

CROSSROADS CHURCH EVANGELICAL COVENANT

INDEPENDENT AUDITOR'S FINANCIAL STATEMENTS

FOR THE YEAR ENDED MAY 31, 2021 – AUDITED



DENNISON CPA
Church & Ministry Advisor

CROSSROADS CHURCH EVANGELICAL COVENANT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Crossroads Church Evangelical Covenant
Woodbury, Minnesota

I have audited the accompanying financial statements of Crossroads Church Evangelical Covenant (a not-for-profit organization), which comprise the statement of financial position as of May 31, 2021, and the related statement of activities, cash flows & functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crossroads Church Evangelical Covenant as of May 31, 2021, and the financial activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Dennison CPA, PC

Saint Cloud, Minnesota
November 2, 2021

CROSSROADS CHURCH EVANGELICAL COVENANT

(a not-for-profit corporation)
Statement of Financial Position
As of May 31, 2021

<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and cash equivalents	1,298,436
Total Current Assets	<u>1,298,436</u>
<u>PROPERTY AND EQUIPMENT</u>	
Furniture & equipment	887,917
Building & improvements	14,338,994
Land & improvements	<u>1,570,229</u>
Less: Accumulated depreciation	<u>(6,559,957)</u>
Total Property & Equipment	<u>10,237,183</u>
<u>TOTAL ASSETS</u>	<u>11,535,620</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Accounts payable & accrued expenses	13,793
Credit cards payable	5,822
Current portion of mortgage	<u>238,370</u>
Total Current Liabilities	<u>257,985</u>
<u>LONG-TERM LIABILITIES</u>	
Mortgage payable - net	<u>4,883,890</u>
Total Long-term Liabilities	<u>4,883,890</u>
<u>TOTAL LIABILITIES</u>	<u>5,141,875</u>
<u>NET ASSETS</u>	
Without donor restrictions	
Undesignated	1,150,942
Net investment in land, buildings and equipment, net of related debt	<u>5,114,924</u>
Total net assets without donor restrictions	<u>6,265,865</u>
With donor restrictions	127,880
Total Net Assets	<u>6,393,745</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>11,535,620</u>

CROSSROADS CHURCH EVANGELICAL COVENANT

(a not-for-profit corporation)

Statement of Activities

For the Year Ended May 31, 2021

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

SUPPORT AND REVENUE

Tithes & Offerings	4,048,664
Grant Income	305,500
Program Fees	23,910
Misc. Income	13,278
Interest/Investment Income	6,822
Total Support and Revenue	<u>4,398,174</u>
Net assets released from donor restrictions	
Restrictions satisfied by payments/time	<u>88,230</u>
Total Support and Reclassifications	<u>4,486,404</u>

FUNCTIONAL EXPENSES

Ministry & Worship	2,968,663
Missions & Outreach	168,364
Management and General	924,383
Fundraising and Development	-
Total Expenses	<u>4,061,411</u>
Increase (decrease) in net assets	<u>424,993</u>

CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS

Restricted contributions	101,918
Net assets released from donor restriction	<u>(88,230)</u>
Increase (decrease) in net assets with donor restriction	<u>13,687</u>
Increase (decrease) in net assets	<u>438,681</u>

Net Assets, Beginning Period

5,955,064

Net Assets, Ending Period

6,393,745

CROSSROADS CHURCH EVANGELICAL COVENANT

(a not-for-profit corporation)

Statement of Cash Flows

For the Year Ended May 31, 2021

OPERATING ACTIVITIES

Change in net assets	438,681
Adjustments to reconcile net assets to net cash provided by operating activities	
Depreciation	860,917
(Increase) decrease in operating assets:	
Increase (decrease) in operating liabilities:	
Accounts payable & accrued expenses	11,793
Payroll liabilities	(12,286)
Credit cards payable	5,678
Net cash provided by operating activities	<u>1,304,782</u>

INVESTING ACTIVITIES

Investment in building improvements	(41,135)
Acquisition of furniture, fixtures & equipment	<u>(161,818)</u>
Net cash flows from investing activities	<u>(202,953)</u>

FINANCING ACTIVITIES

Forgiveness of debt - grant income	(305,500)
Cash paid towards bonds payable	<u>(662,740)</u>
Net cash flows from financing activities	<u>(968,240)</u>

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 133,589

CASH AND CASH EQUIVALENTS - BEGINNING 1,164,847

CASH AND CASH EQUIVALENTS - ENDING 1,298,436

Supplemental Information - Cash paid for:

Interest expense	<u><u>158,883</u></u>
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CROSSROADS CHURCH EVANGELICAL COVENANT

(a not-for-profit corporation)

Statement of Functional Expenses

For the Year Ended May 31, 2021

	Program			Supporting Services			
	Ministry & Worship	Missions & Outreach	Total Program Services	Management and General	Fundraising and Development	Total Supporting Activities	
Advertising	7,908	70,853	78,762	12,956	-	12,956	91,717
Bank fees	-	-	-	88,520	-	88,520	88,520
Depreciation	707,458	-	707,458	153,458	-	153,458	860,917
Donations	-	93,935	93,935	-	-	-	93,935
Events	24,700	2,922	27,622	2,745	-	2,745	30,367
Facility rent	109,128	-	109,128	-	-	-	109,128
Interest	130,562	-	130,562	28,321	-	28,321	158,883
Maintenance & repairs	154	-	154	165,009	-	165,009	165,163
Operations	25,674	-	25,674	44,878	-	44,878	70,552
Professional fees	-	-	-	23,787	-	23,787	23,787
Salaries & related benefits	1,812,683	-	1,812,683	198,542	-	198,542	2,011,225
Staff development	10,801	-	10,801	8,125	-	8,125	18,926
Supplies	63,683	-	63,683	181,875	-	181,875	245,559
Travel & conferences	8,723	654	9,376	1,593	-	1,593	10,969
Utilities	67,190	-	67,190	14,574	-	14,574	81,764
Total Expenses	2,968,663	168,364	3,137,027	924,383	-	924,383	4,061,411

NOTE 1 - NATURE OF ORGANIZATION:

Crossroads Church Evangelical Covenant (Church) was organized and incorporated in the State of Minnesota on September 12, 1974. The Church is a member of the Evangelical Covenant Church of America and the Northwest Regional Conference. The purpose of the Church is to call people to commitment to Christ and His family, to lead believers in Christ-like character, to equip believers to care for others, and to engage believers in the cause of Christ in order to celebrate God. Ministries of the Church include weekend worship services and classes, children's activities, youth groups, single adult fellowships, small group fellowships, and ministries to men, women, and families.

The Church is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code (code). The Church is classified as a publicly supported organization rather than a private foundation under Section 509(a) of the code. Contributions to the Church are deductible for federal income tax purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Reporting – Method of Accounting

The financial statements of the Church have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) and include all activities carried on in the name of the church. Revenues and expenses are recognized in the period earned or incurred.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Cash & Cash Equivalents and Credit Risks

Church cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

Financial instruments that potentially subject the Church to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Church maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Church's cash and cash equivalent accounts have been placed with high credit quality financial institutions and has not experienced, nor does it anticipate, any losses with respect to such accounts.

Support, Revenue and Reclassifications

Contributions received are measured at their fair values and are reported as an increase in net assets. The Church reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net asset with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions that are met in the same reporting period are reported as unrestricted support.

Revenues are reported as income when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Grants received in advance but not earned are reported as deferred grant revenue on the statement of financial position.

Although the Church does receive indications of intent to support dedicated funds including capital campaigns, however those commitments are faith promises and subject to unilateral change by the donor. The commitments are not considered unconditional promises to give and are not reported prior to receipt of the contribution. Upon receipt, these funds are reported as donor-restricted capital campaign gifts.

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The Church incurred no joint costs for the year ended May 31, 2021.

Reclassifications represent net assets released when expenses have been incurred in satisfaction of the donor restrictions.

Donated Services

Volunteers contribute significant amounts of time to our program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. No significant contributions of such goods or services were received during the year ended May 31, 2021.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Advertising Costs

The Church expenses advertising costs as they are incurred which totaled \$91,717 for the year ended May 31, 2021.

Property and Equipment

The Church follows the practice of capitalizing all expenditures for property, furniture, fixtures, equipment and leasehold improvements in excess of \$5,000. In accordance with GAAP, land is not depreciated and Construction-in-Progress is depreciated when it is completed and placed into service. Maintenance, repairs and minor renewal are expensed when incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Depreciation

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which generally are as follows:

Building & improvements	10 – 39 years
Furniture and equipment	3 – 10 years
Vehicles	5 years
Leasehold improvements	life of lease or useful life (whichever is shorter)

Depreciation expense totaled \$860,917 for the year ended May 31, 2021.

Income Taxes

The Church is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Church has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

Uncertain Tax Positions

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based upon technical merits, that the position will be sustained upon examinations. Interest and penalties, if any, are included in expenses in the statements of activities. As of May 31, 2021, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Concentration of Support Risk

The Church is primarily dependent upon contributions from its membership to meet expenses of operation and for the payment of principal and interest on debt, if any. Although management of the Church expects contributions to be adequate, there can be no assurance that such contributions will be sufficient to meet the obligations. Also; there is no assurance that Church membership will increase or remain stable, or that per capita contribution by members will increase or remain stable. Support of the Church comes primarily from tithes and offering concentrated in the Woodbury, Minnesota and surrounding geographical area.

Fair Value of Financial Instruments

The Church reports certain assets and liabilities at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and,
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset or liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Subsequent Events

Church management has evaluated subsequent events through the report date, the date on which the financial statements were available to be issued, and found no events or transactions, which require modification to the financial statements. Subsequent events after that date have not been evaluated.

NOTE 3 – LIQUIDITY AND AVAILABILITY:

The Church regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Church considers all expenditures related to its ongoing programs as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Church operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows, which identifies the sources and uses of the Church's cash and shows cash generated by operations for fiscal year ending May 31, 2021.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 1,298,436
Total financial assets	<u>1,298,436</u>
Contractual or donor-imposed restrictions:	
Scholarships Fund	(7,204)
MUUUCE Fund	(5,438)
Benevolence Fund	(67,638)
Missions Fund	(6,813)
Improvements Fund	(23,387)
Future Campus Fund	<u>(17,400)</u>
Total contractual or donor-imposed restrictions:	(127,880)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,170,556</u>

Restricted cash totaled \$127,880 for the year ending May 31, 2021.

NOTE 4 – SHORT-TERM DEBT:

The Church has several unsecured credit cards with varying rates of interest. The Church had \$5,822 in outstanding credit card debt for the year ended May 31, 2021.

NOTE 5 – LONG-TERM DEBT:

Long-Term Debt consisted of the following amounts as of May 31, 2021:

The Church executed a \$5,785,000 first mortgage promissory note with Bremer Bank on April 30, 2020 with an annual interest rate of 2.850%. The terms of the promissory note requires monthly payments of \$31,771.43 until maturity on April 30, 2030. Church real estate is held as collateral for this promissory note.

	5,122,260
Less current portion of debt	(238,370)
Debt-net of current portion	\$ 4,883,890

For years subsequent to 2021, long-term liabilities mature based upon the following schedule:

Years Ending May 31,	
2022	\$ 238,370
2023	245,253
2024	252,335
2025	259,621
2026	267,118
Thereafter	3,859,563
	\$ 5,122,260

Interest expense totaled \$158,883 for the year ended May 31, 2021.

NOTE 6 – RETIREMENT PLAN:

The Church offers a defined contribution plan under IRS Section 403(b) for the benefit of its eligible employees. The program covers eligible Church employees who have met the minimum age and service requirements, as defined in the plan document. The Church contributed approximately \$25,588 to the plan during the year ended May 31, 2021.

CROSSROADS CHURCH EVANGELICAL COVENANT
Notes to the Financial Statements
May 31, 2021

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are restricted for the following purposes for the year ended May 31, 2021:

Subject to expenditure for specific purpose:	Contributions and			Ending Balance
	Beginning Balance	Other Income	Releases	
Scholarships Fund	5,117	2,087	-	7,204
MUUUCE Fund	5,438	-	-	5,438
Benevolence Fund	27,687	49,829	9,878	67,638
Missions Fund	3,579	8,282	5,048	6,813
Improvements Fund	32,402	17,591	26,607	23,387
Future Campus Fund	39,969	16,900	39,469	17,400
Giving Hope	-	7,229	7,229	-
Total	114,193	101,918	88,230	127,880

NOTE 8 – OPERATING LEASES:

The church was obligated under certain operating leases for facilities during the year ended May 31, 2021. For years subsequent to 2021, minimum annual future rental commitments under the lease agreements are as follows:

<u>Year Ending May 31,</u>	
2022	\$ 121,321
2023	139,953
2024	139,953
2025	139,953
2026	139,953
Total	<u>\$ 681,133</u>

NOTE 9 – FUNCTIONAL EXPENSES:

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy expenses such as; rent, utilities, mortgage interest, depreciation, and amortization, which are allocated on a square footage basis. Other expenses such as; salaries & wages, benefits, payroll taxes, and other are allocated on the basis of estimates of time and effort.