

LUTHERAN SCHOOL ASSOCIATION

ANNUAL FINANCIAL REPORT

For the fiscal year ended July 31, 2023



LUTHERAN SCHOOL ASSOCIATION

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July 31, 2023

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

**To the Board of Directors
Lutheran School Association
Decatur, Illinois**

We have reviewed the accompanying financial statements of Lutheran School Association (a nonprofit organization), which comprise the statement of financial position as of July 31, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our 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 us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

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

Summarized Comparative Information

We previously reviewed the Lutheran School Association's 2022 financial statements and in our conclusion dated January 9, 2023, stated that based on our review, we were not aware of any material modifications that should be made to the 2022 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended July 31, 2022, for it to be consistent with the reviewed financial statements from which it has been derived.

Supplementary Information

The supplementary information included on pages 21 through 25 is presented for purposes of additional analysis and is not a required part of the basic 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 financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

MCK CPAs & Advisors

Decatur, Illinois
November 10, 2023

LUTHERAN SCHOOL ASSOCIATION

STATEMENT OF FINANCIAL POSITION

July 31, 2023

(With summarized information for July 31, 2022)

| | Operating Fund | Endowment Fund | Activity Funds | Totals | |
|---|---------------------|-------------------|-------------------|------------------|------------------|
| | | | | 2023 | 2022 |
| <u>ASSETS</u> | | | | | |
| Cash and cash equivalents | \$ 265,133 | | 50,716 | 315,849 | 381,627 |
| Accounts receivable | 1,731 | | | 1,731 | |
| Assessment receivable | 301,962 | | | 301,962 | 28,080 |
| Other receivables | | | | | 596,616 |
| Beneficial interest in Agency Endowment Fund - Lutheran Legacy Foundation | | 56,124 | | 56,124 | 54,920 |
| Beneficial interest in Agency Endowment Fund - Community Foundation of Decatur/Macon County | | 407,800 | | 407,800 | 404,281 |
| Inventory | 25,000 | | | 25,000 | 25,000 |
| Property and equipment, net | 1,188,625 | | | 1,188,625 | 1,074,434 |
| TOTAL ASSETS | 1,782,451 | 463,924 | 50,716 | 2,297,091 | 2,564,958 |
| <u>LIABILITIES AND NET ASSETS</u> | | | | | |
| Liabilities: | | | | | |
| Cash drawn in excess | | | | | 40,325 |
| Accounts payable | 84,108 | | | 84,108 | 168,206 |
| Accrued expenses | 7,218 | | | 7,218 | 14,011 |
| Deferred tuition | 46,137 | | | 46,137 | 37,128 |
| Line of credit | 162,832 | | | 162,832 | 220,832 |
| Long-term debt | | | | | 353 |
| Due to other organizations | | | 50,716 | 50,716 | 65,927 |
| Total liabilities | 300,295 | - | 50,716 | 351,011 | 546,782 |
| Net Assets: | | | | | |
| Without donor restrictions | 1,475,499 | 290,386 | | 1,765,885 | 1,837,286 |
| With donor restrictions | 6,657 | 173,538 | | 180,195 | 180,890 |
| Total net assets | 1,482,156 | 463,924 | - | 1,946,080 | 2,018,176 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,782,451 | 463,924 | 50,716 | 2,297,091 | 2,564,958 |

See Accompanying Notes and Independent Accountants' Review Report.

LUTHERAN SCHOOL ASSOCIATION

STATEMENT OF ACTIVITIES

Year ended July 31, 2023

(With summarized information for July 31, 2022)

| | Operating Fund | Endowment Fund | Totals | |
|--|-------------------|-------------------|------------------|------------------|
| | | | 2023 | 2022 |
| Net assets without donor restrictions: | | | | |
| Revenues: | | | | |
| Tuition and fees (net of \$ 269,107 financial aid; 2022 - \$ 132,588) | \$ 1,669,173 | | 1,669,173 | 1,526,606 |
| Church assessments | 902,702 | | 902,702 | 900,001 |
| Scholarships | 51,152 | | 51,152 | 25,002 |
| Contributions | 325,546 | 5,463 | 331,009 | 89,457 |
| In-kind contributions | 339,096 | | 339,096 | 305,678 |
| Special events (net of expenses \$ 13,871; 2022 - \$ 28,942) | 90,825 | | 90,825 | 104,416 |
| Resale shop sales | 339,752 | | 339,752 | 301,584 |
| Investment income (net) | 69,951 | 13,242 | 83,193 | (15,340) |
| State of Illinois - nutrition program | 49,947 | | 49,947 | 130,695 |
| Grant income | 50,000 | | 50,000 | |
| Other revenue | 26,783 | | 26,783 | 19,085 |
| Employee retention credit | | | | 596,616 |
| Gain (loss) on sale/disposal of fixed assets | (10,102) | | (10,102) | 2,700 |
| Total revenues | 3,904,825 | 18,705 | 3,923,530 | 3,986,500 |
| Net transfers between funds | 17,227 | (17,227) | | |
| Net assets released from donor restriction | 51,452 | | 51,452 | 83,924 |
| Total revenues and reclassifications | 3,973,504 | 1,478 | 3,974,982 | 4,070,424 |
| Expenses: | | | | |
| Program services | 3,928,693 | | 3,928,693 | 3,594,268 |
| Supporting services: | | | | |
| General and administrative | 106,436 | | 106,436 | 102,851 |
| Fundraising | 11,254 | | 11,254 | 10,804 |
| Total expenses | 4,046,383 | - | 4,046,383 | 3,707,923 |
| Increase (decrease) in net assets without donor restrictions | (72,879) | 1,478 | (71,401) | 362,501 |

(Continued)

LUTHERAN SCHOOL ASSOCIATION

STATEMENT OF ACTIVITIES (Continued)

Year ended July 31, 2023

(With summarized information for July 31, 2022)

| | Operating Fund | Endowment Fund | Totals | |
|---|---------------------|-------------------|------------------|------------------|
| | | | 2023 | 2022 |
| Net assets with donor restrictions: | | | | |
| Contributions | 35,250 | 6,401 | 41,651 | 87,492 |
| Investment income, net | | 9,106 | 9,106 | (14,437) |
| Net transfers between funds | 12,262 | (12,262) | | |
| Net assets released from donor restriction | (51,452) | | (51,452) | (83,924) |
| Increase (decrease) in net assets with donor restrictions | (3,940) | 3,245 | (695) | (10,869) |
| Change in net assets | (76,819) | 4,723 | (72,096) | 351,632 |
| Net assets, beginning | 1,558,975 | 459,201 | 2,018,176 | 1,666,544 |
| Net assets, ending | <u>\$ 1,482,156</u> | <u>463,924</u> | <u>1,946,080</u> | <u>2,018,176</u> |

See Accompanying Notes and Independent Accountants' Review Report.

LUTHERAN SCHOOL ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

Year ended July 31, 2023

(With summarized information for July 31, 2022)

| | Program Services | | | | |
|---|---------------------------------|------------------|----------------|---------------|----------------|
| | Elementary/ Middle School | High School | Hot Lunch | ABC | ReSale Shop |
| Salary and benefits: | | | | | |
| Salaries | \$ 1,186,001 | 519,248 | 45,844 | 47,200 | 106,150 |
| Employee health and retirement benefits | 285,771 | 113,644 | 3,465 | 12,309 | 12,305 |
| Payroll taxes | 63,138 | 26,297 | 3,594 | 3,826 | 8,181 |
| Total salary and benefits | <u>1,534,910</u> | <u>659,189</u> | <u>52,903</u> | <u>63,335</u> | <u>126,636</u> |
| Other expenses: | | | | | |
| Office supplies and postage | 4,075 | 1,258 | | | 445 |
| Technology expense | 18,437 | 8,652 | | | |
| Text books | 30,098 | 6,173 | | | |
| Library materials | 226 | | | | |
| Testing materials | 4,070 | 1,865 | | | |
| Classroom/educational supplies | 40,654 | 60,787 | | 2,894 | |
| Travel expense | | 51 | 173 | | |
| Meeting expense | 443 | | | | |
| Conference and training | 2,129 | 134 | | | |
| Equipment/copier | 4,377 | 1,094 | | | |
| Utilities | 144,550 | 56,548 | | | 17,738 |
| Telephone | 3,377 | 1,910 | | | 1,198 |
| Athletic expenses | 40,194 | 132,142 | | | |
| Building lease | 84,851 | 36,365 | | | |
| Building and equipment repairs | 68,029 | 24,540 | 3,853 | | 2,993 |
| Janitorial supplies | 11,089 | 3,337 | | | 1,268 |
| Transportation | 7,208 | 4,758 | | | 3,131 |
| Grounds upkeep | 16,418 | 1,474 | | | |
| Office equipment | | 553 | | | |
| Building equipment | | | | | 2,130 |
| Public relations | 14,860 | 4,820 | | | 480 |
| Health services | 1,706 | 686 | | | |
| Recruitment | 1,727 | 268 | | | |
| Food supplies | | | 70,749 | | |
| Professional fees | 11,681 | 5,149 | 113 | 54 | 1,870 |
| Bad debt expense | | | | | |
| Insurance | 33,890 | 19,290 | 3,324 | 3,324 | 6,648 |
| Cost of sales - in-kind | | | | | 339,096 |
| Depreciation expense | 76,167 | 19,042 | | | |
| Interest expense | | | | | |
| Miscellaneous | 5,126 | 647 | 4,479 | 138 | 8,697 |
| Total other expenses | <u>625,382</u> | <u>391,543</u> | <u>82,691</u> | <u>6,410</u> | <u>385,694</u> |
| Total expenses | <u>\$ 2,160,292</u> | <u>1,050,732</u> | <u>135,594</u> | <u>69,745</u> | <u>512,330</u> |

See Accompanying Notes and Independent Accountants' Review Report.

| Total Program Services | General and Administrative | Fund- raising | Totals | |
|------------------------------|-------------------------------|------------------|------------------|------------------|
| | | | 2023 | 2022 |
| 1,904,443 | 65,368 | 7,797 | 1,977,608 | 1,826,224 |
| 427,494 | 20,608 | 2,547 | 450,649 | 393,935 |
| 105,036 | 3,579 | 596 | 109,211 | 98,895 |
| 2,436,973 | 89,555 | 10,940 | 2,537,468 | 2,319,054 |
| 5,778 | 627 | 314 | 6,719 | 6,887 |
| 27,089 | | | 27,089 | 39,833 |
| 36,271 | | | 36,271 | 16,170 |
| 226 | | | 226 | 937 |
| 5,935 | | | 5,935 | 5,545 |
| 104,335 | | | 104,335 | 24,448 |
| 224 | | | 224 | 705 |
| 443 | | | 443 | - |
| 2,263 | | | 2,263 | 1,050 |
| 5,471 | | | 5,471 | 7,191 |
| 218,836 | | | 218,836 | 177,370 |
| 6,485 | | | 6,485 | 7,540 |
| 172,336 | | | 172,336 | 156,819 |
| 121,216 | | | 121,216 | 106,989 |
| 99,415 | | | 99,415 | 90,547 |
| 15,694 | | | 15,694 | 17,984 |
| 15,097 | | | 15,097 | 10,995 |
| 17,892 | | | 17,892 | 16,015 |
| 553 | | | 553 | 151 |
| 2,130 | | | 2,130 | 1,123 |
| 20,160 | | | 20,160 | 12,387 |
| 2,392 | | | 2,392 | 1,090 |
| 1,995 | | | 1,995 | - |
| 70,749 | | | 70,749 | 73,931 |
| 18,867 | | | 18,867 | 104,582 |
| | | | | 4,130 |
| 66,476 | | | 66,476 | 66,742 |
| 339,096 | | | 339,096 | 305,678 |
| 95,209 | | | 95,209 | 97,887 |
| | 9,432 | | 9,432 | 11,512 |
| 19,087 | 6,822 | | 25,909 | 22,631 |
| 1,491,720 | 16,881 | 314 | 1,508,915 | 1,388,869 |
| 3,928,693 | 106,436 | 11,254 | 4,046,383 | 3,707,923 |

LUTHERAN SCHOOL ASSOCIATION

STATEMENT OF CASH FLOWS

Year ended July 31, 2023

(With summarized information for July 31, 2022)

| | Operating Fund | Endowment Fund | Totals | |
|--|------------------|----------------|------------------|-----------------|
| | | | 2023 | 2022 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Change in net assets | \$ (76,819) | 4,723 | (72,096) | 351,632 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | | | |
| Depreciation | 95,209 | | 95,209 | 97,887 |
| Loss on asset disposal | 10,102 | | 10,102 | |
| Change in value of beneficial interest in agency endowments | | (4,723) | (4,723) | 47,482 |
| Bad debt expense | | | | 4,130 |
| (Increase) decrease in: | | | | |
| Accounts receivable | (1,731) | | (1,731) | (4,130) |
| Assessment receivables | (273,882) | | (273,882) | (28,080) |
| Other receivable | 596,616 | | 596,616 | (596,616) |
| Increase (decrease) in: | | | | |
| Cash drawn in excess | (40,325) | | (40,325) | 40,325 |
| Accounts payable | (84,098) | | (84,098) | 158,500 |
| Accrued expenses | (6,793) | | (6,793) | 3,925 |
| Deferred revenue | 9,009 | | 9,009 | (9,797) |
| Due to other organizations | (15,211) | | (15,211) | (7,089) |
| Net cash flows from operating activities | 212,077 | - | 212,077 | 58,169 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchase of equipment | (219,502) | | (219,502) | (95,667) |
| Net cash flow from investing activities | (219,502) | - | (219,502) | (95,667) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Line of credit activity | (58,000) | | (58,000) | (59,981) |
| Repayment of long-term debt | (353) | | (353) | (10,832) |
| Net cash flows from financing activities | (58,353) | - | (58,353) | (70,813) |
| Net increase (decrease) in cash and cash equivalents | (65,778) | | (65,778) | (108,311) |
| Cash and cash equivalents, beginning of year | 381,627 | | 381,627 | 489,938 |
| Cash and cash equivalents, end of year | \$ 315,849 | - | 315,849 | 381,627 |
| SUPPLEMENTAL DISCLOSURES | | | | |
| Interest paid | \$ 9,432 | - | 9,432 | 6,388 |

See Accompanying Notes and Independent Accountants' Review Report.

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

July 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies

Nature of Activities: The Lutheran School Association (the Association) is a not-for-profit organization. The Association operates a private elementary and secondary school. Tuition and fees, and Church assessments from participating churches represent the Association's primary sources of revenue. Additionally, the Association operates a thrift shop by collecting and selling donated clothing and household items.

Basis of Accounting: The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under the accrual basis of accounting, revenues are recorded as earned, and expenses are recorded at the time liabilities are incurred.

Basis of Presentation: The Association reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which represent the expendable resources that are available for operations at management's discretion; and net assets with donor restrictions, which represent resources restricted by donors as to purpose or by the passage of time and resources whose use by the Association is limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Association. To ensure observance of limitations and restrictions placed on the use of resources available to the Association, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities, and net assets of the Association are reported in three self-balancing fund groups as follows:

- The Operating Fund, which includes unrestricted and restricted resources, represents the portion of funds that is available for support of school operations.
- The Endowment Fund, which includes unrestricted and restricted resources, represents the portion of funds set aside as endowment funds either by the Board or by donors.
- The Activity Fund, which includes those funds the Association, is holding at the discretion of various school groups. The agency liability represents those funds that will be passed on to the group from current cash balances.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Association considers all unrestricted highly liquid investments with an initial maturity of three months or less, balances on deposit in money market accounts, and accounts that are swept out of the checking account and invested overnight to be cash equivalents.

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies, continued

Property and Equipment: Property and equipment purchased after July 31, 2008 are recorded at cost at the date of acquisition, and donations of property and equipment are recorded at fair value on the date of donation. The Association has adopted a capitalization policy as follows:

| | |
|---|----------|
| Office equipment and computers | \$ 1,000 |
| Other equipment | 1,500 |
| Vehicle and equipment repairs that extend the useful life of the asset | 2,500 |
| Other assets | 3,000 |

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Maintenance and minor repairs are charged to operations when incurred.

In Kind Contributions: The Association accepts contributed nonfinancial assets (in-kind contributions) of clothing, furniture, and household items for the ReSale Shop. It is the policy of the Association to monetize these contributed nonfinancial assets as soon as possible after being received. The items are valued using fair value based on thrift shop values, which is the principal market. During 2023, the Association recognized contributions of nonfinancial assets of \$ 339,096 (2022 - \$ 305,678). These contributions were not restricted.

The Association also receives donated services from unpaid volunteers, including members of the Board of Directors, who perform a variety of tasks that support the Association's activities. No amounts have been recognized for these services in the statement of activities since the criteria for recognition have not been satisfied.

Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

Promises to Give: Contributions are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions that are received subject to certain donor stipulations are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Restricted and Unrestricted Revenues: Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. All contributions are considered available for the Association's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as restricted support and increase the net assets with donor restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as unrestricted support and increase net assets without donor restrictions. Investment income that is limited to specific uses by donor restrictions is reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the income is recognized.

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies, continued

Functional Expenses: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

Income Tax Status: The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the financial statements. Because the Association qualifies as a religious organization, no tax filings are required.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Inventory: Inventory consists of clothing, furniture and household items that are donated and then sold at the LSA ReSale Shop. Inventory, valued at estimated thrift shop value, was \$ 25,000 at July 31, 2023 (2022 - \$ 25,000).

Credit Risks: Disclosures regarding credit risks are as follows:

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash investments, deposits and accounts receivable.

The Association currently maintains cash and temporary investments in several high quality financial institutions. At July 31, 2023, the Association had cash deposits in excess of federally insured limits of \$ 5,434 (2022 - \$ 53,970).

Accounts Receivable: The Association extends unsecured credit to parents of students. They are allowed to pay the tuition over the school year. Accounts receivable represent amounts due for tuition and fees from parents of currently enrolled and former students.

Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements. The current amounts are considered 100% collectible.

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued) July 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies, continued

Beneficial Interest: The Association's beneficial interests in assets held by the Community Foundation of Decatur/Macon County and Lutheran Legacy Association are recognized as assets. As such, investment income and changes in the value of the beneficial interest are recognized in the statement of activities. Distributions received from the fund are recorded as decreases in the beneficial interest.

Deferred Revenue: Deferred revenue results from the Association recognizing registration and tuition revenue in the period in which the related educational instruction is performed. Accordingly, registration and tuition fees received for the next school term are deferred until the instruction commences.

Financial Aid: Gross tuition and fees reflect the Association's normal tuition rates for all students. Scholarships are given in certain circumstances and netted against gross tuition and fees. Dependents of the Association's staff pay reduced tuition rates. The amount by which tuition is reduced for a dependent is included in tuition and fees revenue and in the expense category for which the staff member's compensation is reported (typically academic programs expense) in the statement of activities.

Prior Year Information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class or fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statement for the year ended July 31, 2022, from which the summarized information was derived. Certain reclassifications of prior year comparative totals have been made in order to conform to the current year presentation.

New Accounting Pronouncements: During the year ended July 31, 2023, the Association adopted the guidance of ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The guidance requires the presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, disclosure of the disaggregated amount by type and disclosure of qualitative information about whether the contributed nonfinancial assets were monetized or utilized during the reporting period as well as a description of the programs or other activities in which the assets were used.

Note 2 - Revenue

The Association earns revenue from tuition and fees, church assessments, special events, and ReSale Shop sales activities.

Generally, the Association bills registered students in August prior to the beginning of the school year, and student accounts receivable are due based on the payment option selected (i.e. in full, two payments, quarterly payments, nine monthly payments, or eleven monthly payments). If a student withdraws prior to the beginning of the school year, the student is entitled to a full refund. Tuition paid in one payment is refundable on a pro-rata monthly basis. Tuition is pro-rated on a monthly basis for students enrolling after September 15.

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2023 and 2022

Note 2 - Revenue, continued

Student activity, technology, enrollment and tuition collection fees are recognized at registration and are nonrefundable. Revenue for auxiliary programs or participation fees is generally recognized when services are provided to the students.

Tuition revenue, auxiliary program revenue, and student activities revenue are recognized ratably over the year as the Association provides services to students. Revenue is reported at the amount of consideration that the Association expects to be entitled in exchange for providing academic programs. The Association determines the transaction price based on standard charges for the normal tuition rates, reduced by discounts provided for scholarships and other price concessions provided to students.

The Association recognizes revenue in the period in which the related educational instruction is performed. Revenue is reported at the amount of consideration that the Association expects to be entitled in exchange for providing academic programs.

Revenues derived from various special events are recognized as the events are held. The performance obligation is typically satisfied upon completion of the event. The transaction prices are set by Association management for each event.

Revenues derived from the sale of goods at the ReSale Shop are recognized, and performance obligations are satisfied, as the goods are delivered to the buyer. The transaction prices vary by type of goods sold.

Note 3 - Beneficial Interest in Agency Endowment Funds

During 2010, the Association transferred \$ 475,681 to the Community Foundation of Macon County (Community Foundation) under several agency endowment agreements. It is the hope of the Association that other individuals will contribute to the funds. The Association retains a beneficial interest in the agency endowment funds held by the Community Foundation. Upon request by the Association, there are to be annual distributions to provide scholarships for students.

A schedule of the changes in the Association's total beneficial interest in all funds for the years ended July 31, 2023 and 2022 is as follows:

| | <u>2023</u> | <u>2022</u> |
|---|--------------------------|----------------|
| Beneficial interest - beginning of year | \$ 404,281 | 441,201 |
| Change in value of beneficial interest: | | |
| Contributions | 11,864 | 30,389 |
| Investment earnings | 21,144 | (33,652) |
| Distributions | (29,489) | (33,657) |
| | <u>\$ 407,800</u> | <u>404,281</u> |

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2023 and 2022

Note 3 - Beneficial Interest in Agency Endowment Funds, continued

In addition, the Community Foundation has matched the original contribution. The value of the matching funds at July 31, 2023 was \$ 193,380 (2022 - \$ 190,371). The matching funds contributed \$ 9,005 (2022 - \$ 10,389) to the Association during the fiscal year.

During 2010, the Association transferred \$ 20,000 to the Lutheran Legacy Foundation (Foundation) under an agency endowment agreement. During 2013, the Association transferred \$ 10,000 to the Foundation under the same type of agency endowment agreement. The funds were donated from the Foundation as well. It is the hope of the Association that other individuals will contribute to the fund. The Association has granted variance power to the Foundation, and the Foundation has ultimate authority and control over the fund and the income derived therefrom. The Association retains beneficial interest in the endowment fund held by the Foundation. Upon request by the Association, there is to be an annual 5% distribution to provide scholarships for students.

A schedule of the changes in the Association’s beneficial interest in the funds for the years ended July 31, 2023 and 2022 is as follows:

| | <u>2023</u> | <u>2022</u> |
|---|------------------|----------------|
| Beneficial interest - beginning of year | \$ 54,920 | 65,482 |
| Change in value of beneficial interest: | | |
| Investment earnings (losses) | 5,046 | (6,804) |
| Distributions | <u>(3,842)</u> | <u>(3,758)</u> |
| Beneficial interest - end of year | <u>\$ 56,124</u> | <u>54,920</u> |

The fair value of the beneficial interest in agency endowment funds are measured using the fair value of the assets held in the funds (level 2) as reported by the foundations. The Board of Directors reviews the Association’s fair value measurement policies and procedures and determines if the valuation techniques are appropriate.

Note 4 - Receivables

Assessments Receivable: Part of the Association’s revenue comes from fees assessed to the participating area Lutheran churches. The Association’s management determines annual operating costs and assesses each church for its proportionate share based on enrollment. The assessments are payable to the Association monthly and \$ 301,962 is the balance due as of July 31, 2023 (2022 - \$ 28,080).

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2023 and 2022

Note 5 - Property and Equipment

Prior to August 1, 2008, the Association recorded purchases of property and equipment as an expense. Beginning August 1, 2008, property and equipment transactions are being capitalized, which is in accordance with U.S. generally accepted accounting principles.

The following is a summary of property and equipment as of July 31, 2023 and 2022:

| | <u>2023</u> | <u>2022</u> |
|------------------------------------|---------------------|--------------------|
| Computer equipment and accessories | \$ 177,807 | 221,860 |
| Athletic complex and equipment | 622,138 | 600,273 |
| Equipment - other | 277,400 | 247,731 |
| Vehicles | 67,044 | 67,044 |
| Leasehold improvements | 1,073,029 | 938,506 |
| Leasehold improvements - resale | 88,625 | 88,625 |
| | <u>2,306,043</u> | <u>2,164,039</u> |
| Less accumulated depreciation | <u>(1,117,418)</u> | <u>(1,089,605)</u> |
| Net property and equipment | <u>\$ 1,188,625</u> | <u>1,074,434</u> |

Depreciation expense in the year ended July 31, 2023 was \$ 95,209 (2022 - \$ 97,887).

Note 6 - Net Assets

Board designated net assets without donor restrictions are available for the following purposes:

| | <u>2023</u> | <u>2022</u> |
|---|-------------------|----------------|
| Endowment Fund: | | |
| Designated for endowment - Community Foundation | \$ 185,679 | 185,441 |
| Designated for scholarships - Burdick contribution | 47,229 | 47,195 |
| Designated for scholarships - Brink contribution | 1,354 | 1,352 |
| Designated for endowment - Lutheran Legacy Foundation | 56,124 | 54,920 |
| | <u>56,124</u> | <u>54,920</u> |
| Total | <u>\$ 290,386</u> | <u>288,908</u> |

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2023 and 2022

Note 6 - Net Assets, continued

Net assets with donor restrictions are available for the following purposes:

| | <u>2023</u> | <u>2022</u> |
|---------------------|-----------------------|--------------------|
| Operating Fund: | | |
| High school golf | \$ 1,766 | 1,766 |
| ADM STEM/technology | 698 | 2,964 |
| ReSale Shop | | 1,674 |
| ADM ag education | 4,193 | 4,193 |
| | <u>6,657</u> | <u>10,597</u> |
| Endowment Fund: | | |
| Pritts endowment | 57,845 | 57,778 |
| Horn endowment | 78,414 | 75,283 |
| Tieman endowment | 37,279 | 37,232 |
| | <u>173,538</u> | <u>170,293</u> |
| Total | <u>\$ 180,195</u> | <u>180,890</u> |

Net assets with donor restrictions represent funds that can be used for student scholarships. The funds have been invested with the Community Foundation of Decatur/Macon County per donor approval. The earnings distributed to the Association will continue to be used for student scholarships.

Note 7 - Line of Credit

The Association has a \$ 260,832 secured bank line of credit dated February 3, 2022, which matures on February 3, 2024. Interest is 4.2%. Substantially all of the Association's deposits serve as collateral for any loan amount. As of July 31, 2023, \$ 162,832 was outstanding on this line (2022 - \$ 220,832).

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued) July 31, 2023 and 2022

Note 8 - Concentrations

For the year ended July 31, 2023, approximately 56% or \$ 192,099 of the Association's contribution revenue came from one donor. For the year ended July 31, 2022, approximately 37% or \$ 65,000 of the Association's contribution revenue came from three donors.

Note 9 - Retirement Plan

The Association participates in Concordia Regular Basis retirement plan. Contributions for the plan are a percentage of annual compensation and are paid by the employer. Retirement cost for the year ended July 31, 2023 was \$ 144,130 (2022 - \$ 133,746).

Note 10 - Facility Use - Related Party

The Association's facility is owned by the Lutheran School Foundation (Foundation). The Foundation also purchased a building in 2011 for the ReSale Shop. The Foundation holds title to the land and buildings as well as the debt on the properties. As of the most recent Foundation financial statement for the year ended December 31, 2022, the debt balance was \$ 791,548 (December 31, 2021 - \$ 721,130). The Association paid the Foundation rent of \$ 8,916 per month through November. Beginning in December the Association's rent paid to the Foundation increased to \$ 10,694 per month, equaling the monthly debt payment obligation. Rent expense for the year ended July 31, 2023 was \$ 121,216 (2022 - \$ 106,989).

Note 11 - Endowments

The Association's endowment consists of eight individual funds established for a variety of purposes. It includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. \$ 81,508 of the July 31, 2023 balance of \$ 173,538 with donor-imposed restrictions are to be held in perpetuity.

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)
 July 31, 2023 and 2022

Note 11 - Endowments, continued

Investment Return Objectives, Risk Parameters and Strategies. The Association has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes money market, U.S. Government and Agency backed issues, and equities, that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Association expects its endowment assets, over time, to produce an average rate of return of approximately 5% to 7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Association has a policy of appropriating for distribution each year 5% of the total endowment fund assets, net of investment costs. Primary distributions shall be made to fund scholarships for students as well as other Board approved items.

Changes in endowment net assets as of July 31, 2023 are as follows:

| | Unrestricted Board Designated | Donor Restricted | Total Net Endowment Assets |
|---|--|-----------------------------|---|
| Endowment net assets, beginning of year | \$ 288,908 | 170,293 | 459,201 |
| Contributions | 5,463 | 6,401 | 11,864 |
| Net gain on Agency Endowment Fund | 13,242 | 9,106 | 22,348 |
| Amounts appropriated for expenditure | (17,227) | (12,262) | (29,489) |
| Endowment net assets, end of year | <u>\$ 290,386</u> | <u>173,538</u> | <u>463,924</u> |

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)
July 31, 2023 and 2022

Note 11 - Endowments, continued

Changes in endowment net assets as of July 31, 2022 are as follows:

| | Unrestricted Board Designated | Donor Restricted | Total Net Endowment Assets |
|---|-------------------------------------|---------------------|----------------------------------|
| Endowment net assets, beginning of year | \$ 332,250 | 174,433 | 506,683 |
| Contributions | 6,194 | 24,090 | 30,284 |
| Net gain on Agency Endowment Fund | (29,776) | (14,437) | (44,213) |
| Amounts appropriated for expenditure | (19,760) | (13,793) | (33,553) |
| Endowment net assets, end of year | <u>\$ 288,908</u> | <u>170,293</u> | <u>459,201</u> |

Note 12 - Liquidity and Availability of Resources

The Association has \$ 568,826 of financial assets available (2022 - \$ 940,396) to meet cash needs for general expenditures within one year of the statement of financial position date consisting of cash and cash equivalents of \$ 265,133, (2022 - \$ 275,375) and amounts receivable of \$ 303,693 (2022 - \$ 624,696); none of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. The amounts receivable are subject to implied time restrictions, but are all expected to be collected within one year. Best practices suggest maintaining financial assets on hand to meet 60 days of normal operating expenses. The Association has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Association also maintains a line of credit from which it can draw as needed.

Note 13 - Cost Allocation

The costs of providing various programs and supporting services are summarized on a functional basis in the statement of functional expenses. Expenses are directly charged to the appropriate activity, where feasible. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function including uncollectible debts, interest expense, and miscellaneous expense. These expenses are allocated entirely to supporting services and are not allocated to individual programs. The Association reevaluates its allocation method each year to determine if there are any adjustments that are necessary to the allocation method based on actual activities conducted during the year.

The salaries and payroll-related expenditures have been allocated between program costs and supporting services based on the job each employee performs. School administrators, directors, and office staff have been allocated between program and supporting services. All teacher payroll salaries and related expenditures have been allocated to program services.

LUTHERAN SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued) July 31, 2023 and 2022

Note 14 - Power Purchase Agreement

During 2023, the Association entered into a 20 year power purchase agreement (PPA), plus options to extend. The agreement allows for the construction and operation of renewable energy equipment (solar panel system) on Association grounds to generate electricity for the Association to purchase. In conjunction with the PPA, the parties entered into a 35 year lease of the site on which the equipment is installed, at \$ 1 per year. The Association has no ownership interest in the System and no responsibility for its operation or maintenance. The Association will purchase all energy output generated from the system at an agreed-upon rate throughout the agreement. Subsequent to year-end, the construction of the system has been completed with the intent to begin operations by December 2023.

Note 15 - Risk and Uncertainties

The Association has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the limited geographical area from which the School draws its student enrollment. Adverse changes in the local economy may have an adverse impact on the ability of families to pay for tuition.

Note 16 - Subsequent Events

The Association has evaluated events occurring after the statement of financial position dated through November 10, 2023, in order to determine their potential for recognition or disclosure in the financial statements. The latter date is the same date the financial statements were available to be issued.

LUTHERAN SCHOOL ASSOCIATION

ENDOWMENT FUND

COMBINING STATEMENT OF FINANCIAL POSITION

July 31, 2023

(With summarized information for July 31, 2022)

| | General Scholarship | Pritts Scholarship | Horn Scholarship | Tieman Scholarship | Burdick Scholarship |
|---|--------------------------------|-------------------------------|-----------------------------|-------------------------------|--------------------------------|
| <u>ASSETS</u> | | | | | |
| Beneficial interest in Agency Endowment Fund held by the Lutheran Legacy Foundation | \$ | | | | |
| Beneficial interest in Agency Endowment Funds held by the Community Foundation of Decatur/Macon County | <u>185,679</u> | <u>57,845</u> | <u>78,414</u> | <u>37,279</u> | <u>47,229</u> |
| TOTAL ASSETS | <u><u>185,679</u></u> | <u><u>57,845</u></u> | <u><u>78,414</u></u> | <u><u>37,279</u></u> | <u><u>47,229</u></u> |
| <u>NET ASSETS</u> | | | | | |
| Without donor restrictions | 185,679 | | | | 47,229 |
| With donor restrictions | | 57,845 | 78,414 | 37,279 | |
| TOTAL NET ASSETS | <u>\$ 185,679</u> | <u>57,845</u> | <u>78,414</u> | <u>37,279</u> | <u>47,229</u> |

| Brink Scholarship | Lutheran Legacy Foundation | Totals | |
|------------------------------|---|---------------|-------------|
| | | 2023 | 2022 |
| | 56,124 | 56,124 | 54,920 |
| 1,354 | | 407,800 | 404,281 |
| 1,354 | 56,124 | 463,924 | 459,201 |
| 1,354 | 56,124 | 290,386 | 288,908 |
| | | 173,538 | 170,293 |
| 1,354 | 56,124 | 463,924 | 459,201 |

LUTHERAN SCHOOL ASSOCIATION

ENDOWMENT FUND

COMBINING STATEMENT OF ACTIVITIES

Year ended July 31, 2023

(With summarized information for July 31, 2022)

| | General Scholarship | Pritts Scholarship | Horn Scholarship | Tieman Scholarship | Burdick Scholarship |
|---------------------------------|--------------------------------|-------------------------------|-----------------------------|-------------------------------|--------------------------------|
| Revenues: | | | | | |
| Contributions | \$ 4,316 | 1,648 | 3,837 | 916 | 1,114 |
| Investment income, net | 9,577 | 2,711 | 4,516 | 1,879 | 2,392 |
| Change in net assets | 13,893 | 4,359 | 8,353 | 2,795 | 3,506 |
| Transfers (to) from other funds | (13,655) | (4,292) | (5,222) | (2,748) | (3,472) |
| Net assets, beginning | 185,441 | 57,778 | 75,283 | 37,232 | 47,195 |
| Net assets, ending | \$ 185,679 | 57,845 | 78,414 | 37,279 | 47,229 |

| Brink Scholarship | Lutheran Legacy Foundation | Totals | |
|------------------------------|---|---------------|-------------|
| | | 2023 | 2022 |
| 33 | | 11,864 | 30,284 |
| 69 | 1,204 | 22,348 | (44,213) |
| 102 | 1,204 | 34,212 | (13,929) |
| (100) | | (29,489) | (33,553) |
| 1,352 | 54,920 | 459,201 | 506,683 |
| 1,354 | 56,124 | 463,924 | 459,201 |

LUTHERAN SCHOOL ASSOCIATION

SCHEDULE OF ACTIVITY FUNDS

July 31, 2023

| | Balance August 1, 2022 | Additions | Deductions | Balance July 31, 2023 |
|-------------------------------------|------------------------------|---------------|---------------|-----------------------------|
| Amount due to organizations: | | | | |
| Book fairs Library Program | \$ | 8,301 | 8,301 | |
| Boosters for Baseball | | 211 | | 211 |
| Booster for Boys Basketball | | 3,068 | 1,657 | 1,411 |
| Boosters for Volleyball | | 7,838 | 1,668 | 6,170 |
| Kids of the Kingdom | | 11,250 | 11,250 | |
| Crime Stoppers | 200 | | 200 | |
| DC Trip | 1,243 | | 1,243 | |
| FFA | 2,617 | 334 | | 2,951 |
| HS Student Government | 18,841 | 8,207 | 14,120 | 12,928 |
| HS Class of 2026 | 94 | | | 94 |
| HS Class of 2023 | 1,519 | | 1,102 | 417 |
| HS Class of 2024 | 2,101 | | | 2,101 |
| HS Class of 2025 | 2,401 | | | 2,401 |
| HS Yearbook | 1,558 | 64 | 1,622 | |
| HS Boosters | 20,698 | 40,274 | 43,052 | 17,920 |
| PTL | 12,190 | 3,385 | 11,464 | 4,111 |
| SADD | 1,968 | | 1,968 | |
| STEM Club | 497 | 203 | 700 | |
| Total | \$ 65,927 | 83,135 | 98,347 | 50,715 |