# Lighthouse Mission Ministries

Financial Statements with
Independent Auditor's Report

Years Ended June 30, 2023 and 2022

WERSEN
NONPROFIT
CPAs LLC

## Lighthouse Mission Ministries

**Contents**

# Independent Auditor's Report

To the Board of Directors
Lighthouse Mission Ministries
Bellingham, Washington

**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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lighthouse Mission Ministries (the Organization) as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

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 audit opinion.

**Other Matter**

I have previously audited the Organization's accompanying June 30, 2022 financial statements, and I expressed a qualified opinion on those audited financial statements in my report dated February 9, 2023. The basis for my qualified opinion was due to the Organization not recognizing individually insignificant in-kind contributions for which information was not available to estimate the cumulative underrecognized amount, as well as the inadequacy of support maintained for the valuation assigned to those in-kind goods and services contributions that were recognized. As a result, I was 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 June 30, 2022 financial statements of the failure to both recognize 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.

**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 Yum

Bellingham, Washington
November 3, 2023

Lighthouse Mission Ministries

## Statements of Financial Position

June 30, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 4,441,859 | $ 2,030,163 |
| Certificates of deposit | 162,252 | - |
| Pledges receivable, current | 1,399,460 | 597,667 |
| Rent receivable, current | 205,154 | 230,258 |
| Property held for sale | 1,850,000 | - |
| Investments | 6,873,178 | 6,676,287 |
| Prepaids and other current assets | 265,658 | 244,805 |
| Total current assets | 15,197,561 | 9,779,180 |
| **Pledges receivable**, net of discount and current portion | 921,517 | 1,551,697 |
| **Rent receivable**, net of discount and current portion | 17,235 | 43,476 |
| **Other assets** | 112,513 | 36,594 |
| **Property and equipment**, net | 5,871,283 | 2,925,224 |
| **Total assets** | $ 22,120,109 | $ 14,336,171 |
| **Liabilities and Net Assets** | | |
| **Current liabilities** | | |
| Accounts payable | $ 854,488 | $ 86,792 |
| Accrued payroll and related liabilities | 277,878 | 295,441 |
| Note payable to related party, current | - | 38,097 |
| Total current liabilities | 1,132,366 | 420,330 |
| **Other accrued liabilities** | 85,253 | - |
| **Note payable to related party**, net of current portion | 463,599 | 451,259 |
| Total liabilities | 1,681,218 | 871,589 |
| **Net assets** | | |
| Without donor restrictions | 1,904,470 | 3,500,449 |
| With donor restrictions | 18,534,421 | 9,964,133 |
| Total net assets | 20,438,891 | 13,464,582 |
| **Total liabilities and net assets** | $ 22,120,109 | $ 14,336,171 |

Lighthouse Mission Ministries

**Statements of Activities**

Years Ended June 30, 2023 and 2022

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| **Support and revenue** | | | | | | |
| Contributions | 3,449,005 | $ 6,721,862 | $ 10,170,867 | 4,074,275 | $ 4,906,662 | $ 8,980,937 |
| In-kind contributions | | | | | | |
| Rent | 12,896 | 166,016 | 178,912 | 41,613 | 131,535 | 173,148 |
| Property | - | 1,850,000 | 1,850,000 | - | - | - |
| Other goods and services | 237,334 | 50,000 | 287,334 | 297,226 | - | 297,226 |
| Total in-kind contributions | 250,230 | 2,066,016 | 2,316,246 | 338,839 | 131,535 | 470,374 |
| Fundraising events, net of direct expenses | 393,447 | - | 393,447 | 202,689 | - | 202,689 |
| Net investment return (loss) | 206,403 | - | 206,403 | (500,176) | - | (500,176) |
| Other income (loss) | 97,354 | 1,963 | 99,317 | 218,299 | (5,769) | 212,530 |
| Net assets released from restriction | 219,553 | (219,553) | - | 221,459 | (221,459) | - |
| Total support and revenue | 4,615,992 | 8,570,288 | 13,186,280 | 4,555,385 | 4,810,969 | 9,366,354 |
| **Expenses** | | | | | | |
| Program services | 4,334,772 | - | 4,334,772 | 3,487,218 | - | 3,487,218 |
| Management and general | 1,017,886 | - | 1,017,886 | 900,869 | - | 900,869 |
| Fundraising | 859,313 | - | 859,313 | 830,677 | - | 830,677 |
| Total expenses | 6,211,971 | - | 6,211,971 | 5,218,764 | - | 5,218,764 |
| **Changes in net assets** | (1,595,979) | 8,570,288 | 6,974,309 | (663,379) | 4,810,969 | 4,147,590 |
| Net assets – beginning of year | 3,500,449 | 9,964,133 | 13,464,582 | 4,163,828 | 5,153,164 | 9,316,992 |
| **Net assets** – end of year | $ 1,904,470 | $ 18,534,421 | $ 20,438,891 | $ 3,500,449 | $ 9,964,133 | $ 13,464,582 |

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

Lighthouse Mission Ministries

**Statements of Functional Expenses**

Years Ended June 30, 2023 and 2022

| | 2023 | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Salaries and wages | $ 1,986,917 | $ 322,688 | $ 268,942 | $ 2,578,547 | $ 1,852,508 | $ 309,877 | $ 306,047 | $ 2,468,432 |
| Employee benefits | 318,798 | 51,723 | 42,208 | 412,729 | 263,756 | 76,796 | 81,794 | 422,346 |
| Payroll taxes | 170,404 | 27,647 | 22,560 | 220,611 | 185,412 | 31,177 | 30,588 | 247,177 |
| Total payroll and related | 2,476,119 | 402,058 | 333,710 | 3,211,887 | 2,301,676 | 417,850 | 418,429 | 3,137,955 |
| Campus Building Fund capital expenses and losses | 619,020 | 30,367 | - | 649,387 | - | - | - | - |
| Occupancy | 511,631 | 105,070 | 24,509 | 641,210 | 509,818 | 70,110 | - | 579,928 |
| Advancement services | - | - | 471,588 | 471,588 | 784 | 3,205 | 379,255 | 383,244 |
| Meals and assistance | 384,941 | - | - | 384,941 | 214,643 | - | - | 214,643 |
| Miscellaneous | 56,554 | 272,992 | 27,227 | 356,773 | 101,044 | 92,666 | 29,467 | 223,177 |
| Professional services | 49,616 | 154,598 | - | 204,214 | 60,131 | 295,809 | - | 355,940 |
| Depreciation | 108,462 | 21,994 | - | 130,456 | 138,470 | 5,319 | - | 143,789 |
| Special events | - | - | 112,275 | 112,275 | - | - | 59,375 | 59,375 |
| Supplies | 80,473 | 7,037 | 1,442 | 88,952 | 106,014 | 13,298 | 3,526 | 122,838 |
| Repairs and maintenance | 47,956 | 23,770 | 837 | 72,563 | 54,638 | 2,612 | - | 57,250 |
| | 4,334,772 | 1,017,886 | 971,588 | 6,324,246 | 3,487,218 | 900,869 | 890,052 | 5,278,139 |
| Less: direct expenses of fundraising events | - | - | (112,275) | (112,275) | - | - | (59,375) | (59,375) |
| Total expenses | $ 4,334,772 | $ 1,017,886 | $ 859,313 | $ 6,211,971 | $ 3,487,218 | $ 900,869 | $ 830,677 | $ 5,218,764 |

Lighthouse Mission Ministries

**Statements of Cash Flows**

Years Ended June 30, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Changes in net assets | $ 6,974,309 | $ 4,147,590 |
| Adjustments to reconcile changes in net assets to net cash used by operating activities: | | |
| Write-offs and change in receivables allowance and discount | 118,301 | 406,121 |
| Depreciation | 130,456 | 143,789 |
| Loss on disposal of property and equipment from demolition | 324,017 | - |
| Realized and unrealized loss (gain) on investments | 52,907 | 626,559 |
| Contributions from donated stock | (14,493) | (532,029) |
| Contributions restricted for capital projects | (6,465,327) | (4,957,117) |
| Noncash contributions of property restricted for capital projects | (1,850,000) | - |
| Noncash in-kind contributions | (466,246) | (470,374) |
| Noncash in-kind expenses | 517,591 | 468,137 |
| Noncash changes in other assets | (79,291) | (92,068) |
| (Increase) decrease in assets | | |
| Other assets | (17,481) | 51,891 |
| Increase (decrease) in liabilities | | |
| Accounts payable | 793 | (36,428) |
| Accrued payroll and related liabilities | (17,563) | 81,400 |
| Other accrued liabilities | 85,253 | - |
| **Net cash used by operating activities** | (706,774) | (162,529) |
| **Cash flows from investing activities** | | |
| Net changes in certificates of deposit | (162,252) | - |
| Purchases of property and equipment, net of proceeds from sales | (2,633,629) | (107,481) |
| Deposits into investment account, net of withdrawls | (235,305) | (3,895,125) |
| **Net cash used by investing activities** | (3,031,186) | (4,002,606) |
| **Cash flows from financing activities** | | |
| Proceeds from contributions restricted for capital projects | 6,175,413 | 3,741,146 |
| Proceeds from related party receivable for capital projects | - | 450,000 |
| Principal payments on note payable to related party | (25,757) | (35,494) |
| **Net cash provided by operating activities** | 6,149,656 | 4,155,652 |
| Net change in cash and cash equivalents | 2,411,696 | (9,483) |
| Cash and cash equivalents – beginning of year | 2,030,163 | 2,039,646 |
| **Cash and cash equivalents** – end of year | $ 4,441,859 | $ 2,030,163 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash paid for interest on note payable | $ 10,244 | $ 14,005 |
| Non-cash investing and financing activities | | |
| Property purchased through accounts payable | $ 766,903 | $ - |

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

## 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 three distinct programs (Agape Home, Ascent Program, and Base Camp (including Outreach) 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, 2023 or 2022. Transactions between the Organization and Foundation are described in Notes 8 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. Gifts restricted for the acquisition of long-lived assets are released from restrictions when the assets are placed in service.

**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.

**Certificates of deposit** – Certificates of deposit are recorded at cost plus accrued interest.

## 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, 2023 and 2022; thus, no allowance has been established for uncollectible pledges. However, long-term promises to give have been discounted using rates ranging from 1%-5% based on a variety of factors, as disclosed further in Note 3.

**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 statements 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.

**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.

**Sabbatical leave** – During the year ended June 30, 2023, the Organization implemented a sabbatical leave program that requires all Chiefs and Program Directors to take a sabbatical of eight full, contiguous weeks for every seven years of service. Compensated time under this program is accrued over the requisite service period. At June 30, 2023, the Organization had accrued $58,151, which is included in accrued payroll and other liabilities in the statement of financial position.

**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 of goods, services, and rent are recorded at their estimated fair values at the date of donation. The fair value of donated goods and services is determined by either the value of the good or service as stated on the receiving documents or based on similar goods and services available in the market using pricing under a "line-kind" methodology. The fair value of free or discounted lease agreements is determined based on square footage in comparison to similar spaces in the geographic area.

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.

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

**Donated goods, services, and rent** (continued) – In-kind contributions of rent under long-term lease agreements contain implicit time restrictions associated with the portion extending into future years (see Note 4). During the year ended June 30, 2023, the Organization received a donation of real property with a carrying value of $1,850,000, which is donor restricted to be sold and proceeds used toward the Campus Building Fund campaign (see Note 5). During the year ended June 30, 2023, the Organization also received in-kind professional services totaling $50,000, which met the criteria for capitalizing as construction in progress and is considered donor-restricted until the facilities are completed and placed into service. The remaining in-kind contributions are not donor restricted.

The Organization uses all goods and services received in its operations and does not monetize any in-kind goods and services received.

**Advertising** – The Organization expenses advertising costs as they are incurred. Advertising expense totaled $185,262 and $316,074 for the years ended June 30, 2023 and 2022, respectively, and is included in advancement services in the accompanying statements of functional expenses.

**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 November 3, 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:

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 4,441,859 | $ 2,030,163 |
| Certificates of deposit | 162,252 | - |
| Pledges receivable, net | 2,320,977 | 2,149,364 |
| Property held for sale | 1,850,000 | - |
| Investments | 6,873,178 | 6,676,287 |
| Total financial assets | 15,648,266 | 10,855,814 |
| Less amounts not available for general expenditure | | |
| Donor restricted | (14,729,725) | (9,662,544) |
| Financial assets available for general expenditure within one year | $ 918,541 | $ 1,193,270 |

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 three months of cash to cover operating expenses. Cash amounts exceeding the three-month goal may be invested in short-term investments, including certificates of deposit. 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. Funds contributed toward this campaign are considered restricted for Campus Building Fund. The goal of a new campus is to expand capacity and provide additional program offerings. The Organization has commenced construction of the new facilities (see Note 7 for additional details). The campaign remains in progress as the Organization seeks additional donors to help finance the project's remaining costs. Pledges receivable consist of the following at June 30:

| | 2023 | 2022 |
|---|---|---|
| Receivable in less than one year | $ 1,399,460 | $ 597,667 |
| Receivable in one to five years | 585,021 | 1,169,900 |
| Receivable in greater than five years | 760,000 | 800,000 |
| Total pledges receivable, gross | 2,744,481 | 2,567,567 |
| Less: discount to net present value at rates ranging from 1% to 5% | (423,504) | (418,203) |
| | $ 2,320,977 | $ 2,149,364 |

Two donors represent 53% and 51% of the total gross pledges receivable balance at June 30, 2023 and 2022, 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.

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:

| | 2023 | 2022 |
|---|---|---|
| Within one year | $ 205,154 | $ 230,258 |
| In one to two years | 31,563 | 59,716 |
| Total rent receivable, gross | 236,717 | 289,974 |
| Less: discount to net present value at rates ranging from 4% to 6% | (14,328) | (16,240) |
| | $ 222,389 | $ 273,734 |

In-kind rent expense related to these leases, as well as another month-to-month in-kind lease, totaled $230,258 and $183,812 during the years ended June 30, 2023 and 2022, respectively, and is included in occupancy expense in the statements of functional expenses.

## Note 5 – Property Held for Sale

The Organization received a contribution of real property with an initial valuation of $2,350,000 during the year ended June 30, 2023. The donor placed a restriction on the contribution that the Organization sells the property and use its proceeds toward the Campus Building Fund campaign. The Organization expects the property to sell within the next year, but at an amount less than its valuation. As such, the Organization has recorded the donated property at its estimated sale price, less costs of sale, totaling $1,850,000, as property held for sale in the accompanying statement of financial position at June 30, 2023. This contribution made up 14% of total support and revenue for the year ended June 30, 2023.

## Note 6 – 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.

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, 2023 and 2022.

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

| | **2023** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Investments fair value hierarchy | | | | |
| Money market funds | $ 103,598 | $ - | $ - | $ 103,598 |
| Fixed income | | | | |
| Municipal bonds | 4,698,271 | - | - | 4,698,271 |
| Equity funds | | | | |
| Mutual funds | 662,740 | - | - | 662,740 |
| Stocks | 1,003,804 | - | - | 1,003,804 |
| Exchange traded funds | 404,765 | - | - | 404,765 |
| Total | $ 6,873,178 | $ - | $ - | $ 6,873,178 |

## Note 6 – Investments and Fair Value Measurements – (Continued)

| | 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 |

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, 2023 and 2022, there were no significant transfers in or out of Level 3.

## Note 7 – Property and Equipment

Property and equipment consists of the following at June 30:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| Land | $ | 512,056 | $ | 512,056 |
| Buildings and improvements | | 3,202,539 | | 4,131,045 |
| Vehicles | | 124,342 | | 118,191 |
| Machinery and equipment | | 93,482 | | 163,285 |
| Furnitures and fixtures | | 44,827 | | 53,800 |
| Other | | 27,820 | | 33,667 |
| Construction in progress | | 3,367,718 | | - |
| Property and equipment, gross | | 7,372,784 | | 5,012,044 |
| Less: accumulated depreciation | | (1,501,501) | | (2,086,820) |
| | $ | 5,871,283 | $ | 2,925,224 |

Depreciation expense totaled $130,456 and $143,789 for the years ended June 30, 2023 and 2022, respectively.

## Note 7 – Property and Equipment – (Continued)

As discussed in Note 3, the Organization is in the midst of a significant campus expansion project. During the year ended June 30, 2023, the Organization entered into a contract with a construction company with estimated total project costs, excluding sales tax, of $21.9 million. Demolition of existing facilities at the project site commenced in March 2023. Costs associated with the demolition, including loss on disposal of existing assets, have been expensed as incurred. Construction costs are capitalized as construction in progress. The Organization expects construction to continue until September 1, 2024, and the estimated total remaining project costs, excluding sales tax, are approximately $19.2 million.

## Note 8 – Note Payable to Related Party

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

| | 2023 | 2022 |
|---|---|---|
| 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 6.82% at June 30, 2023. In February 2023, the Foundation agreed to defer all payments until loan maturity. The loan is unsecured and remaining unpaid balance is currently due in September 2024. | $ 463,599 | $ 489,356 |
| Less current portion | - | (38,097) |
| Note payable, net of current portion | $ 463,599 | $ 451,259 |

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

| | |
|---|---|
| 2024 | $ - |
| 2025 | 463,599 |
| | $ 463,599 |

Subsequent to year-end, in October 2023 the Foundation's board of directors approved a restricted use grant to the Organization in the amount of the remaining balance owed on the note payable, including all accrued interest. This restricted use grant is to be used to pay off the entire outstanding note payable debt owed by the Organization to the Foundation. The accompanying financial statements have not been updated to reflect this debt forgiveness. The Organization expects to recognize this forgiveness in its financial statements during the year ending June 30, 2024.

## Note 9 – Net Assets with Donor Restrictions

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

| | 2023 | 2022 |
|---|---|---|
| Campus Building Fund - General Titan Project | $ 17,631,194 | $ 9,534,575 |
| Campus Building Fund - Crisis Family Micro Shelter | 500,000 | - |
| Campus Building Fund - restoration/recovery programming | 100,000 | 100,000 |
| Total Campus Building Fund | 18,231,194 | 9,634,575 |
| Time restricted - rent receivable | 222,389 | 273,734 |
| Other | 80,838 | 55,824 |
| | $ 18,534,421 | $ 9,964,133 |

Campus Building Fund donor restricted net assets do not include costs the Organization has incurred as of June 30, 2023, related to construction in progress, demolition costs, or other expenses toward the new campus building project. In accordance with GAAP, such incurred costs shall not be considered released from restriction until the new facilities are complete and placed into service. Campus Building Fund donor restricted net assets that have not yet been expended total $13,898,344 as of June 30, 2023.

## 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 $59,801 and $71,395 for the years ended June 30, 2023 and 2022, respectively.

## Note 11 – Program Expenses

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

| | 2023 | 2022 |
|---|---|---|
| Basecamp (including Outreach) | $ 2,726,836 | $ 1,944,712 |
| Ascent Program | 961,080 | 868,046 |
| Agape Home | 644,246 | 673,927 |
| Other | 2,610 | 533 |
| | $ 4,334,772 | $ 3,487,218 |

## Note 12 – Related Party Transactions

The Organization received contributions of $0 and $1,000,000 from the Foundation during the years ended June 30, 2023 and 2022, respectively.

The Organization received contributions of $186,835 and $255,373 from board members during the years ended June 30, 2023 and 2022, respectively. The Organization had outstanding pledges receivable totaling $12,488 and $132,488 from board members at June 30, 2023 and 2022, respectively.