This lease will expire February 2022. Lease charges for the copier for the year ended May 31, 2020, was \$12,177. The following is a schedule by year of future minimum lease payments under this lease:

Years Ended May 31,

| | |
|-------|------------------|
| 2021 | \$ 12,350 |
| 2022 | <u>9,263</u> |
| Total | <u>\$ 21,613</u> |

In August 2018, the Church entered into a 63-month operating lease on a copier. This lease will expire November 2023. Lease charges for the copier for the year ended May 31, 2020, was \$2,100. The following is a schedule by year of future minimum lease payments under this lease:

Years Ended May 31,

| | |
|-------|-----------------|
| 2021 | \$ 2,100 |
| 2022 | 2,100 |
| 2023 | 2,100 |
| 2024 | <u>1,050</u> |
| Total | <u>\$ 7,350</u> |

Effective December 6, 2016, the Church entered into a 44-month operating lease for office space in Olathe, Kansas. This lease expired August 2020. Lease charges for the office space for the year ended May 31, 2020, was \$37,753. The following is a schedule by year of future minimum lease payments under this lease:

Years Ended May 31,

| | |
|-------|-----------------|
| 2021 | <u>\$ 7,845</u> |
| Total | <u>\$ 7,845</u> |

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

7. BOARD-DESIGNATED NET ASSETS

Board-designated net assets consist of the following at May 31, 2020:

| | | |
|--------------------------------------|----|---------------------|
| Outreach | \$ | 510,473 |
| Capital expenditures | | 17,896 |
| Operating reserves | | 410,000 |
| Debt reduction | | <u>90,000</u> |
| Total Board-Designated Net Assets | | <u>\$ 1,028,369</u> |

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, 2020:

| | <u>Building Fund</u> | <u>Ministries & Programs</u> | <u>Outreach</u> | <u>Total</u> |
|--|--------------------------|--------------------------------------|------------------|------------------|
| Beginning balance | \$ 227,407 | \$ 34,357 | \$ 120,397 | \$ 382,161 |
| Contributions with donor restrictions | 48,257 | 47,425 | 101,141 | 196,823 |
| Releases from restriction | <u>(275,664)</u> | <u>(65,535)</u> | <u>(189,888)</u> | <u>(531,087)</u> |
| Ending balance | <u>\$ -</u> | <u>\$ 16,247</u> | <u>\$ 31,650</u> | <u>\$ 47,897</u> |

9. 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, if any, by the Church under this Plan are at the discretion of the Board. Contributions of \$85,584 were made for the year ended May 31, 2020.

10. COMMITMENTS

In August 2016, the Church entered into an agreement to purchase land in Olathe, Kansas. As part of this agreement, the seller and the Church agreed to equally divide between them the future construction costs of Britton Road located on the east side of the purchased land. The Church has paid \$193,000 towards this agreement and based on current estimates, expects to pay an additional \$234,000 to satisfy the balance of this agreement with the seller.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

May 31, 2020

10. COMMITMENTS (continued)

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 land mentioned in the above paragraph. The Church has paid no funds towards this agreement and currently has no cost estimates.

11. NEW ACCOUNTING PRONOUNCEMENTS

ASU 2016-02, Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are to be applied using a modified retrospective approach.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which deferred the effective date for certain entities to fiscal years beginning after December 15, 2021. Early application continues to be allowed.

The Church is evaluating the effect that these standards will have on its financial statements and related disclosures.

12. SUBSEQUENT EVENT

In July 2020, the Church entered into a lease agreement for real estate. Under the terms of the lease, the Church is leasing the property for 24 months with rent consisting of \$0 for month one, \$4,000 for month two, and \$7,000 per month for months three through twenty-four. The lease can be extended up to 18 months. In addition, the Church has an option to purchase the property for a price to be agreed upon by November 1, 2020.

In August 2020, the Church entered into an agreement for installation of equipment configurations and related software. The total price for the installation and services is \$260,853.