Lighthouse Mission Ministries

Financial Statements with
Independent Auditor's Report

Years Ended June 30, 2022 and 2021

WERSEN
NONPROFIT
CPAs LLC

Lighthouse Mission Ministries

Contents

Independent Auditor's Report

To the Board of Directors
Lighthouse Mission Ministries
Bellingham, Washington

Qualified Opinion

I have audited the accompanying financial statements of Lighthouse Mission Ministries (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of my report, the accompanying financial statements present fairly, in all material respects, the financial position of Lighthouse Mission Ministries (the Organization) as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

Due to the Organization's policy to not recognize in-kind contributions under $1,000 (as described in Note 1), as well as the inadequacy of support maintained for the valuation assigned to those in-kind goods and services contributions that are recognized, we were unable to obtain sufficient appropriate audit evidence regarding the other in-kind goods and services contributions balance recorded in the accompanying statement of activities at June 30, 2022 (stated at $297,226). The effects on the accompanying financial statements of the failure to both record all other in-kind goods and services contributions and maintain support for those other in-kind goods and services contributions recognized have not been determined, and the disclosure requirements of the Financial Accounting Standards Board's Accounting Standards Update 2020-07 for contributed nonfinancial assets are not complete.

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

Other Matter

The June 30, 2021 financial statements of Lighthouse Mission Ministries were audited by other auditors, whose report dated February 3, 2022, expressed a qualified opinion on those statements. The basis for qualified opinion described in that audit report was for similar reasons as our Basis for Qualified Opinion described above.

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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my 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, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Keith Yu

Bellingham, Washington
February 9, 2023

Lighthouse Mission Ministries

Statements of Financial Position

June 30, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 2,030,163	$ 2,039,646
Pledges receivable, current	597,667	811,973
Rent receivable, current	230,258	150,636
Due from related party	-	450,000
Investments	6,676,287	2,875,692
Inventory	126,590	32,910
Prepaids and other current assets	118,215	164,337
Total current assets	9,779,180	6,525,194
Pledges receivable, net of discount and current portion	1,551,697	527,541
Rent receivable, net of discount and current portion	43,476	133,762
Other assets	36,594	43,975
Property and equipment, net	2,925,224	2,948,631
Total assets	$ 14,336,171	$ 10,179,103
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 86,792	$ 123,220
Accrued payroll and related liabilities	295,441	214,041
Note payable to related party, current	38,097	37,000
Total current liabilities	420,330	374,261
Note payable to related party, net of current portion	451,259	487,850
Total liabilities	871,589	862,111
Net assets		
Without donor restrictions		
Undesignated	1,064,581	1,712,453
Investment in property and equipment, net of related debt	2,435,868	2,423,781
Board designated	-	27,594
Total without donor restrictions	3,500,449	4,163,828
With donor restrictions	9,964,133	5,153,164
Total net assets	13,464,582	9,316,992
Total liabilities and net assets	$ 14,336,171	$ 10,179,103

Lighthouse Mission Ministries

Statements of Activities

Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Contributions	4,074,275	$ 4,906,662	$ 8,980,937	4,353,223	$ 4,355,583	$ 8,708,806
In-kind contributions						
Rent	41,613	131,535	173,148	58,791	-	58,791
Other goods and services	297,226	-	297,226	566,357	-	566,357
Total in-kind contributions	338,839	131,535	470,374	625,148	-	625,148
Fundraising events, net of direct expenses	202,689	-	202,689	-	-	-
Net investment return (loss)	(500,176)	-	(500,176)	30,263	-	30,263
Other income	218,299	(5,769)	212,530	421,440	7,999	429,439
Net assets released from restriction	221,459	(221,459)	-	154,709	(154,709)	-
Total support and revenue	4,555,385	4,810,969	9,366,354	5,584,783	4,208,873	9,793,656
Expenses						
Program services	3,487,218	-	3,487,218	3,558,604	-	3,558,604
Management and general	900,869	-	900,869	913,247	-	913,247
Fundraising	830,677	-	830,677	466,474	-	466,474
Total expenses	5,218,764	-	5,218,764	4,938,325	-	4,938,325
Changes in net assets	(663,379)	4,810,969	4,147,590	646,458	4,208,873	4,855,331
Net assets – beginning of year	4,163,828	5,153,164	9,316,992	3,517,370	944,291	4,461,661
Net assets – end of year	$ 3,500,449	$ 9,964,133	$ 13,464,582	$ 4,163,828	$ 5,153,164	$ 9,316,992

Lighthouse Mission Ministries

Statements of Functional Expenses

Years Ended June 30, 2022 and 2021

	2022				2021			
	Program Services	**Management and General**	**Fundraising**	**Total**	**Program Services**	**Management and General**	**Fundraising**	**Total**
Salaries	$ 1,852,508	$ 309,877	$ 306,047	$ 2,468,432	$ 1,562,035	$ 323,966	$ 193,010	$ 2,079,011
Benefits	263,756	76,796	81,794	422,346	254,998	63,536	37,853	356,387
Payroll taxes	185,412	31,177	30,588	247,177	152,120	31,549	18,796	202,465
Total payroll and related	2,301,676	417,850	418,429	3,137,955	1,969,153	419,051	249,659	2,637,863
Occupancy	509,818	70,110	-	579,928	523,208	21,484	-	544,692
Advancement services	784	3,205	379,255	383,244	-	109,748	205,687	315,435
Professional services	60,131	295,809	-	355,940	45,427	214,551	-	259,978
Other	101,044	92,666	29,467	223,177	69,487	116,359	6,286	192,132
Meals and assistance	214,643	-	-	214,643	723,041	-	-	723,041
Depreciation	138,470	5,319	-	143,789	137,086	-	-	137,086
Supplies	106,014	13,298	3,526	122,838	37,142	20,116	4,842	62,100
Special events	-	-	59,375	59,375	-	-	-	-
Repairs and maintenance	54,638	2,612	-	57,250	54,060	11,938	-	65,998
	3,487,218	900,869	890,052	5,278,139	3,558,604	913,247	466,474	4,938,325
Less: direct expenses of fundraising events	-	-	(59,375)	(59,375)	-	-	-	-
Total expenses	$ 3,487,218	$ 900,869	$ 830,677	$ 5,218,764	$ 3,558,604	$ 913,247	$ 466,474	$ 4,938,325

The accompanying notes are an integral part of these financial statements.

Lighthouse Mission Ministries

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Changes in net assets	$ 4,147,590	$ 4,855,331
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Change in pledges receivable allowance and discount	406,121	12,082
Depreciation	143,789	137,086
Loss on disposal of property and equipment	-	233
Realized and unrealized loss (gain) on investments	626,559	(20,472)
Contributions from donated stock	(532,029)	(667,289)
Contributions restricted for capital projects	(4,957,117)	(3,785,620)
Noncash in-kind contributions	(470,374)	(625,148)
Noncash in-kind expenses	374,457	844,950
Forgiveness of Paycheck Protection Program loan	-	(326,000)
(Increase) decrease in assets		
Pledges receivable	-	5,000
Other assets	53,503	(23,154)
Increase (decrease) in liabilities		
Accounts payable	(36,428)	100,256
Accrued payroll and related liabilities	81,400	4,532
Net cash provided (used) by operating activities	(162,529)	511,787
Cash flows from investing activities		
Purchases of property and equipment, net of proceeds from sales	(107,481)	(25,881)
Deposits into investment account, net of withdrawls	(3,895,125)	(2,187,931)
Net cash used by investing activities	(4,002,606)	(2,213,812)
Cash flows from financing activities		
Proceeds from contributions restricted for capital projects	3,741,146	2,434,024
Proceeds from related party receivable for capital projects	450,000	-
Principal payments on note payable to related party	(35,494)	(38,826)
Cash provided by financing activities	4,155,652	2,395,198
Net change in cash and cash equivalents	(9,483)	693,173
Cash and cash equivalents – beginning of year	2,039,646	1,346,473
Cash and cash equivalents – end of year	$ 2,030,163	$ 2,039,646
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest on note payable	$ 14,005	$ 15,174

Note 1 – Summary of Significant Accounting Policies

Nature of activities – Lighthouse Mission Ministries (the Organization) is a Washington State nonprofit corporation established in 1923 as a Christian-based charitable organization to conduct rescue mission work and be a consistent friend to people who are homeless. The Organization's programs serve the spiritual and human needs of people who are in need of food, shelter, and recovery services within the local community. This is done through four distinct programs (Agape Home, Ascent Program, Base Camp, and Street Connect) that come alongside people, wherever they are at, to offer hope, give dignity, serve, and support as they undertake the difficult work of leaving homelessness behind.

Lighthouse Mission Ministries Foundation (the Foundation) is a related party, which exists to support the Organization. While the Organization has an economic interest in the Foundation, the Organization lacks the prerequisite level of control over the Foundation to require consolidation. Thus, the Foundation's financial statements are not consolidated within the Organization's financial statements at either June 30, 2022 or 2021. Transactions between the Organization and Foundation are described in Notes 7 and 12.

Basis of accounting – The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; accordingly, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of presentation – The Organization presents its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Under this standard, the Organization is required to present its financial position and activities according to two classes of net assets:

> *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control.
>
> *Net assets with donor restrictions* – Net assets subject to donor-imposed restrictions or time restrictions that will be met either through actions of the Organization or by passage of time, including contributions restricted by the donor to be invested in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Net assets with donor restrictions are reclassified to net assets without donor restrictions upon satisfaction of the time or purpose of restrictions. When donor restrictions are met during the same period that the contribution is recognized, the contribution is recorded as without donor restrictions.

Cash and cash equivalents – The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash in bank accounts that may exceed federally insured limits at times during the year. The Organization has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk. Cash equivalents held in the investment account are classified as investments as those resources are not used for daily operating needs.

Note 1 – Summary of Significant Accounting Policies – (Continued)

Pledges receivable – Unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Pledges expected to be collected in future years are recorded at the present value of estimated future cash flows using a discount rate commensurate with the risks involved. In subsequent years, amortization of the discount is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectable pledges based on historical experience, an assessment of economic conditions, and a review of subsequent collections. The Organization considers all pledges receivable collectible as of June 30, 2022 and 2021; thus, no allowance has been established for uncollectible pledges.

Investments – The Organization records investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Investment securities, in general, are exposed to various risks, such as interest rate, market, and credit risk. It is reasonably possible, given the level of risk associated with the investment securities, that changes in the near term could materially affect the Organization's account balances and the amounts reported in the financial statements.

Inventory – Inventory is recorded at the lower of cost or market. If received through donation, inventory is recorded as the lower of fair value at date of donation or market. Inventory is recorded using first in, first out method. Inventory represents food and supplies on hand as of year-end.

Property and equipment – The Organization capitalizes all property and equipment acquisitions in excess of $2,500. Property and equipment acquisitions are recorded at cost, if purchased, and fair value, if donated. Additions, improvements, or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of the assets, which ranges from 3 to 40 years.

Contributions – Contribution revenue is recognized in the period received or when an unconditional promise to give is made, whichever is earlier. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Donated goods, services, and rent – Donations in excess of $1,000 of supplies, equipment, and other goods, services, and rent are recorded at their estimated fair values at the date of donation. Individual donations of less than $1,000, which generally consist of food and other consumable supplies, are not recognized by the Organization. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Many volunteers have donated significant amounts of time to the Organization's activities. The services of these volunteers are not recorded in the accompanying financial statements as they do not meet the criteria for recognition.

Advertising – The Organization expenses advertising costs as they are incurred. Advertising expense totaled $314,762 and $259,014 for the years ended June 30, 2022 and 2021, respectively, and is included in advancement services in the accompanying statements of functional expenses.

Note 1 – Summary of Significant Accounting Policies – (Continued)

Federal income taxes – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal income tax on income derived from activities related to its tax-exempt purposes. Accordingly, no provision for income tax is necessary. Under Section 6033(a)(3)(A)(i), the Organization is not required to file a federal income tax return as it meets the federal requirements for church status, and it operates as a church.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on the functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classifications. Expenses that are not directly associated with a program are allocated as follows:

> **Time and effort:** Salaries, benefits, and payroll taxes
> **Estimates of usage and direct allocation:** Occupancy, supplies, depreciation, repairs and maintenance, advancement services, professional services, and other

Use of estimates – The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassification – Certain classifications have been made to the prior year's financial statements to conform to the current year's presentation.

Subsequent events – In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 9, 2023, the date that the financial statements were available to be issued.

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year consist of the following at June 30:

	2022	2021
Cash and cash equivalents	$ 2,030,163	$ 2,039,646
Pledges receivable, net	2,149,364	1,339,514
Due from related party	-	450,000
Investments	6,676,287	2,875,692
Total financial assets	10,855,814	6,704,852
Less amounts not available for general expenditure		
Board designated	-	(27,594)
Donor restricted	(9,964,133)	(5,153,164)
Financial assets available for general expenditure within one year	$ 891,681	$ 1,524,094

Note 2 – Liquidity and Availability – (Continued)

The Organization has certain board designated net assets limited in use, which are intended for use on capital projects. Board-designated amount could be made available for general expenses, if necessary, but is subject to Board approval. The Organization has certain donor-restricted net assets limited to use which are not available for general expenditures within one year in the normal course of operations. Accordingly, these net assets have been subtracted from the calculation above.

The Organization's goal is to maintain four months of cash to cover operating expenses. Cash amounts exceeding the four-month goal may be invested in short term investments. Amounts received that are donor restricted for long-term capital projects may be invested in marketable securities in accordance with the Organization's investment policy. In addition, the Lighthouse Mission Ministries Foundation exists to support the Organization (see Note 1) and, subject to approval by the Foundation's Board of Directors, may provide additional assistance to the Organization in times of need.

Note 3 – Pledges Receivable

During the year ended June 30, 2021, the Organization commenced a campaign to raise funds for a new campus in Bellingham, Washington. The goal of a new campus is to expand capacity and provide additional program offerings. The campaign is still in progress and the Organization expects to break-ground on the new campus project during 2023.

Pledges receivable consist of the following at June 30:

	2022	2021
Receivable in less than one year	$ 597,667	$ 811,973
Receivable in one to five years	1,169,900	539,623
Receivable in greater than five years	800,000	-
Total pledges receivable, gross	2,567,567	1,351,596
Less: discount to net present value at rates ranging from 1% to 5%	(418,203)	(12,082)
	$ 2,149,364	$ 1,339,514

Two and one donors represents 51% and 37% of the total gross pledges receivable balance at June 30, 2022 and 2021, respectively.

Note 4 – Rent Receivable

The Organization entered into a 3-year lease with the City of Bellingham in June 2020, with an option to extend in the 4th year, for property to house the Organization's Drop-in Center program. The Drop-in Center program is used to stabilize incoming guests, introduce them to a lifesaving relationship with Jesus Christ, offer homeless assessment, and provide a motivational environment that encourages life-change. The Organization is not required to make any rent payments under the terms of this lease for the first three years.

Note 4 – Rent Receivable – (Continued)

The Organization entered into a 26-month lease with PeaceHealth commencing February 2022, for the use of kitchen space in Bellingham, Washington with monthly payments of $1.

In both instances, the Organization has recognized in-kind contribution revenue, rent expense, and rent receivable based on the estimated fair value of the benefit to be received by the Organization over the term of the leases. The unamortized discount is recognized as contribution support over the term of the leases.

Rent receivable related to these leases is expected to be collected through use of the properties as follows at June 30:

	2022	2021
Within one year	$ 230,258	$ 150,636
In one to three years	59,716	150,636
Total rent receivable, gross	289,974	301,272
Less: discount to net present value at rates ranging from 4% to 6%	(16,240)	(16,874)
	$ 273,734	$ 284,398

In-kind rent expense related to these leases totaled $183,811 and $150,636 during the years ended June 30, 2022 and 2021, respectively, and is included in occupancy expense in the statements of functional expenses.

Note 5 – Investments and Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures,* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology that are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 5 – Investments and Fair Value Measurements – (Continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in methodologies used during the years ended June 30, 2022 and 2021.

Investments at fair value consist of the following as of June 30:

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments fair value hierarchy				
Money market funds	$ 88,320	$ -	$ -	$ 88,320
Fixed income				
Municipal bonds	4,603,597	-	-	4,603,597
Equity funds				
Mutual funds	663,563	-	-	663,563
Stocks	912,652	-	-	912,652
Exchange traded funds	408,155	-	-	408,155
Total	$ 6,676,287	$ -	$ -	$ 6,676,287

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments fair value hierarchy				
Money market funds	$ 658,213	$ -	$ -	$ 658,213
Fixed income				
Municipal bonds	948,965	-	-	948,965
Exchange traded funds	796,799	-	-	796,799
Equity funds				
Mutual funds	56,829	-	-	56,829
Stocks	272,327	-	-	272,327
Exchange traded funds	142,559	-	-	142,559
Total	$ 2,875,692	$ -	$ -	$ 2,875,692

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market date is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another.

The Organization evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended June 30, 2022 and 2021, there were no significant transfers in or out of Level 3.

Note 6 – Property and Equipment

Property and equipment consists of the following at June 30:

	2022	2021
Land	$ 512,056	$ 512,056
Buildings and improvements	4,131,045	4,084,713
Furnitures and fixtures	53,800	49,495
Machinery and equipment	163,285	122,251
Vehicles	118,191	105,290
Other	33,667	25,108
Property and equipment, gross	5,012,044	4,898,913
Less: accumulated depreciation	(2,086,820)	(1,950,282)
	$ 2,925,224	$ 2,948,631

Depreciation expense totaled $143,789 and $137,086 for the years ended June 30, 2022 and 2021, respectively. Property and equipment, net of accumulated depreciation, related to assets that management intends to scrap as part of the new campus project, if it were to proceed to the next phase, total approximately $685,000. Such assets are not considered impaired as of June 30, 2022 and remain in the property and equipment balance in the statement of financial position. Though, if the new campus project does progress to the next phase, management expects these assets to be scrapped and written-off at that time as a loss on disposal of property and equipment.

Note 7 – Note Payable to Related Party

The note payable to a related party consists of the following at June 30:

Notes payable to a related party consist of the following at June 30:

	2022	2021
Note payable to Lighthouse Mission Ministries Foundation, due in installments of $4,500 per month. A portion is financed at a fixed five year rate of 3.69%, another portion is financed at a fixed seven year rate of 3.82% and the remainder is at a variable rate, which was 2.79% at June 30, 2022. The loan is unsecured and remaining unpaid balance is due in September 2024.	$ 489,356	$ 524,850
Less current portion	(38,097)	(37,000)
Note payable, net of current portion	$ 451,259	$ 487,850

Scheduled future principal payments on the note payable are as follows for the fiscal years ending June 30:

2023	$ 38,097
2024	39,535
2025	411,724
	$ 489,356

Note 8 – Operating Leases

On September 1, 2019, the Organization entered into a month-to-month lease for the use of facilities in Bellingham, Washington with monthly payments of $700. Lease payments escalated to $1,000 effective April 1, 2022 and continues on a month-to-month basis. On May 1, 2021, the Organization entered into a three-year lease for administrative office space in Bellingham, Washington, with monthly payments of $3,700. Rent expense related to these operating leases totaled $56,316 and $15,800 during the years ended June 30, 2022 and 2021, respectively, and is included in occupancy expense in the statements of functional expenses.

The Organization's in-kind operating lease activity is described in Note 4.

Future minimum payments under these operating leases are as follows for the years ending June 30:

2023	$ 44,410
2024	37,010
	$ 81,420

Note 9 – Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

	2022	2021
Campus Building Fund	$ 9,634,575	$ 4,355,582
Drop-in Center	-	482,647
Time restricted – rent recievable	273,734	275,961
Interest in other assets held by a community foundation	27,855	33,624
Other	27,969	5,350
	$ 9,964,133	$ 5,153,164

Note 10 – Tax-Sheltered Annuity Plan

The Organization maintains a qualified tax-sheltered annuity plan (the Plan) under 403(b) of the IRS Code available to all full-time employees. The Plan is non-discriminatory and the Organization contributes three percent of salary for participating employees annually. The Organization also matches up to two percent of each participating employee's tax deferred compensation withheld under the Plan. The amounts withheld from compensation and the Organization's contribution vest immediately with the employee. The amount of contributions made by the Organization totaled $71,395 and $43,517 for the years ended June 30, 2022 and 2021, respectively.

Note 11 – Program Expenses

Total program expenses presented on the statements of functional expenses may be further broken down by program as follows at June 30:

	2022	2021
Basecamp	$ 1,760,834	$ 1,696,143
Ascent Program	868,046	809,990
Agape Home	673,927	609,924
Outreach and other	184,411	105,007
COVID-19 pandemic support	-	337,540
	$ 3,487,218	$ 3,558,604

Note 12 – Related Party Transactions

In September 2017, the Organization recorded a liability to the Lighthouse Mission Ministries Foundation for a loan taken by the Foundation that was used to pay off the Organization's mortgage balance with Heritage Bank. The Organization pays $4,500 per month to the Foundation. The loan details and remaining unpaid balance are presented in Note 7.

The Organization received contributions of $1,000,000 and $0 from the Foundation during the years ended June 30, 2022 and 2021, respectively. In addition, during the year ended June 30, 2019, the Organization was named as beneficiary of contributions totaling $500,000, but which the Foundation received and held in its money market account. The remaining funds held by the Foundation at June 30, 2021 were presented as due from related party on the statement of financial position. The Foundation transferred these funds back to the Organization during the year ended June 30, 2022.

The Organization's investments are held in an investment account under the Foundation's FEIN as of June 30, 2022 and 2021. As such, the total investments balance is presented as an asset and liability of the Foundation at June 30, 2022 and 2021. The Organization has elected to present the investment account as investments rather than due from related party in its statements of financial position, given it controls the investment account decisions, despite the Foundation having technical control. Management and the Board of Directors of each organization are working together to transfer ownership of the account to the Organization and expect it will be completed during the year ending June 30, 2023.

The Organization received contributions of $255,373 and $542,248 from board members during the years ended June 30, 2022 and 2021, respectively. The Organization had outstanding pledges receivable totaling $132,488 and $254,864 from board members at June 30, 2022 and 2021, respectively.

Note 13 – Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, Leases. This guidance, as amended by subsequent ASU's on the topic, requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, are required. Application is required for annual periods beginning after December 15, 2021. The Organization expects to adopt this standard on July 1, 2022. While the Organization is still evaluating impact of the new accounting guidance on its financial statements, based on management's preliminary assessment, the Organization will record assets and liabilities for the administrative office space operating lease described in Note 8.