

GRACE FELLOWSHIP CHURCH, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

GRACE FELLOWSHIP CHURCH, INC.

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For the Years Ended June 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

Board of Elders
Grace Fellowship Church, Inc.
Timonium, Maryland

Opinion

We have audited the financial statements of Grace Fellowship Church, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related 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 Grace Fellowship Church, Inc. 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Grace Fellowship Church, Inc. 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.

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 Fellowship Church, Inc.'s ability to continue as a going concern for one (1) year after the date that the financial statements are 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 Fellowship Church, Inc.'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 Fellowship Church, Inc.'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.

Grandizio, Wilkins, Little & Matthews, LLP

Grandizio, Wilkins, Little & Matthews, LLP
November 22, 2023

GRACE FELLOWSHIP CHURCH, INC.
STATEMENTS OF FINANCIAL POSITION

| June 30, | 2023 | 2022 |
|--------------------------------------|-----------------------------|-----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 1,174,918 | \$ 1,016,752 |
| Prepaid Expenses | 57,206 | 97,149 |
| Accounts Receivable | 23,493 | 9,903 |
| Employee Retention Credit Receivable | - | 342,976 |
| | <u>1,255,617</u> | <u>1,466,780</u> |
| TOTAL CURRENT ASSETS | | |
| PROPERTY AND EQUIPMENT | | |
| Building and Land | 14,000,000 | 14,000,000 |
| Furniture and Fixtures | 3,319,589 | 3,391,569 |
| Building Improvements | 5,874,696 | 5,855,828 |
| | <u>23,194,285</u> | <u>23,247,397</u> |
| Total | 23,194,285 | 23,247,397 |
| Less: Accumulated Depreciation | <u>(5,749,127)</u> | <u>(5,152,751)</u> |
| | <u>17,445,158</u> | <u>18,094,646</u> |
| NET PROPERTY AND EQUIPMENT | | |
| | <u>17,445,158</u> | <u>18,094,646</u> |
| TOTAL ASSETS | | |
| | <u><u>\$ 18,700,775</u></u> | <u><u>\$ 19,561,426</u></u> |

The independent auditors' report and accompanying notes are
an integral part of these financial statements.

GRACE FELLOWSHIP CHURCH, INC.
STATEMENTS OF FINANCIAL POSITION

| June 30, | 2023 | 2022 |
|---|-----------------------------|-----------------------------|
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts Payable and Accrued Expenses | \$ 175,232 | \$ 184,238 |
| Current Portion of Finance Lease Liability | 12,519 | 16,543 |
| Current Portion of Mortgage Payable | <u>325,132</u> | <u>312,995</u> |
| TOTAL CURRENT LIABILITIES | <u>512,883</u> | <u>513,776</u> |
| LONG-TERM LIABILITIES | | |
| Mortgage Payable, Net of Current Maturities | 10,196,777 | 10,520,386 |
| Finance Lease Liability, Net of Current Portion | <u>38,342</u> | <u>50,861</u> |
| TOTAL LONG-TERM LIABILITIES | <u>10,235,119</u> | <u>10,571,247</u> |
| TOTAL LIABILITIES | <u>10,748,002</u> | <u>11,085,023</u> |
| NET ASSETS | | |
| Without Donor Restrictions | 7,707,797 | 8,147,968 |
| With Donor Restrictions | <u>244,976</u> | <u>328,435</u> |
| TOTAL NET ASSETS | <u>7,952,773</u> | <u>8,476,403</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 18,700,775</u></u> | <u><u>\$ 19,561,426</u></u> |

The independent auditors' report and accompanying notes are
an integral part of these financial statements.

GRACE FELLOWSHIP CHURCH, INC.
STATEMENTS OF ACTIVITIES

| For the Years Ended June 30, | 2023 | | | 2022 | | |
|--|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| SUPPORT AND REVENUE | | | | | | |
| Contributions | \$ 4,372,724 | \$ 187,062 | \$ 4,559,786 | \$ 4,612,142 | \$ 211,332 | \$ 4,823,474 |
| Grant Income - Paycheck Protection Program | - | - | - | 439,373 | - | 439,373 |
| Other | 173,316 | - | 173,316 | 67,158 | - | 67,158 |
| Interest | 17,442 | - | 17,442 | 1,405 | - | 1,405 |
| Gain (Loss) on Sale of Assets | (2,925) | - | (2,925) | - | - | - |
| Employee Retention Credit | - | - | - | 342,874 | - | 342,874 |
| TOTAL SUPPORT AND REVENUE | 4,560,557 | 187,062 | 4,747,619 | 5,462,952 | 211,332 | 5,674,284 |
| EXPENSES | | | | | | |
| Program Activities | 4,083,234 | - | 4,083,234 | 4,459,437 | - | 4,459,437 |
| Management Activities | 1,188,015 | - | 1,188,015 | 1,118,355 | - | 1,118,355 |
| TOTAL EXPENSES | 5,271,249 | - | 5,271,249 | 5,577,792 | - | 5,577,792 |
| CHANGE IN NET ASSETS FROM OPERATIONS | (710,692) | 187,062 | (523,630) | (114,840) | 211,332 | 96,492 |
| NET ASSETS RELEASED FROM RESTRICTIONS | | | | | | |
| Satisfaction of Program Restrictions | 270,521 | (270,521) | - | 106,779 | (106,779) | - |
| CHANGE IN NET ASSETS | (440,171) | (83,459) | (523,630) | (8,061) | 104,553 | 96,492 |
| Net Assets - Beginning of Year | 8,147,968 | 328,435 | 8,476,403 | 8,156,029 | 223,882 | 8,379,911 |
| NET ASSETS - END OF YEAR | \$ 7,707,797 | \$ 244,976 | \$ 7,952,773 | \$ 8,147,968 | \$ 328,435 | \$ 8,476,403 |

The independent auditors' report and accompanying notes are
an integral part of these financial statements.

GRACE FELLOWSHIP CHURCH, INC.
STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2023 and 2022

| | 2023 | | |
|----------------------------------|---------------------|---------------------|---------------------|
| | Program | Management | Total |
| FUNCTIONAL EXPENSES | | | |
| Compensation | \$ 2,014,273 | \$ 731,537 | \$ 2,745,810 |
| Continuing Education/Conferences | - | 5,024 | 5,024 |
| Depreciation | 579,010 | 102,178 | 681,188 |
| Mission Trips | 18,913 | - | 18,913 |
| Support Other Ministries | 229,604 | - | 229,604 |
| Facility and Equipment | 721,455 | 80,162 | 801,617 |
| Office and Technology | 27,983 | 111,929 | 139,912 |
| Benevolence | 89,618 | - | 89,618 |
| Travel and Retreat | 152,160 | 15,972 | 168,132 |
| Professional Services | 9,514 | 61,755 | 71,269 |
| Advertising | 3,576 | - | 3,576 |
| Hospitality | 93,039 | - | 93,039 |
| Ministry Materials | 120,828 | - | 120,828 |
| Interest | - | 4,333 | 4,333 |
| Other | 23,261 | 75,125 | 98,386 |
| TOTAL FUNCTIONAL EXPENSES | \$ 4,083,234 | \$ 1,188,015 | \$ 5,271,249 |
| 2022 | | | |
| | Program | Management | Total |
| FUNCTIONAL EXPENSES | | | |
| Compensation | \$ 2,373,011 | \$ 692,987 | \$ 3,065,998 |
| Continuing Education/Conferences | 4,916 | - | 4,916 |
| Depreciation | 581,771 | 102,665 | 684,436 |
| Mission Trips | 4,623 | 1,785 | 6,408 |
| Support Other Ministries | 323,625 | - | 323,625 |
| Facility and Equipment | 749,747 | 83,305 | 833,052 |
| Office and Technology | 26,647 | 106,586 | 133,233 |
| Benevolence | 35,364 | - | 35,364 |
| Travel and Retreat | 35,661 | 2,688 | 38,349 |
| Professional Services | 87,281 | 41,865 | 129,146 |
| Advertising | 30,265 | - | 30,265 |
| Hospitality | 86,192 | - | 86,192 |
| Ministry Materials | 96,443 | - | 96,443 |
| Interest | - | 6,472 | 6,472 |
| Other | 23,891 | 80,002 | 103,893 |
| TOTAL FUNCTIONAL EXPENSES | \$ 4,459,437 | \$ 1,118,355 | \$ 5,577,792 |

The independent auditors' report and accompanying notes are
an integral part of these financial statements.

GRACE FELLOWSHIP CHURCH, INC.
STATEMENTS OF CASH FLOWS

| For the Years Ended June 30, | 2023 | 2022 |
|--|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ (523,630) | \$ 96,492 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities: | | |
| Depreciation | 681,188 | 684,436 |
| Loss on Disposal of Property and Equipment | 2,925 | - |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | 329,386 | (341,767) |
| Prepaid Expenses | 39,943 | (14,218) |
| Refundable Advances | - | (439,373) |
| Accounts Payable and Accrued Expenses | <u>(9,006)</u> | <u>(18,615)</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>520,806</u> | <u>(33,045)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Equipment and Improvements | <u>(34,625)</u> | <u>(108,567)</u> |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>(34,625)</u> | <u>(108,567)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment on Mortgage Payable | (311,472) | (274,006) |
| Payment on Financing Lease | <u>(16,543)</u> | <u>(25,487)</u> |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | <u>(328,015)</u> | <u>(299,493)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 158,166 | (441,105) |
| Cash and Cash Equivalents - Beginning of Year | <u>1,016,752</u> | <u>1,457,857</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 1,174,918</u> | <u>\$ 1,016,752</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION: | | |
| Cash Paid During the Year for Interest | <u>\$ 464,077</u> | <u>\$ 479,303</u> |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Equipment Obtained through a Finance Lease | <u>\$ -</u> | <u>\$ 68,864</u> |

The independent auditors' report and accompanying notes are
an integral part of these financial statements.

GRACE FELLOWSHIP CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1: Organization and Summary of Significant Accounting Policies

Organization and Nature of Activities

Grace Fellowship Church, Inc. (the Organization) is a nonprofit organization established as a Christian church operating in Timonium, Maryland. The Organization is supported primarily through contributions from the congregation.

The following summarizes the significant accounting policies used in the preparation of these financial statements:

Basis of Accounting and Presentation

The Organization uses the accrual basis of accounting, recognizing contributions when measurable and available and expenses when incurred. Under generally accepted accounting principles, the Organization is required to report information regarding its financial position and activities according to two (2) classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all short-term debt securities purchased with a maturity of three (3) months or less to be cash equivalents. Included as cash equivalents is \$574,720 and \$582,075 in money market mutual funds as of June 30, 2023 and 2022, respectively. Because their fair value approximates cost, management is of the opinion that they qualify as cash equivalents.

Property and Equipment

Property and equipment are recorded at cost if purchased; or as support, at estimated fair value, if donated. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using straight-line and accelerated methods over the estimated useful life of the related assets which ranges from five (5) to thirty-nine (39) years. The Organization capitalizes property and equipment acquired at \$2,000 or greater.

Leases

The Organization leases equipment and determines if an arrangement is a lease at inception. Finance leases are included in fixed assets, finance lease liability - current liabilities, and finance lease liabilities on the statements of financial position.

The amount in fixed assets represents a right to use underlying assets for the lease term, and finance lease liability represents the obligation to make lease payments arising from the lease. Finance lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Organization's leases did not provide an implicit rate, therefore the Organization used their incremental borrowing rate which is used to determine the present value of lease payments. The lease terms may include options to purchase the asset at the end of the lease term when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

GRACE FELLOWSHIP CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Organization considers factors such as: if all of the rights to the underlying asset were substantially obtained through exclusivity; if the Organization has the right to direct the use of the asset; and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management is of the opinion that all of the Organization's accounts receivable are fully collectible and no allowance for doubtful accounts is required. The balance as of July 1, 2021 was \$11,112.

Refundable Advances

Contributions which include donor-imposed conditions are accounted for as liabilities. As the conditions are met, the contributions are recognized in the statements of activities.

Refundable Advances (Continued)

The refundable advances balance as of June 30, 2022 represents loan proceeds received by the Organization from the United States Small Business Association ("SBA") as part of the Paycheck Protection Program ("PPP"). The Organization received a loan in the amount of \$439,373 during the year ended June 30, 2021. During the year ended June 30, 2022, the Organization met the conditions for forgiveness of the loan resulting in income. The forgiven loan is included in the line item grant income - paycheck protection program on the statements of activities.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions, and are reported in the statements of activities as net assets released from restrictions.

Donated Materials

The Organization records donated materials and equipment as contributions. Such items are recorded at their estimated fair market value at the date of receipt.

GRACE FELLOWSHIP CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Donated Services

The Organization records donated services if the services (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills, and that would typically need to be purchased if not provided by donation. There were no such services for the years ended June 30, 2023 and 2022.

Income Taxes and Uncertainties

The Organization is a nonprofit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income, and has been determined not to be a private foundation. No provision has been made for income taxes as the Organization has had no significant unrelated business income.

The Organization's evaluation on June 30, 2023 revealed no uncertain tax positions that would have a material impact on the financial statements. The previous three (3) tax years remain subject to examination by the IRS. The Organization does not believe that any reasonably possible changes will occur within the next twelve (12) months that will have a material impact on the financial statements.

Advertising Costs

Advertising costs are charged to operations when incurred.

FASB ASC No. 360

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) No. 360 requires that long-lived assets and certain identifiable intangibles, held and used by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Application of FASB ASC No. 360 has not materially affected the Organization's reported earnings, financial condition or cash flows.

Reclassification

Certain amounts in the 2022 financial statements have been reclassified for comparative purposes to conform with the 2023 presentation.

Employee Retention Credit (ERC)

The Organization qualified for federal government assistance through ERC provisions of the CARES Act passed in 2020. The purpose of the ERC is to encourage employers to keep employees on the payroll, even if they are not working during the covered period because of the coronavirus outbreak. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605, the Organization recognizes the ERC as a conditional contribution since the ERC requires the Organization to meet certain eligibility requirements before they qualify to receive funds. Because the Organization met those requirements during the year ended June 30, 2022, they recognized the ERC as grant income in the statement of activities and as a receivable in the statement of financial position. The ERC was received on September 29, 2022 and October 4, 2022.

GRACE FELLOWSHIP CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Adoption of New Accounting Guidance

The Organization adopted Accounting Standards Update 2016-02 (as amended), Leases (Topic 842) on July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2021 (the beginning of the earliest period presented) using a modified retrospective approach with certain practical expedients available.

The Organization elected the available practical expedients to account for the existing capital leases as finance leases under the new guidance, without reassessing (i) the lease classification of existing leases; (ii) whether existing leases and expired contracts are (or contain) leases, and; (iii) initial direct costs for existing leases.

The Organization has elected not to apply the recognition requirements of ASC 842 to all short-term leases, defined as leases with a term of twelve (12) months or less at commencement.

Adoption of Topic 842 did not result in adjustments to the financial statements.

Date of Management's Review

The Organization has evaluated events and transactions that occurred during the period from the date of the financial statements through November 22, 2023, the date the Organization's financial statements were available to be issued. There were no events or transactions that occurred during the period that materially impacted the amounts or disclosures in the Organization's financial statements.

Note 2: Concentration of Credit Risk

The Organization maintains deposits at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, and may, at times, exceed insured limits. The Organization believes that no significant concentration of credit risk exists with respect to these balances.

Note 3: Net Assets With Donor Restrictions

As of June 30, 2023 and 2022, net assets with donor restrictions are available for the following:

| | <u>2023</u> | <u>2022</u> |
|---------------------|-------------------|-------------------|
| Other | \$ 23,892 | \$ 50,780 |
| Beyond Capernaum | 11,156 | 20,156 |
| Grace Cares | 115,449 | 118,288 |
| Grace Cares Center | 5,000 | - |
| GraceXtensions | 713 | 15,259 |
| Kardia Min | 85,574 | 116,020 |
| Future Church Plant | 3,000 | - |
| Mission Trips | 192 | 7,932 |
| | <u> </u> | <u> </u> |
| TOTAL | <u>\$ 244,976</u> | <u>\$ 328,435</u> |

GRACE FELLOWSHIP CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 4: Net Assets Released from Restrictions

The following amounts were released from donor restrictions for the fiscal years ended June 30:

| | 2023 | 2022 |
|------------------|------------|------------|
| Other | \$ 34,287 | \$ 5,413 |
| Beyond Capernaum | 9,000 | - |
| Grace Cares | 94,864 | 41,181 |
| GraceXtensions | 15,596 | 423 |
| Kardia Min | 97,861 | 59,639 |
| Mission Trips | 18,913 | 123 |
| TOTAL | \$ 270,521 | \$ 106,779 |

Note 5: Land Easement

As part of the Organization's purchase agreement of their building, the adjacent building owner granted a land easement over the portion of the parking area that the Organization did not own. The easement gave the Organization a non-exclusive right of passage of the non-owner parking lot. The agreement is perpetual, but terminates should the Organization sell the building or cease operating as a church. In exchange for the easement, the Organization pays an annual maintenance fee to the parking lot owner of \$52,000 in bi-annual installments, subject to three (3) percent annual escalation. The Organization elected to apply the practical expedient which allows an entity to avoid evaluation under Topic 842, existing or expired land easements, that were not previously accounted for as leases under the Topic 840.

Maintenance fees for the years ended June 30, 2023 and 2022 amounted to \$57,674 and \$55,994, respectively, and are included in facility and equipment on the statements of functional expenses.

Note 6: Functional Allocation of Expense

The costs of providing various programs have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

GRACE FELLOWSHIP CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 7: Employee Benefit Plan

The Organization has a defined contribution salary deferral plan covering substantially all employees. For the years ended June 30, 2023 and 2022, the Organization contributed five percent (5%) of employee salaries. The total expense for the years ended June 30, 2023 and 2022 was \$55,904 and \$57,936, respectively.

Note 8: Finance Leases

The Organization leases assets under the terms of finance leases which mature through 2027. The assets and liabilities under finance leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under finance leases is included in depreciation expense for 2023 and 2022. The following is a summary of property held under finance leases.

The weighted average remaining lease term is 44 months. The weighted average discount rate is 7.5%.

Future minimum lease payments under finance leases are as follows:

| <u>For the Years Ending June 30,</u> | | |
|--|----|----------------------|
| 2024 | \$ | 15,909 |
| 2025 | | 15,909 |
| 2026 | | 15,909 |
| 2027 | | <u>10,605</u> |
| Total Future Minimum Lease Payments | | 58,332 |
| Less: Imputed Interest | | <u>7,471</u> |
| Total | | 50,861 |
| Less: Current Maturities of Long-Term Obligations Under Finance Leases | | <u>12,519</u> |
| LONG-TERM OBLIGATIONS UNDER FINANCE LEASES | \$ | <u><u>38,342</u></u> |

GRACE FELLOWSHIP CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 9: Mortgage Payable

The Organization entered into a Mortgage Payable (“Mortgage”) with a financial institution on December 18, 2018 in the amount of \$11,300,000. On May 1, 2020, the Organization amended the Mortgage to decrease the interest rate and extend the interest only period of the loan. The Mortgage is collateralized by a building and land. The Mortgage has an interest rate of 4.3% and matures January 1, 2044. The Mortgage had interest only payments through November 2020. Starting in December 2020 and through loan maturity, monthly payments of \$64,268 include both principal and interest. The remaining balance is due on the maturity date. The Mortgage agreement contains certain covenants with which the Organization must comply. As of June 30, 2023, the Organization was not in compliance with the covenants. The Organization obtained a waiver of such covenants. The Mortgage may not be prepaid before May 1, 2025. As of June 30, 2023 and 2022, the balance due on the Mortgage was \$10,521,909 and \$10,833,381, respectively. Interest expense for the years ended June 30, 2023 and 2022 was \$458,628 and \$471,762, respectively, and is included in facility and equipment in the statements of functional expenses.

The future minimum principal payments for the next five (5) years and thereafter are as follows:

For the Years Ending June 30,

| | | |
|------------|----|--------------------------|
| 2024 | \$ | 325,132 |
| 2025 | | 339,392 |
| 2026 | | 354,278 |
| 2027 | | 369,814 |
| 2028 | | 386,033 |
| Thereafter | | <u>8,747,260</u> |
| TOTAL | \$ | <u><u>10,521,909</u></u> |

Note 10: Liquidity and Availability of Financial Assets

The following reflects the Organization’s financial assets as of the date of the statements of financial position, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one (1) year of the date of the statements of financial position.

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|---------------------|
| Financial Assets at Year-End | \$ 1,198,411 | \$ 1,369,631 |
| Less Those Unavailable to General Expenditures Within One (1) Year Due to Donor Restrictions (See Note 3) | <u>(244,976)</u> | <u>(328,435)</u> |
| Financial Assets Available to Meet Cash Needs for General Expenditures Within One (1) Year | <u>\$ 953,435</u> | <u>\$ 1,041,196</u> |

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.