

# TRINITY LUTHERAN CHURCH AND FOUNDATION

## INDEPENDENT ACCOUNTANT'S CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016 - REVIEWED

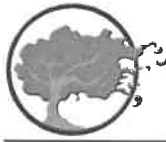


**DENNISON CPA**  
Church & Ministry Advisor

**TRINITY LUTHERAN CHURCH AND FOUNDATION**

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Church Council of  
Trinity Lutheran Church and Foundation  
Moorhead, MN

I have reviewed the accompanying consolidated financial statements of Trinity Lutheran Church and Foundation (a not-for-profit organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, I do not express such an opinion.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement whether due to fraud or error.

### **Accountant's Responsibility**

My responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

### **Accountant's Conclusion**

Based on my review, I am not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### Other-Matter

The consolidated schedule of functional expenses on page 7 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the analytical procedures applied in the review of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. In my opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Dennison CPA, PC*

Saint Cloud, Minnesota

July 14, 2017

# TRINITY LUTHERAN CHURCH AND FOUNDATION

(a not-for-profit corporation)

Consolidated Statement of Financial Position

As of December 31, 2016

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<b><u>ASSETS</u></b>	
<b><u>CURRENT ASSETS</u></b>	
Cash and cash equivalents	710,498
Accounts receivable	57,066
Total Current Assets	<u>767,564</u>
<b><u>PROPERTY AND EQUIPMENT</u></b>	
Furniture & equipment	1,002,993
Building & improvements	4,704,368
Land & improvements	552,912
Less: Accumulated depreciation	<u>(4,261,553)</u>
Total Property & Equipment	1,998,720
<b><u>OTHER ASSETS</u></b>	
Investments	2,817,585
Total Other Assets	<u>2,817,585</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>5,583,869</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>	
<b><u>CURRENT LIABILITIES</u></b>	
Accounts payable & accrued expenses	81,682
Accrued vacation	16,422
Total Current Liabilities	<u>98,105</u>
<b><u>LONG-TERM LIABILITIES</u></b>	
Line of credit	40,000
Total Long-term Liabilities	<u>40,000</u>
<b><u>TOTAL LIABILITIES</u></b>	<b><u>138,105</u></b>
<b><u>NET ASSETS</u></b>	
Unrestricted	2,772,243
Temporarily Restricted	1,248,255
Permanently Restricted	1,425,268
Total Net Assets	<u>5,445,765</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>5,583,870</u></b>

# TRINITY LUTHERAN CHURCH AND FOUNDATION

(a not-for-profit corporation)

Consolidated Statement of Activities and Changes in Net Assets

For the Years Ended December 31, 2016

## **CHANGES IN UNRESTRICTED NET ASSETS**

### **SUPPORT AND REVENUE**

Tithes & Offerings	1,433,714
Tuition & fees	556,147
Grant revenue	191,608
Program fees	86,040
Rental income	24,330
Misc. Income	66,512
Unrealized gain/(loss) on investments	87,324
Realized gain/(loss) on investments	2,172
Interest & dividends Income	105,624
Total Unrestricted Support and Revenue	<u>2,553,473</u>
Net assets released from restrictions	
Restrictions satisfied by payments	<u>269,186</u>
Total Unrestricted Support and Reclassifications	<u>2,822,659</u>

### **FUNCTIONAL EXPENSES**

Ministry	933,500
Missions	268,807
Preschool	600,947
ReGroup	247,546
Lost & Found	235,449
Foundation	109,156
Management and General	558,180
Fundraising	6,317
Total Expenses	<u>2,959,902</u>
Increase (decrease) in unrestricted net assets	<u>(137,243)</u>

### **TEMPORARILY RESTRICTED NET ASSETS**

Designated contributions	268,851
Net assets released from restriction	<u>(269,186)</u>
Increase (decrease) in temporarily restricted net assets	<u>(335)</u>

### **PERMANENTLY RESTRICTED NET ASSETS**

Designated contributions	10,000
Net assets released from restriction	<u>-</u>
Increase (decrease) in permanently restricted net assets	<u>10,000</u>
Increase (decrease) in net assets	<u>(137,579)</u>

**Net Assets, Beginning Period** 5,583,344

**Net Assets, Ending Period** 5,445,765

# TRINITY LUTHERAN CHURCH AND FOUNDATION

(a not-for-profit corporation)  
Consolidated Statement of Cash Flows  
For the Year Ended December 31, 2016

## OPERATING ACTIVITIES

Change in net assets	(137,579)
Adjustments to reconcile net assets to net cash provided by operating activities	
Depreciation	119,508
(Increase) decrease in operating assets:	
Accounts receivable	(3,695)
Investments	(8,690)
Increase (decrease) in operating liabilities:	
Accounts payable & accrued expenses	56,501
Accrued vacation	672
Net cash provided by operating activities	<u>26,717</u>

## INVESTING ACTIVITIES

Purchase of land	(3,222)
Purchase of buildings & improvements	<u>(173,553)</u>
Net cash flows from investing activities	<u>(176,775)</u>

## FINANCING ACTIVITIES

Cash from line of credit	-
Cash from line of credit	<u>40,000</u>
Net cash flows from financing activities	<u>40,000</u>

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (110,058)

CASH AND CASH EQUIVALENTS - BEGINNING 820,556

CASH AND CASH EQUIVALENTS - ENDING 710,498

## Supplemental Information - Cash paid for:

Interest expense	<u>429</u>
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## TRINITY LUTHERAN CHURCH AND FOUNDATION

(a not-for-profit corporation)  
 Consolidated Statement of Functional Expenses  
 For the Year Ending December 31, 2016

	Program										Supporting Services			Total
	Ministry	Missions	Preschool	ReGroup	Lost & Found	Foundation	Program Services	Management and General	Fundraising	Supporting Activities	Total			
Advertising	6,950	-	3,457	4,838	12,742	-	27,987	1,771	1,175	-	2,945	30,932		
Bank fees	-	-	-	218	314	-	532	4,236	-	-	4,236	4,769		
Depreciation	74,441	-	28,853	871	340	-	104,505	15,004	-	-	15,004	119,508		
Donations	14,713	178,266	-	-	-	89,688	282,667	1,352	-	-	1,352	284,019		
Events	29,431	5,436	9,973	3,618	-	-	48,458	-	5,143	-	5,143	53,600		
Interest	-	-	-	429	-	-	429	-	-	-	-	429		
Maintenance & repairs	-	-	3,019	7	1,687	-	4,713	28,304	-	-	28,304	33,017		
Meals	-	-	-	-	-	-	-	-	-	-	-	-		
Operations	95,076	400	4,198	25,088	43,650	8,003	176,415	73,612	-	-	73,612	250,027		
Professional fees	-	-	-	324	5,027	11,465	16,816	1,321	-	-	1,321	18,137		
Rent	-	-	-	11,165	-	-	11,165	-	-	-	-	11,165		
Salaries & related benefits	613,046	-	469,223	182,120	149,633	-	1,414,022	286,411	-	-	286,411	1,700,434		
Staff development	12	-	3,578	2,034	843	-	6,467	4,795	-	-	4,795	11,262		
Supplies	24,328	-	70,740	2,578	8,107	-	105,753	53,109	-	-	53,109	158,863		
Travel	75,502	84,705	7,907	9,419	3,060	-	180,594	21,205	-	-	21,205	201,799		
Utilities	-	-	-	4,838	10,044	-	14,882	67,060	-	-	67,060	81,943		
<b>Total Expenses</b>	<b>933,500</b>	<b>268,807</b>	<b>600,947</b>	<b>247,546</b>	<b>235,449</b>	<b>109,156</b>	<b>1,202,307</b>	<b>558,180</b>	<b>6,317</b>	<b>564,497</b>	<b>2,959,902</b>			



**NOTE 1 - NATURE OF ORGANIZATION:**

Trinity Lutheran Church (the Church) was organized in the State of Minnesota on December 1, 1882, and is a constituent of the Evangelical Lutheran Church of America. The Church is a nonprofit organization and is dedicated to the proclaiming and propagating of the Christian Faith through the means of Grace. The Church also operates a preschool which provides daycare and education to young children. The Church is supported primarily through contributions from the congregation. These consolidated financial statements reflect the activity of these church funds: Preschool, Friends in Faith, Memorial, Building, Foundation, General Ministries. The Friends in Faith funds are used to support individuals for servant and ministry trips. The Memorial funds are used for various Church activities including gifts, education, music, and other designated Church purposes.

The Trinity Lutheran Church Foundation was established as an endowment to accumulate congregational giving and is authorized to establish an annual spending rate to support local, regional, and global non-profit and religious organizations.

The Lost and Found Ministry – Gulling's Trust (Lost and Found) started in 1987 in Moorhead, MN with the mission to educate, facilitate sobriety, heal and promote growth and renewal. Lost and Found is a nonprofit organization with the philosophy to be a ministry of healing for those afflicted with addictions. Included in these programs is providing intervention support and counseling as expanding an addiction library, titled Project Hope. Lost and Found is supported primarily through contributions, fundraisers, and other various grants.

Starting in the fall of 2014, Trinity Lutheran Church received a grant from the state of Minnesota. With the receipt of this grant, the Organization is planning to set up a separate entity, ReGROUP, to receive the grant funds and disburse expenses. This grant is to increase awareness, provide recovery support, and build community capacity to support individuals in recovery from substance use.

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 consolidated 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.

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

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958-205, 958-225 and 958-230 (Formerly Statement of Financial Accounting Standards (SFAS) No. 117), which provides authoritative guidance for the preparation of Consolidated Financial Statements of Not-For-Profit Organizations. Under this authoritative guidance, the Church 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, as described below:

- Unrestricted net assets – represent resources over which the board has discretionary control and may be used to carry out operations of the Church in accordance with its bylaws and exempt purposes.
- Temporarily restricted net assets – are subject to temporary donor-imposed restrictions and may be fulfilled by actions of the Church to meet the donor-imposed stipulations or that become unrestricted by the passage of time.
- Permanently restricted net assets – are those contributions with donor stipulations that they be held in perpetuity with use of income for unrestricted purposes.

Principles of Consolidation

The consolidated financial statements include the accounts of Trinity Lutheran Church and Foundation and Lost and Found Ministry – Gulling’s Trust. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Cash & Cash Equivalents and Credit Risks

Cash and cash equivalents consist of cash on hand, checking accounts and savings accounts. While the Church’s cash equivalents may exceed federally insured limits at times, the Church has not experienced any losses on such amounts. The Church believes it is not exposed to any significance credit risk on these accounts.

Use of Estimates

The preparation of consolidated financial statements in conformity with United States 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. The significant estimates in these consolidated financial statements include estimates of property costs and depreciation expenses.

Advertising Costs

The Church expenses advertising costs as they are incurred which totaled \$30,932 for the year ended December 31, 2016.

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

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, temporarily restricted net assets are reclassified to unrestricted net assets 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. 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 temporarily 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 ending December 31, 2016.

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

Donated Services

The Church's ministry could not be fully achieved without the dedicated efforts of many volunteers. These contributed services are not reported as they do not meet the requirements for recognition under current account standards.

Property and Equipment

The Church follows the practice of capitalizing all expenditures for property, furniture, fixtures, equipment and leasehold improvements in excess of \$1,000. 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.

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 Moorhead, Minnesota and surrounding geographical area.

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

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 \$119,508 for the year ended December 31, 2016.

Income Taxes

The Church is exempt from federal income and state taxes under Section 501 (c) (3) of the Internal Revenue Code and similar state statute and has not conducted unrelated business activities. Therefore, the Church has made no provision for federal or state income taxes in the accompanying consolidated financial statements.

Uncertain Tax Positions

The financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated 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 December 31, 2016, the Church had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

Investments

Investment purchases are recorded at cost, or if donated, at fair market value on the date of donation. The Church carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted prices (all Level 1 or level 2 measurements) in the Consolidated Statement of Financial Position. Net investment return/(loss) is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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

Fair Value of Financial Instruments

The Church measures fair value of financial instruments based on the framework set forth by FASB ASC 820, "Fair Value Measurement and Disclosures." That framework provides a fair value hierarchy that prioritizes, into three values, the inputs to valuation techniques used to measure fair value. Following is the description of those three levels as defined in ASC 820.

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs

Level 3 inputs: Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

The asset's 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.

There have been no significant changes in the methodologies used for the year-ended December 31, 2016.

The carrying amounts of cash and cash equivalents and the Church's investments are assumed to approximate fair value because of the short maturity/liquidity of those financial instruments.

The carrying amounts of accounts payable & accrued expenses are assumed to approximate fair value because of the short maturity of those financial instruments.

The carrying amount of the mortgage payable approximates fair value because that financial instrument yields interest at a rate that approximates current market rates for notes similar with maturities and credit quality.

See Note 4 that sets forth by level, within the fair value hierarchy, the Church's assets and liabilities at fair value as of December 31, 2016.

**NOTE 3 – SHORT-TERM DEBT:**

ReGroup has an unsecured line of credit that was drawn upon during the year ending December 31, 2016. The outstanding balance as of December 31, 2016 was \$40,000.

**TRINITY LUTHERAN CHURCH AND FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2016**

**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS:**

As described in Note 2, the Church measures fair value of financial instruments based on the framework set forth by FASB ASC 820 that provides a fair value hierarchy that prioritizes, into three levels, the inputs to valuation techniques.

The following table sets forth by level, within the fair value hierarchy, the Church's financial assets and liabilities at fair value as of December 31, 2016.

<u>Financial Assets</u>	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	710,498	-	-	710,498
Accounts Receivable	57,066	-	-	57,066
Investments	2,817,585	-	-	2,817,585
Total Financial Assets Fair Values	3,585,149	-	-	3,585,149
<u>Financial Liabilities</u>	Level 1	Level 2	Level 3	Total
Accounts payable & accrued expenses	81,682	-	-	81,682
Accrued vacation	16,422	-	-	16,422
Line of credit	40,000	-	-	40,000
Total Financial Liabilities Fair Values	138,105	-	-	138,105

**NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS:**

Net assets were temporarily restricted for the following purposes for the year ended December 31, 2016:

	Beginning Balance	Contributions	Releases	Ending Balance
Dedicated Church Funds	367,094	268,851	265,487	370,457
Endowment Fund	819,220	-	1,937	817,283
Lost & Found - Client Assistance	2,645	-	1,762	883
Lost & Found	1,000	-	-	1,000
Lost & Found - Endowment	6,749	-	-	6,749
Lost & Found - Gullings Trust Fund	51,882	-	-	51,882
Total	1,248,590	268,851	269,186	1,248,255

**TRINITY LUTHERAN CHURCH AND FOUNDATION**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2016**

**NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS:**

Net assets were permanently restricted for the following purposes for the year ended December 31, 2016:

	Beginning Balance	Contributions	Releases	Ending Balance
General Endowment Fund	870,281	10,000	-	880,281
Ida C Eid Fund - Youth Support	20,413	-	-	20,413
Moberg Fund - Youth Support	102,156	-	-	102,156
Project Seed Fund - Seminary Tuition, Bible Camp and Lost & Found Ministry	401,113	-	-	401,113
Plant Maintenance Fund	10,010	-	-	10,010
Gillespie Fund - Music Ministry	11,295	-	-	11,295
Total	1,415,268	10,000	-	1,425,268

**NOTE 6 – FUNCTIONAL EXPENSES:**

The consolidated 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, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

**NOTE 7 – ENDOWMENT**

Trinity Lutheran Church and Foundation's endowment consists of funds established for assisting local churches and organizations. The endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2016, there were no such donor stipulations. As a result of this interpretation, we classify as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

**NOTE 7 – ENDOWMENT: (continued)**

We consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

**NOTE 8 – SUBSEQUENT EVENTS:**

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