

# **Association of Related Churches**

**FINANCIAL STATEMENTS**

**YEARS ENDED MAY 31, 2022 and 2021**

# Association of Related Churches

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Association of Related Churches  
Birmingham, Alabama

We have audited the accompanying financial statements of the Association of Related Churches (a nonprofit organization) which comprise the statement of financial position as of May 31, 2022 and 2021, the related statement of activities and cash flows for the years then ended, and the related notes to the financial statements the year ended May 31, 2022.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Association of Related Churches (a nonprofit organization) as of May 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association of Related Churches (a nonprofit organization) and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, which raise substantial doubt about the Association of Related Churches' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association of Related Churches' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, which raise substantial doubt about the Association of Related Churches' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Pythress, Hughton & Mathews, L.L.C.*

Birmingham, Alabama

March 31, 2023

## Association of Related Churches

### STATEMENT OF FINANCIAL POSITION Years Ended May 31, 2022 and 2021

|   | <u>2022</u>          | <u>2021</u>          |
|---|----------------------|----------------------|
| ASSETS  |                      |                      |
| ASSETS  |                      |                      |
| Cash and cash equivalents   | \$ 10,393,026        | \$ 13,359,527        |
| Church funds receivable, net of allowance for<br>doubtful accounts of \$438,904 and \$392,471 | 14,301,074           | 14,741,464           |
| Accrued interest  | 32,253               | 29,863               |
| Other receivables   | 99,098               | 79,213               |
| Prepaid expenses  | <u>205,551</u>       |                      |
| CURRENT ASSETS  | 25,031,002           | 28,210,067           |
| INVESTMENT, trust   | 2,000,000            |                      |
| PROPERTY AND EQUIPMENT, net   | 2,319,849            | 2,102,822            |
| OTHER ASSETS, net   | <u>1,715,498</u>     | <u>969,302</u>       |
| TOTAL ASSETS  | <u>\$ 31,066,349</u> | <u>\$ 31,282,191</u> |
| LIABILITIES AND NET ASSETS  |                      |                      |
| LIABILITIES   |                      |                      |
| Accounts payable  | \$ 1,814             | \$ 271,931           |
| Payroll withholdings and taxes  | <u>55,404</u>        | <u>17,967</u>        |
| TOTAL LIABILITIES   | 57,218               | 289,898              |
| NET ASSETS  |                      |                      |
| Unrestricted  |                      |                      |
| Designated for specific purposes  | 2,214,623            | 6,580,000            |
| Unrestricted  | 28,525,697           | 24,405,146           |
| Temporarily restricted  | <u>268,811</u>       | <u>7,147</u>         |
| TOTAL NET ASSETS  | <u>31,009,131</u>    | <u>30,992,293</u>    |
| TOTAL LIABILITIES AND NET ASSETS  | <u>\$ 31,066,349</u> | <u>\$ 31,282,191</u> |

See independent auditors' report and accompanying notes to financial statements.

## Association of Related Churches

### STATEMENT OF ACTIVITIES Year Ended May 31, 2022

|  | Without<br>Donor<br>Restrictions | With<br>Donor<br>Restrictions | Total         |
|--|----------------------------------|-------------------------------|---------------|
| <b>REVENUES, GAINS AND SUPPORT</b>         |                                  |                               |               |
| Support and contributions, member churches | \$ 13,820,932                    | \$ 537,824                    | \$ 14,358,756 |
| Support and contributions, foundations     | 240,000                          |                               | 240,000       |
| Program service fees                       | 2,143,631                        |                               | 2,143,631     |
| Interest income                            | 77,537                           |                               | 77,537        |
| Net assets released from restrictions      |                                  |                               |               |
| Restrictions satisfied by payments         | 276,160                          | (276,160)                     |               |
| <b>TOTAL REVENUES, GAINS AND SUPPORT</b>   | 16,558,260                       | 261,664                       | 16,819,924    |
| <b>EXPENSES</b>                            |                                  |                               |               |
| Program services                           | 13,631,915                       |                               | 13,631,915    |
| Support services, administrative           | 3,147,740                        |                               | 3,147,740     |
| Support services, fundraising              | 0                                |                               | 0             |
| <b>TOTAL EXPENSES</b>                      | 16,779,654                       |                               | 16,779,654    |
| <b>INCREASE IN NET ASSETS</b>              | (221,394)                        | 261,664                       | 40,270        |
| NET ASSETS, beginning of year              | 30,985,146                       | 7,147                         | 30,992,293    |
| Prior period adjustment                    | (23,432)                         |                               | (23,432)      |
| <b>NET ASSETS, end of year</b>             | \$ 30,740,320                    | \$ 268,811                    | \$ 31,009,131 |

See independent auditors' report and accompanying notes to financial statements.

## Association of Related Churches

### STATEMENT OF ACTIVITIES Year Ended May 31, 2021

|  | <u>Without<br/>Donor<br/>Restrictions</u> | <u>With<br/>Donor<br/>Restrictions</u> | <u>Total</u>         |
|--|---|--|----------------------|
| <b>REVENUES, GAINS AND SUPPORT</b>         |   |  |                      |
| Support and contributions, member churches | \$ 12,433,859                             | \$ 493,233                             | \$ 12,927,092        |
| Support and contributions, foundations     | 240,000                                   |  | 240,000              |
| Program service fees                       | 1,307,233                                 |  | 1,307,233            |
| Government grants                          | 1,494,447                                 |  | 1,494,447            |
| Interest income                            | 78,027                                    |  | 78,027               |
| Net assets released from restrictions      |   |  |                      |
| Restrictions satisfied by payments         | <u>486,086</u>                            | <u>(486,086)</u>                       |                      |
| <br>                                       |   |  |                      |
| <b>TOTAL REVENUES, GAINS AND SUPPORT</b>   | 16,039,652                                | 7,147                                  | 16,046,799           |
| <br><b>EXPENSES</b>                        |   |  |                      |
| Program services                           | 9,762,303                                 |  | 9,762,303            |
| Support services, administrative           | 2,244,592                                 |  | 2,244,592            |
| Support services, fundraising              | <u>0</u>                                  |  | <u>0</u>             |
| <b>TOTAL EXPENSES</b>                      | <u>12,006,895</u>                         |  | <u>12,006,895</u>    |
| <b>INCREASE IN NET ASSETS</b>              | 4,032,757                                 | 7,147                                  | 4,039,904            |
| <b>NET ASSETS, beginning of year</b>       | <u>26,952,389</u>                         |  | <u>26,952,389</u>    |
| <b>NET ASSETS, end of year</b>             | <u>\$ 30,985,146</u>                      | <u>\$ 7,147</u>                        | <u>\$ 30,992,293</u> |

See independent auditors' report and accompanying notes to financial statements.

## Association of Related Churches

### STATEMENT OF CASH FLOWS Years Ended May 31, 2022 and 2021

|   | <u>2022</u>   | <u>2021</u>   |
|---|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |               |               |
| Increase in net assets  | \$ 40,270     | \$ 4,039,904  |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: |               |               |
| Amortization  | 94,883        | 67,622        |
| Depreciation  | 147,543       | 130,431       |
| Income from loan forgiveness  |               | (737,190)     |
| Accrued start-up costs not recovered  | 87,507        |               |
| Decrease(Increase) in church funding receivable   | 329,449       | (35,031)      |
| Decrease(Increase) in accrued interest & other receivables                                    | (22,275)      | 34,071        |
| (Increase) in prepaid expenses  | (205,551)     |               |
| (Decrease)Increase in accounts payable  | (270,117)     | 128,224       |
| Increase(Decrease) in payroll liabilities   | 37,437        | 1,777         |
| NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES   | 239,146       | 3,629,808     |
| <b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>  |               |               |
| Investment, trust   | (2,000,000)   |               |
| Acquisition of building, furniture and equipment  | (364,568)     | (281,429)     |
| Acquisition of other assets   | (841,079)     | (323,737)     |
| NET CASH PROVIDED BY INVESTING ACTIVITIES   | (3,205,647)   | (605,166)     |
| NET INCREASE IN CASH  | (2,966,501)   | 3,024,642     |
| CASH AND CASH EQUIVALENTS, beginning of year  | 13,359,527    | 10,334,885    |
| CASH AND CASH EQUIVALENTS, end of year  | \$ 10,393,026 | \$ 13,359,527 |
| <b>SUPPLEMENTAL INFORMATION</b>   |               |               |
| Cash paid for interest  | None          | None          |
| Noncash transactions  | None          | None          |

See independent auditors' report and accompanying notes to financial statements.



# Association of Related Churches

## NOTES TO FINANCIAL STATEMENTS

May 31, 2022

### Note A - Summary of Significant Accounting Policies

#### **Nature of Activities:**

The Association of Related Churches (“the Organization”) is a Christian faith-based Organization that provides leadership, support, guidance, and resources for the establishment of new churches in the United States and overseas.

As of May 31, 2022, the Organization had approximately 1,369 member churches.

#### **Basis of Presentation:**

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Currently, the Organization has only unrestricted net assets.

#### **Basis of Accounting:**

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

#### **Church Funds Receivable:**

Church funds receivable are stated at the amount management expects to collect from outstanding balances. The Organization has adopted the use of an allowance for doubtful accounts to record estimated bad debt expenses associated with the outstanding receivables balance on May 31, 2022. The allowance is based on the historical percentage of uncollectible funds as compared to the receivable balance. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

#### **Equipment and Intangible Assets:**

Equipment is carried at cost if purchased and the fair market value on the date of the contribution if donated. Purchases of equipment costing over \$1,000 are capitalized, and smaller purchases are charged to expense. When equipment is retired, or otherwise disposed of, the related costs are removed from the respective accounts and any gain or loss on the disposition is credited or charged to income. The Organization provides for depreciation using the straight-line method, amortizing costs over seven to ten years, which is considered the estimated useful life. Depreciation expense for the year ended May 31, 2022 totaled \$147,543.

# Association of Related Churches

## NOTES TO FINANCIAL STATEMENTS

May 31, 2022

The Organization provides for an amortization of intangible assets over the estimated useful life of the assets, using a straight-line method. Amortization expense for the year ended May 31, 2022 totaled \$94,883.

### **Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### **Cash and Cash Equivalents:**

For purposes of the Statement of Cash Flows, the Organization considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash, and have a maturity of ninety days or less at the time of purchase. Excluded from this definition of cash equivalents are amounts that represent funds that have been designated by the Board for investment, including certificates of deposit.

### **Contributions:**

The Organization's policy is to record contributions it receives from member churches as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

### **Note B - Tax-Exempt, Non-Profit Status**

The Internal Revenue Service has issued a ruling exempting the Organization from income taxes under Section 501(c)(3) of the Internal Revenue Code and has determined that it is a publicly supported Organization (not a private foundation). The Organization was originally formed as a nonprofit corporation under statute of the State of Louisiana. On October 27, 2010, the Organization was legally reformed by filing an Amended and Restated Certificate of Formation with the State of Texas under the provisions of the Texas Business Organizations Code. This filing reaffirms the Organization's status as a tax-exempt entity and is recognized as such by the State of Texas.

# Association of Related Churches

## NOTES TO FINANCIAL STATEMENTS

May 31, 2022

### **Note C – Concentration of Business and Credit Risk**

|                                  |             |
|----------------------------------|-------------|
| Checking accounts, Wells Fargo   | \$4,143,698 |
| Checking accounts, First Horizon | \$ 947,642  |
| Money market account             | \$ 376,283  |

The Federal Deposit Insurance Corporation (FDIC) insures checking accounts at each institution up to \$250,000. These insured limits are increased to \$750,000 for interest bearing (sweep) accounts that include the Organization's money market account; therefore, cash and the money market accounts on May 31, 2022, exceeded federally insured limits by \$4,841,340. The Organization has not experienced any loss in such accounts.

As of May 31, 2022, the Organization had \$5,157,908 on deposit with Wesleyan Investment Foundation. The account earns interest based on the following APR rates:

|  |       |
|--|-------|
| Account balance from -0- to \$5,000 →      | 1.00% |
| Account balance from \$5,000 to \$35,000 → | 1.50% |
| Account balance from \$35,000 and above →  | 2.00% |

Wesleyan Investment Foundation is not insured by the FDIC; therefore, the entire balance is not insured.

### **Note D – Trust**

The Board authorized the Organization to establish a trust to provide future non-qualified benefits to the Organization's key employees. In August 2021, the trust was created with an initial deposit of \$2,000,000 to the Arlington Trust Company, Birmingham, Alabama. As of the date of this report, there have been no additional funding or other financial commitments made to the trust.

### **Note E – Liquidity and Availability of Financial Assets**

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of board designation, contractual or donor-imposed restrictions within one year of the balance sheet date.

# Association of Related Churches

## NOTES TO FINANCIAL STATEMENTS May 31, 2022

|   |                     |
|---|---------------------|
| Financial assets  | \$25,133,004        |
| Less temporarily restricted assets  | (268,811)           |
| Less those unavailable for general expenditures within one year due to:               |                     |
| Board designated for specific purposes (See Note J)                                   | <u>(2,214,623)</u>  |
| Financial assets available to meet cash need for general expenditures within one year | <u>\$22,649,570</u> |

### **Note F – Church Funds Receivable**

Church funds receivable represent funds advanced to new churches, at no interest. The board approves a financial agreement to be used for the funding of these prospective new churches. Provisions of the Organization's funding agreement with a new church include an initial matching funds raised between \$30,000 and \$50,000 for start-up expenses. The matching of funds, when combined with funds raised by the church planter (lead pastor), provides the church with between \$60,000 and \$100,000 for start-up expenses. The church is provided with an option to either:

- Receive a total commitment from the Organization of up to \$70,000, that includes provisions of monthly support to ensure the church meets its budget each month. This portion of support does not exceed \$20,000.

OR

- Receive a total commitment up to \$100,000, that does not include monthly support provisions. The church also has to raise \$100,000 to qualify for this funding option.

This is the basic funding agreement, with minor modifications being allowed on a case-by-case basis with proper approval. As of May 31, 2022, management agreed to increase church funding to twelve churches above the \$70,000 limit. The sum of the funding increases for these churches was \$337,500. The funds advanced by the Organizations are guaranteed by the church planter and the sponsoring church. In the event that a church is unable to reinvest the funds, the Organization is committed to collaborating with all parties to find the best solution. In the unlikely event the church cannot continue operating and decides to dissolve, the Organization requests a liquidation of church assets to reduce the outstanding fund balance. The Organization then requests the sponsoring church to include the Organization as a part of the sponsoring church's budget for re-investing the remaining fund balance.

## Association of Related Churches

### NOTES TO FINANCIAL STATEMENTS

May 31, 2022

As of May 31, 2022, there was a total funds receivable balance of \$14,739,978 representing funding to approximately 433 churches. An allowance for doubtful accounts of \$438,904 has been recorded to account for estimated uncollectible accounts charged to expense. The net balance of church funds receivable is \$14,301,074 as of May 31, 2022.

#### Note G – Other Receivables

The balance of other receivables as of May 31, 2022, is as follows:

|                                |                  |
|--------------------------------|------------------|
| Travel and expense receivables | <u>\$ 99,098</u> |
|--------------------------------|------------------|

#### Note H – Property and Equipment

Furniture and equipment are summarized by major classifications as follows:

|   |                    |
|---|--------------------|
| Land, building, renovations, and improvements | \$2,027,905        |
| Furniture, computers, and office equipment    | 813,034            |
| Vehicles                                      | 358,229            |
| Less accumulated depreciation                 | <u>(1,206,720)</u> |
| Property and equipment, net                   | <u>\$2,319,849</u> |

#### Note I – Other Assets

Other assets as of May 31, 2022, consist of the following items:

|  |                    |
|--|--------------------|
| Website, software development, applications development, copywrite materials development, net of accumulated amortization of \$327,400 | \$1,668,684        |
| Inventory – resources used in training/mentoring   | 40,314             |
| Branded/marketing merchandise  | <u>6,500</u>       |
|  | <u>\$1,715,498</u> |

# Association of Related Churches

## NOTES TO FINANCIAL STATEMENTS May 31, 2022

### Note J – Net Assets, Unrestricted

Unrestricted board-designated net assets represent estimated financial commitments to 47 new churches that launched prior to May 31, 2022, or planned for start-up in the subsequent fiscal year (FY May 31, 2023). As of the date of this report, the Organization has disbursed approximately \$2,214,623 to those churches. The total of these disbursements is deemed to be designated net assets as of May 31, 2022. Designated net assets also include a commitment made to Growing Churches Network (formerly known as Craig Groeschel Ministries) – see Note M.

As of May 31, 2022, designated net assets are as follows:

|   |                    |
|---|--------------------|
| Funds committed to church startups                  | \$2,214,623        |
| Commitment to Growing Churches Network (see Note N) | <u>140,000</u>     |
| Total   | <u>\$6,580,000</u> |

### Note K – Temporarily Restricted Net Assets

The Organization received the following temporarily restricted contributions and support in FY May 31, 2022:

|                                |            |
|--------------------------------|------------|
| Church planting and operations | \$ 409,549 |
| Disaster relief                | 127,490    |
| Other                          | <u>245</u> |
| Total                          | \$ 537,284 |

|   |                   |
|---|-------------------|
| Restriction satisfied by payment/use of contributed funds | <u>(258,473)</u>  |
| Temporarily restricted net assets as of May 31, 2022      | <u>\$ 268,811</u> |

### Note L – Permanently Restricted Net Assets

There were no donor or Board imposed permanently restricted net assets as of May 31, 2022.

# Association of Related Churches

## NOTES TO FINANCIAL STATEMENT

May 31, 2022

### Note M – Functional Classification of Expenses

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

### Note N – Commitments

#### **Agreement with Growing Churches Network:**

Beginning in 2010, the Organization entered into a series of agreements with Growing Churches Network and LifeChurch.tv of Edmond, Oklahoma, for Growing Churches Network to sponsor the startup of Organization targeted churches. Pursuant to the agreements, Growing Churches Network remitted the following amount to the Organization to be disbursed to startup churches:

|                              |                    |
|------------------------------|--------------------|
| Year ended December 31, 2010 | \$ 90,000          |
| Year ended December 31, 2011 | 60,000             |
| Year ended December 31, 2012 | 30,000             |
| Year ended December 31, 2013 | 300,000            |
| Year ended December 31, 2014 | 300,000            |
| Year ended December 31, 2015 | 300,000            |
| Year ended December 31, 2016 | 200,000            |
| Year ended December 31, 2017 | 240,000            |
| Year ended May 31, 2019      | 100,000            |
| Year ended May 31, 2020      | 240,000            |
| Year ended May 31, 2021      | 200,000            |
| Year ended May 31, 2022      | <u>260,000</u>     |
|                              | <u>\$2,320,000</u> |

As of May 31, 2022, all funds received from Growing Churches Network had been distributed to the sponsored startup churches.

The Organization has verbally agreed to return the entire \$2,320,000 to Growing Churches Network. As of May 31, 2022, a total of \$2,180,000 had been repaid to Growing Churches Network, leaving a balance of \$140,000 outstanding in the commitment; this balance is appropriately included in designated net assets as of May 31, 2022 – see Note J. This remaining commitment is scheduled to be completely repaid in FY May 31, 2023.

# **Association of Related Churches**

## **NOTES TO FINANCIAL STATEMENTS May 31, 2022**

Because there is no legally enforceable agreement for repayment to Growing Churches Network, the repayment commitment is not considered a liability of the Organization. Also, the funding repayments received by the Organization from the sponsored churches are used to off-set the committed repayments. Accordingly, the entire \$2,320,000 amount received from Growing Churches Network was recorded as an increase in temporarily restricted net assets, and repayments to Growing Churches Network are charged to expense. As of May 31, 2022, the Organization had complied with all donor placed restrictions, and all the donated funds are, thereby, considered to be unrestricted.

### **Note O - Subsequent Events**

#### **Funding from Growing Churches Network:**

In October 2022, the Organization received additional support of \$200,000, and another \$240,000 was received in April 2023, from Growing Churches Network – to be used in the sponsorship of Organization targeted startup churches.