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CERTIFIED PUBLIC ACCOUNTANTS

Pursuit Church Denver d/b/a Pursuit Church

Financial Statements

For The Years Ended December 31, 2023 and 2022



Batts Morrison
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CERTIFIED PUBLIC ACCOUNTANTS®

REPORT OF INDEPENDENT AUDITOR

The Board of Directors
Pursuit Church Denver d/b/a Pursuit Church
Denver, North Carolina

Opinion

We have audited the accompanying financial statements of Pursuit Church Denver d/b/a Pursuit Church (“the Church”), which consist of the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pursuit Church Denver d/b/a Pursuit Church as of December 31, 2023 and 2022, 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 audits 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 Church and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 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 Church’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

Our objectives are to obtain reasonable assurance about whether the financial statements 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 risk 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.

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- 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 Church'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Church's 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.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
May 24, 2024

PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2023	2022
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 2,349,782	\$ 1,189,153
Cash held in special disbursement accounts	201,181	1,252,082
Cash restricted for long-term purposes	128,691	249,737
Other assets	17,933	22,613
Property and equipment, net	11,958,947	4,652,867
Total assets	\$ 14,656,534	\$ 7,366,452
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 508,540	\$ 146,611
Unearned revenue	20,100	22,613
Note payable, net	6,972,553	1,533,242
Total liabilities	7,501,193	1,702,466
NET ASSETS		
Without donor restrictions		
Undesignated	2,036,388	1,039,065
Net investment in property and equipment	4,986,394	3,119,625
Total without donor restrictions	7,022,782	4,158,690
With donor restrictions	132,559	1,505,296
Total net assets	7,155,341	5,663,986
Total liabilities and net assets	\$ 14,656,534	\$ 7,366,452

The Accompanying Notes are an Integral
Part of These Financial Statements

PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
STATEMENTS OF ACTIVITIES

	For The Years Ended December 31,					
	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS						
Contributions	\$ 3,039,065	\$ 566,733	\$ 3,605,798	\$ 2,491,755	\$ 1,540,888	\$ 4,032,643
Auxiliary activities and other revenue	344,124	—	344,124	105,691	—	105,691
Net assets released from restrictions	<u>1,939,470</u>	<u>(1,939,470)</u>	<u>—</u>	<u>836,317</u>	<u>(836,317)</u>	<u>—</u>
Total public support and revenue and net assets released from restrictions	<u>5,322,659</u>	<u>(1,372,737)</u>	<u>3,949,922</u>	<u>3,433,763</u>	<u>704,571</u>	<u>4,138,334</u>
EXPENSES						
Program activities	2,182,976	—	2,182,976	1,928,660	—	1,928,660
Supporting activities	<u>275,591</u>	<u>—</u>	<u>275,591</u>	<u>275,678</u>	<u>—</u>	<u>275,678</u>
Total expenses	<u>2,458,567</u>	<u>—</u>	<u>2,458,567</u>	<u>2,204,338</u>	<u>—</u>	<u>2,204,338</u>
CHANGE IN NET ASSETS	2,864,092	(1,372,737)	1,491,355	1,229,425	704,571	1,933,996
NET ASSETS - Beginning of year	<u>4,158,690</u>	<u>1,505,296</u>	<u>5,663,986</u>	<u>2,929,265</u>	<u>800,725</u>	<u>3,729,990</u>
NET ASSETS - End of year	<u><u>\$ 7,022,782</u></u>	<u><u>\$ 132,559</u></u>	<u><u>\$ 7,155,341</u></u>	<u><u>\$ 4,158,690</u></u>	<u><u>\$ 1,505,296</u></u>	<u><u>\$ 5,663,986</u></u>

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PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
STATEMENTS OF CASH FLOWS

	For The Years Ended December 31,	
	2023	2022
OPERATING CASH FLOWS		
Cash received from donors	\$ 3,275,114	\$ 2,789,870
Other revenue received	335,341	150,613
Cash paid for operating activities and costs	(2,071,817)	(2,064,214)
Interest paid	(171,566)	(56,318)
Net operating cash flows	1,367,072	819,951
INVESTING CASH FLOWS		
Net purchases of and improvements to property and equipment	(7,131,738)	(659,353)
Net investing cash flows	(7,131,738)	(659,353)
FINANCING CASH FLOWS		
Borrowings	5,422,664	1,533,242
Proceeds from contributions restricted for long-term purposes	330,684	1,242,773
Principal repayments	—	(1,658,959)
Net financing cash flows	5,753,348	1,117,056
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(11,318)	1,277,654
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - Beginning of year	2,690,972	1,413,318
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - End of year	\$ 2,679,654	\$ 2,690,972
REPORTED IN THE STATEMENTS OF FINANCIAL POSITION AS FOLLOWS		
Cash and cash equivalents	\$ 2,349,782	\$ 1,189,153
Cash held in special disbursement accounts	201,181	1,252,082
Cash restricted for long-term purposes	128,691	249,737
Total cash, cash equivalents, and restricted cash	\$ 2,679,654	\$ 2,690,972
RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS		
Change in net assets	\$ 1,491,355	\$ 1,933,996
Adjustments to reconcile change in net assets to net operating cash flows		
Depreciation and amortization	163,456	134,808
Contributions restricted for long-term purposes	(330,684)	(1,242,773)
Net loss on investments	—	22,309
Change in other assets	4,680	(29,240)
Change in accounts payable and accrued expenses	40,778	(21,762)
Change in unearned revenue	(2,513)	22,613
Net operating cash flows	\$ 1,367,072	\$ 819,951

SUPPLEMENTAL DISCLOSURE

During 2023, the Church paid approximately \$84,000 for property and equipment additions that were included in construction in progress within "property and equipment, net" and "accounts payable and accrued expenses" in the accompanying 2022 statement of financial position. In addition, approximately \$405,000 of property and equipment additions are included in "accounts payable and accrued expenses" in the accompanying 2023 statement of financial position.

The Accompanying Notes are an Integral
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PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
STATEMENTS OF FUNCTIONAL EXPENSES

For The Year Ended December 31, 2023

	<u>Program Activities</u>	<u>Supporting Activities</u>	<u>Total Expenses</u>
Personnel costs	\$ 1,155,539	\$ 203,919	\$ 1,359,458
Special activities, events, and other ministries	285,424	890	286,314
Facilities management and non-capitalized project expenditures	153,509	12,932	166,441
Depreciation and amortization	138,938	24,518	163,456
Other	141,520	8,841	150,361
Missions and outreach	140,748	—	140,748
Information technology and software	103,975	17,995	121,970
Professional services and fees	33,151	5,850	39,001
Office expense and supplies	30,172	646	30,818
Total	<u>\$ 2,182,976</u>	<u>\$ 275,591</u>	<u>\$ 2,458,567</u>

For The Year Ended December 31, 2022

	<u>Program Activities</u>	<u>Supporting Activities</u>	<u>Total Expenses</u>
Personnel costs	\$ 1,038,294	\$ 183,687	\$ 1,221,981
Special activities, events, and other ministries	245,622	890	246,512
Depreciation	114,587	20,221	134,808
Missions and outreach	129,762	—	129,762
Other	115,273	9,819	125,092
Facilities management and non-capitalized project expenditures	96,807	13,949	110,756
Information technology and software	79,119	13,962	93,081
Interest	62,612	4,423	67,035
Professional services and fees	13,000	26,629	39,629
Office expense and supplies	33,584	2,098	35,682
Total	<u>\$ 1,928,660</u>	<u>\$ 275,678</u>	<u>\$ 2,204,338</u>

The Accompanying Notes are an Integral
Part of These Financial Statements

PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES

Pursuit Church Denver d/b/a Pursuit Church (“the Church”) is a not-for-profit North Carolina corporation. The purpose of the Church is to introduce and promote the Christian faith to individuals for the growth of that relationship with God through meaningful worship and applicable Bible teaching and affirm that every believer has a ministry in the Kingdom of God. The Church accomplishes its purpose by changing lives one family at a time through exalting the Savior, evangelizing the sinner, and equipping the saints. The Church is located in Denver, North Carolina.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Church recognizes cash contributions as revenue when the contributions are received by the Church. Contributions received are recorded as without or with donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as “net assets released from restrictions.”

Donor-restricted net assets for capital projects are released as funds are spent on the project, rather than when the underlying asset is placed in service. Management believes this treatment results in a fairer presentation of the Church's financial position. This treatment does not differ materially from the prescribed treatment for such activities under accounting principles generally accepted in the United States.

Cash and cash equivalents

All investment instruments purchased or donated with original maturities of three months or less are considered to be cash and cash equivalents.

Cash held in special disbursement accounts

Cash held in special disbursement accounts consists of amounts held which are donor-restricted for capital projects and debt retirement and are required to be held in special disbursement accounts pursuant to a certain construction note payable agreement. Certain funds held in the special disbursement accounts are utilized for payments related to a certain construction contract and certain funds are required to be held in a debt reserve throughout the life of the construction note payable agreement.

Cash restricted for long-term purposes

Cash restricted for long-term purposes consists of amounts held which are donor-restricted for capital projects and debt retirement.

Property and equipment

Property and equipment is stated at original cost, if purchased, or estimated fair value on the date of donation, if donated. Depreciation is provided using the straight-line method over the expected useful lives of the related assets.

Net assets

Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes. Net assets with donor restrictions consist of amounts with uses limited by donor-imposed time and/or purpose restrictions.

Functional allocation of expenses

The statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Indirect costs that benefit multiple functional areas are allocated among the various functional areas based primarily on employee time and space utilization.

PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Church is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to state law. The Church is further classified as a public charity and not as a private foundation for federal tax purposes. The Church has not incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying financial statements.

Use of estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those used in determining the useful lives of property and equipment. Actual results could differ from the estimates.

NOTE C – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year of the date of the statements of financial position are as follows:

	December 31,	
	2023	2022
Financial assets available:		
Cash and cash equivalents	\$ 2,349,782	\$ 1,189,153
Cash held in special disbursement accounts	201,181	1,252,082
Cash restricted for long-term purposes	128,691	249,737
Total financial assets available within one year	2,679,654	2,690,972
Less:		
Amounts required to be held in special disbursement accounts	(201,181)	(1,252,082)
Amounts unavailable for general expenditure within one year due to donor-imposed restrictions	(128,691)	(249,737)
Net financial assets available within one year	\$ 2,349,782	\$ 1,189,153

The Church is primarily supported by contributions. As part of the Church’s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Church has certain assets limited to use for donor-restricted purposes including certain amounts required to be held in special disbursement accounts pursuant to a certain construction note payable agreement as described in Notes B and F. Because a donor’s restriction requires resources to be used in a specific manner or in a future period, the Church must maintain sufficient resources to meet its responsibilities to its donors and to be compliant with a certain construction note payable agreement. Thus, those financial assets may not be available for general expenditure within the next year and are excluded from net financial assets available for general expenditure within one year. Other donor-restricted net assets are available for general expenditure within one year because the restrictions are expected to be met by conducting the normal activities of the Church’s programs in the coming year.

Management of the Church believes the Church has sufficient resources available for general operations that may be drawn upon in the event of unanticipated financial distress or an immediate liquidity need.

PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE D – CONCENTRATIONS

The Church maintains its cash and cash equivalents in deposit or brokerage accounts which may not be federally insured, may exceed federally insured limits or may be insured by an entity other than an agency of the federal government. The Church has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

During 2023 and 2022, approximately 20% and 27% of the Church’s contributions, respectively, were received from a member (or an organization owned by the member) of the Church’s Board of Directors.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Category	December 31,	
	2023	2022
Land and land improvements	\$ 1,738,070	\$ 1,738,070
Buildings and improvements	2,134,733	2,134,733
Furniture, fixtures, and equipment	600,009	584,087
Construction in progress	8,201,793	764,827
Total property and equipment	12,674,605	5,221,717
Less: Accumulated depreciation	(715,658)	(568,850)
Net property and equipment	\$ 11,958,947	\$ 4,652,867

Depreciation expense for 2023 and 2022 amounted to approximately \$147,000 and \$135,000, respectively.

NOTE F – NOTE PAYABLE

The Church’s note payable consists of a construction note payable to a financial institution in an amount up to \$9,500,000 to refinance the Church’s previous notes payable and finance construction of a new building. The construction note payable requires monthly interest-only payments at an interest rate of 5.25% per annum (subject to adjustment to 4.99% per annum if the Church meets certain conditions as described in the construction note payable agreement) through the construction period maturity date which is no later than November 1, 2024 (subject to certain terms as described in the construction note payable agreement). The construction note payable converts to at term loan at the construction period maturity date if the Church meets certain conditions as described in the construction note payable agreement. Upon conversion to a term loan, the construction note payable requires monthly installments of principal and interest at a variable interest rate between 4.99% and 6.50% per annum as described in the construction note payable agreement based on a 300-month amortization schedule beginning in December 2024 with a balloon payment due at the extended term period maturity date which is no later than November 1, 2029 subject to certain terms as described in the construction note payable agreement. The construction note payable is secured by a certain deed of trust and is subject to requirements to hold certain funds in special disbursement accounts as described in Note B. Management expects the construction loan to convert to a term loan with a maturity date of November 2029 and has received assurances from the lender to that effect.

PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE F – NOTE PAYABLE (Continued)

The balance on the construction note payable is reported in the accompanying statement of financial position net of unamortized debt issuance costs as follows:

	December 31,	
	2023	2022
Outstanding principal	\$ 7,055,785	\$ 1,633,121
Less: Unamortized debt issuance costs	(83,232)	(99,879)
Total notes payable, net	\$ 6,972,553	\$ 1,533,242

Subsequent to December 31, 2023, the Church made additional draws on the construction note payable totaling approximately \$1,906,000 bringing the outstanding principal balance to approximately \$8,962,000 as of the date of the report of independent auditor, the date as of which the financial statements were available to be issued.

Approximate future maturities of the construction note payable are as follows (based on the outstanding principal balance as of December 31, 2023, an estimated interest rate of 6.00% per annum—the default rate as described in the construction note payable agreement, and the expected conversion of the construction note payable to a term loan on November 1, 2024):

<u>Year Ending</u> <u>December 31,</u>	
2024	\$ 10,000
2025	126,000
2026	134,000
2027	142,000
2028	151,000
Thereafter	6,493,000
Total	\$ 7,056,000

Interest expense consisted of the following:

	For The Years Ended, December 31,	
	2023	2022
Interest paid	\$ 171,566	\$ 56,318
Change in accrued interest	34,229	10,717
Interest capitalized as property and equipment	(205,795)	—
Interest expense	\$ —	\$ 67,035

PURSUIT CHURCH DENVER D/B/A PURSUIT CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE G – NET ASSETS

Activity for net assets with donor restrictions during 2023 was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31</u>
Capital projects	\$ 1,501,819	\$ 330,684	\$ (1,703,812)	\$ 128,691
Church ministries, outreach, and benevolence	3,477	207,173	(206,782)	3,868
Pursuit Prep	<u>—</u>	<u>28,876</u>	<u>(28,876)</u>	<u>—</u>
Total	<u>\$ 1,505,296</u>	<u>\$ 566,733</u>	<u>\$ (1,939,470)</u>	<u>\$ 132,559</u>

Activity for net assets with donor restrictions during 2022 was as follows:

	<u>Balance</u> <u>January 1</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31</u>
Capital projects	\$ 775,526	\$ 1,242,773	\$ (516,480)	\$ 1,501,819
Church ministries, outreach, and benevolence	9,870	176,574	(182,967)	3,477
Pursuit Prep	<u>15,329</u>	<u>121,541</u>	<u>(136,870)</u>	<u>—</u>
Total	<u>\$ 800,725</u>	<u>\$ 1,540,888</u>	<u>\$ (836,317)</u>	<u>\$ 1,505,296</u>

NOTE H – COMMITMENT

During 2022, the Church executed a construction contract in the approximate amount of \$9,182,000 (including change orders and other adjustments) in connection with the Church's new building project. Approximately \$1,804,000 remained unpaid in connection with this contract as of December 31, 2023, and will be paid as work on the project is completed.

NOTE I – SUBSEQUENT EVENTS

Subsequent to December 31, 2023, the Church terminated the employment of its senior pastor. The Church's leadership has not determined the effect, if any, that this development may have on future cash flows. The Church's leadership intends to take actions it deems appropriate to sustain the Church's financial health.

The Church has evaluated for possible financial reporting and disclosure of subsequent events through the date of the report of independent auditor, the date as of which the financial statements were available to be issued.