

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

FINANCIAL STATEMENTS

For the years ended
December 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

August 27, 2024

To the Board of Directors
Degage Ministries and Degage Holdings
Grand Rapids, Michigan

Opinion

We have audited the accompanying combined financial statements of Degage Ministries and Degage Holdings, which comprise the combined statements of financial position as of December 31, 2023 and 2022 the related combined statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Degage Ministries and Degage Holdings 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 Degage Ministries and Degage Holdings 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 Degage Ministries and Degage Holdings' 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 as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high-level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statements of financial position and combining statements of activities are presented for purposes of additional analysis and are not a required part of the 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 information has been subjected to the auditing procedures applied in the audit of the 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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Certified Public Accountants
Grand Rapids, Michigan

FINANCIAL STATEMENTS

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COMBINED STATEMENTS OF FINANCIAL POSITION

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

December 31, 2023 and 2022

ASSETS

	2023	2022
Assets		
Cash and cash equivalents	\$ 1,498,957	\$ 1,801,331
Cash restricted for property and equipment acquisitions	394,216	1,544,516
Grants receivable, net	79,951	96,655
Promises to give, net	171,206	299,327
Prepaid expenses	9,686	4,605
Notes receivable	5,408,875	5,408,875
Property and equipment, net	9,054,917	7,841,258
Total Assets	\$ 16,617,808	\$ 16,996,567

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 237,916	\$ 76,222
Accrued expenses	94,659	70,906
Notes payable	7,350,000	7,650,000
Total Liabilities	7,682,575	7,797,128
Net Assets		
Without donor restrictions	8,484,027	3,567,417
With donor restrictions	451,206	5,632,022
Total Net Assets	8,935,233	9,199,439
Total Liabilities and Net Assets	\$ 16,617,808	\$ 16,996,567

COMBINED STATEMENTS OF ACTIVITIES

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

For the year ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues			
Contributions of cash and other financial assets	\$ 2,272,958	\$ 582,290	\$ 2,855,248
Contributions of nonfinancial assets	430,623	-	430,623
Government grants	426,842	-	426,842
Program revenue	109,325	-	109,325
Gross revenues from special events:			
Event revenue	230,575	-	230,575
Less: direct expenses	(39,550)	-	(39,550)
Net special event revenue	191,025	-	191,025
Interest income	5,264	-	5,264
Other income	15,910	-	15,910
Net assets released from restrictions	5,763,106	(5,763,106)	-
Total Public Support and Revenues	9,215,053	(5,180,816)	4,034,237
Expenses			
Dining Room	1,053,529	-	1,053,529
Life Enrichment Center	729,698	-	729,698
Open Door	879,494	-	879,494
Open Door Bakery	194,815	-	194,815
Workforce Development	141,885	-	141,885
Management and general	848,898	-	848,898
Fundraising expenses	450,124	-	450,124
Total Expenses	4,298,443	-	4,298,443
Change in Net Assets	4,916,610	(5,180,816)	(264,206)
Net Assets - beginning of year	3,567,417	5,632,022	9,199,439
Net Assets - end of year	\$ 8,484,027	\$ 451,206	\$ 8,935,233

COMBINED STATEMENTS OF ACTIVITIES (Continued)

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

For the year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues			
Contributions of cash and other financial assets	\$ 1,898,056	\$ 1,142,125	\$ 3,040,181
Contributions of nonfinancial assets	270,895	-	270,895
Government grants	531,935	-	531,935
Program revenue	120,277	-	120,277
Gross revenues from special events:			
Event revenue	161,596	-	161,596
Less: direct expenses	(60,335)	-	(60,335)
Net special event revenue	101,261	-	101,261
Interest income	13,011	-	13,011
Other income	108,898	-	108,898
Gain on disposal of property and equipment	11,975	-	11,975
Net assets released from restrictions	69,003	(69,003)	-
Total Public Support and Revenues	3,125,311	1,073,122	4,198,433
Expenses			
Dining Room	934,437	-	934,437
Life Enrichment Center	595,957	-	595,957
Open Door	774,100	-	774,100
Open Door Bakery	109,064	-	109,064
Workforce Development	161,044	-	161,044
Management and general	495,106	-	495,106
Fundraising expenses	645,271	-	645,271
Total Expenses	3,714,980	-	3,714,980
Change in Net Assets	(589,669)	1,073,122	483,453
Net Assets - beginning of year	4,157,086	4,558,900	8,715,986
Net Assets - end of year	\$ 3,567,417	\$ 5,632,022	\$ 9,199,439

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

For the year ended December 31, 2023

	Program Services					Supporting Services				Total
	Dining Room	Life Enrichment Center	Open Door	Open Door Bakery	Workforce Develop.	Program Subtotal	Mgmt & General	Fund-raising	Supporting Subtotal	
Salaries, wages and related expenses	\$ 597,129	\$ 425,000	\$ 505,000	\$ 90,000	\$ 50,000	\$ 1,667,129	\$ 330,000	\$ 220,000	\$ 550,000	\$ 2,217,129
Distributed in-kind contributions	128,661	78,892	107,210	5,590	5,590	325,943	51,464	51,464	102,928	428,871
Payroll taxes and benefits	58,890	44,168	44,168	12,500	2,500	162,226	66,115	66,116	132,231	294,457
Facilities expenses	81,217	49,117	69,050	13,492	2,211	215,087	14,384	14,384	28,768	243,855
Professional services	15,042	5,014	12,535	2,510	2,510	37,611	6,266	6,266	12,532	50,143
Depreciation and amortization	23,424	23,416	23,416	23,416	23,412	117,084	234,168	-	234,168	351,252
Direct program expenses	87,442	73,901	81,193	23,425	17,167	283,128	-	-	-	283,128
Promotion and publicity	2,314	2,314	2,314	2,314	2,314	11,570	2,735	57,218	59,953	71,523
Supplies	8,456	4,225	5,635	2,200	2,200	22,716	2,987	2,486	5,473	28,189
Telephone and postage	8,310	4,153	4,153	1,383	1,382	19,381	4,153	4,153	8,306	27,687
Insurance expense	18,130	6,043	15,100	3,020	3,020	45,313	7,560	7,560	15,120	60,433
Travel	192	192	192	192	192	960	967	963	1,930	2,890
Thrift store	-	-	-	-	14,615	14,615	-	-	-	14,615
Meals and entertainment	-	-	-	-	-	-	-	14,724	14,724	14,724
Education and training	959	958	958	958	958	4,791	4,790	4,790	9,580	14,371
Patron expense	1,840	790	1,220	705	704	5,259	-	-	-	5,259
Miscellaneous	21,523	11,515	7,350	13,110	13,110	66,608	123,309	-	123,309	189,917
Total Expenses	\$ 1,053,529	\$ 729,698	\$ 879,494	\$ 194,815	\$ 141,885	\$ 2,999,421	\$ 848,898	\$ 450,124	\$ 1,299,022	\$ 4,298,443

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the year ended December 31, 2022, as restated

	Program Services					Supporting Services				Total
	Dining Room	Life Enrichment Center	Open Door	Open Door Bakery	Workforce Develop.	Program Subtotal	Mgmt & General	Fund-raising	Supporting Subtotal	Total
Salaries, wages and related expenses	\$ 531,144	\$ 332,904	\$ 444,813	\$ 55,400	\$ 92,000	\$ 1,456,261	\$ 234,410	\$ 293,730	\$ 528,140	\$ 1,984,401
Distributed in-kind contributions	89,432	55,895	67,075	5,590	5,590	223,582	24,955	22,358	47,313	270,895
Payroll taxes and benefits	52,724	38,251	47,505	1,551	2,778	142,810	50,398	46,263	96,661	239,471
Facilities expenses	93,348	58,342	70,013	5,834	5,834	233,371	23,337	23,337	46,674	280,045
Professional services	18,628	11,642	13,971	1,000	1,330	46,571	4,657	4,657	9,314	55,885
Depreciation and amortization	5,400	5,400	5,400	5,400	2,547	24,147	87,014	-	87,014	111,161
Direct program expenses	71,437	44,647	62,510	17,859	17,859	214,312	-	-	-	214,312
Promotion and publicity	2,730	2,730	2,730	2,730	2,730	13,650	2,735	65,540	68,275	81,925
Capital campaign expense	-	-	-	-	-	-	-	169,349	169,349	169,349
Supplies	24,618	15,385	18,463	3,077	3,077	64,620	4,617	4,617	9,234	73,854
Telephone and postage	8,232	5,145	6,174	1,031	-	20,582	2,058	2,058	4,116	24,698
Insurance expense	11,040	9,201	11,040	2,761	2,761	36,803	3,680	3,680	7,360	44,163
Travel	467	466	466	466	466	2,331	2,331	2,331	4,662	6,993
Thrift store	-	-	-	-	17,707	17,707	-	-	-	17,707
Meals and entertainment	-	-	-	-	-	-	-	431	431	431
Education and training	5,049	4,207	5,049	1,267	1,267	16,839	1,683	1,683	3,366	20,205
Patron expense	4,240	2,650	3,180	1,328	1,329	12,727	-	-	-	12,727
Miscellaneous	15,948	9,092	15,711	3,770	3,769	48,290	53,231	5,237	58,468	106,758
Total Expenses	\$ 934,437	\$ 595,957	\$ 774,100	\$ 109,064	\$ 161,044	\$ 2,574,603	\$ 495,106	\$ 645,271	\$ 1,140,377	\$ 3,714,980

See accompanying notes to financial statements.

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COMBINED STATEMENTS OF CASH FLOWS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ (264,206)	\$ 483,453
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	351,252	111,161
Contributions restricted for long-term purposes	-	(1,142,125)
Gain on disposals of property and equipment	-	(11,975)
Changes in operating assets and liabilities which provided (used) cash:		
Grants receivable	16,704	1,439
Promises to give	(75,706)	165,290
Prepaid expenses	(5,081)	(4,605)
Accounts payable	161,694	(81,235)
Accrued expenses	23,753	41,401
	208,410	(437,196)
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	-	11,975
Purchase of property and equipment	(1,564,911)	(3,028,558)
	(1,564,911)	(3,016,583)
Cash Flows from Financing Activities		
Proceeds from contributions restricted for property and equipment	203,827	1,431,625
Repayment of long term debt	(300,000)	(700,000)
	(96,173)	731,625
Net Change in Cash and Cash Equivalents and Restricted Cash and Cash Equivalents	(1,452,674)	(2,722,154)
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, beginning of year	3,345,847	6,068,001
Cash and Cash Equivalents and Restricted Cash and Cash Equivalents, end of year	\$ 1,893,173	\$ 3,345,847
Supplemental disclosure of cash flow information		
Cash and cash equivalents	\$ 1,498,957	\$ 1,801,331
Cash restricted for property and equipment acquisitions	394,216	1,544,516
	\$ 1,893,173	\$ 3,345,847
Cash paid during the year for interest	\$ 82,292	\$ 19,234

NOTES TO COMBINED FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note A – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The accompanying financial statements present the financial position, results of operations and cash flows of Degage Ministries and Degage Holdings (the "Organization"). The Organization was organized in Michigan as a not-for-profit corporation in 1967. The work of the Organization is to transform lives and restore hope to homeless and low-income individuals. With an emphasis on relationship-building and dignified services, responsive programming is offered that meets the immediate and long-term needs of the 400-500 individuals who come to Degage Ministries daily to receive assistance.

Main services of the Organization include low-cost and free meals, overnight shelter, and case management for women in crisis, support groups, hygiene facilities such as showers and lockers, a mail and message center, free legal advice, haircuts, outings, and skill-building volunteer opportunities. The Organization also assists patrons find housing, obtain legal identification, secure employment, obtain treatment for medical needs, find transportation, and more.

Degage Holdings was organized in Michigan as a non-for-profit corporation set up as a supporting organization for Degage Ministries. Degage Holdings is being used to help the Organization administer the New Market Tax Credit opportunity that was closed on during the year ended December 31, 2021.

Basis of Combination

The accompanying combined financial statements present the financial position, results of operations and cash flows of Degage Ministries (the "Organization"), which includes Degage Ministries and Degage Holdings. Degage Holdings is organized solely for the support of Degage Ministries. All significant transactions and balances between the organizations have been eliminated in the combination.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, recording revenue when earned rather than when received, and recording expenses when incurred rather than when paid.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Significant estimates include the valuation of contributed nonfinancial assets and the functional allocation of expenses between program and supporting services. Management believes that any such future changes in estimated values would not be material to the accompanying financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks and cash on hand. For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Organization maintains cash balances in checking and savings accounts. The checking and savings accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. From time to time during the year, the Organization may have cash in a bank checking or savings account in excess of the federally insured limit.

Cash Restricted for Property and Equipment Acquisitions

Cash restricted to purchase property and equipment has been restricted by donors and is not available for operating purposes.

Accounts Receivable

Accounts receivable include amounts due from contributions and vendor payments. All receivables are expected to be collected within one year. Management reviews these receivables periodically to determine if any amounts will be potentially uncollectible. However, due to the nature of the receivables, losses are not anticipated and no allowance for doubtful accounts has been established.

Grants Receivable

Grants receivable consist of available grants awarded to the Organization. Management provides for probable uncollectible amounts through an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. The Organization has established an allowance of \$12,500 for uncollectible accounts for the years ended December 31, 2023 and 2022. Conditional grants are not included as support until the conditions are met. Conditional grants received for the year ended December 31, 2023 are disclosed in Note G.

Promises to Give

The promises to give are payable over a donor-specified period and have been discounted to a present value using a risk-free interest rate applicable for the periods in which the pledge was received. The Organization evaluates promises to give for collectability based upon historical loss experience and current economic conditions. 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 promises to give. The allowance for uncollectible accounts as of December 31, 2023 and 2022 was \$24,294.

NOTES TO COMBINED FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Notes Receivable

The Organization entered into a long-term notes receivable at the time it closed on the New Market Tax Credit transaction. The notes receivable is long term in nature as it will not begin to be repaid until the end of seven years, which is the length of the New Market Tax Credit period of holding. The entire balance is expected to be paid back by 2050, with payments beginning in 2029.

Property and Equipment

Property and equipment are stated at cost, or in the case of donated property, at estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 39 years. The Organization follows a capitalization policy of \$5,000 in determining assets to be depreciated. Donations of property and equipment are recorded as support at estimated fair value at the time received. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

A facility owned by the Organization is a historical landmark. As such, this facility is subject to certain requirements and restrictions for any maintenance, or improvements made to the exterior of the building.

Net Assets

The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

NOTES TO COMBINED FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Organization reports revenues from programs which are recognized at the time the service is provided. Revenue received for programs ahead of the time the service is provided are reported as deferred revenue in the statement of financial position.

The Organization reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of donated assets. When a donor 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 statement of activities as net assets released from restrictions. Donor-imposed restrictions that are fulfilled in the same period they are received are recorded as net assets without restrictions.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, such as gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how these long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Contributions of donated noncash assets are recorded at their fair values in the period received.

A portion of the Organization's revenue is derived from cost-reimbursable governmental and private contracts and grants, which are conditioned upon the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position.

Contributions of Nonfinancial Assets

The Organization recognized in-kind contributions that create or enhance nonfinancial assets or require specialized skills and would typically be purchased had they not been provided by donation. These contributions assist the programs and supportive services of the Organization and are recorded at their fair market value as contributions and expenses in the statement of activities in the period the service is provided.

In addition, many other volunteers have contributed significant time to the Organization without compensation. These contributions, although clearly substantial, are not recognized as contributions in the combined financial statements since the recognition criteria were not met.

See Note K for more detailed information on the donated services and goods received.

NOTES TO COMBINED FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Advertising

The Organization expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2023 and 2022 were \$71,523 and \$81,925, respectively.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2) for Degage Ministries and Section 509(a)(3) for Degage Holdings.

The Organization evaluates tax positions taken on its federal Exempt Organization Business Income Tax Returns in accordance with accounting principles generally accepted in the United States of America, which require that tax positions taken be more-likely-than-not to be sustained. Management believes that the Organization has no significant unrecognized tax benefits under that criteria. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses. The Organization's federal Exempt Organization Business Income Tax Returns are generally subject to examination by taxing authorities for three years after they were filed.

Functional Expense Allocation

The cost of providing programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services. Such allocations are determined by management on an equitable basis.

For shared expenses that benefit all staff, a square footage allocation is generally used. This would include facilities, supplies, depreciation and amortization, telephone, and postage. All direct employee expenses are allocated in a time and effort method. The remaining expenses directly relate to their specific function and are assigned to services accordingly.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through August 27, 2024, which is the date the financial statements were available to be issued.

NOTES TO COMBINED FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Leases

Degage Ministries holds one operating lease between Degage Ministries and Degage Holdings for building space. The right to use an underlying asset for the lease term has been recorded as an asset and the obligations associated with these leases have been recognized as a liability in Degage Ministries in the combining statement of financial position based on future lease payments, discounted by the incremental borrowing rate for the Organization's operating leases based on information available upon the commencement of the lease (see Supplementary Information). Because the lease is between Degage Ministries and Degage Holdings, the right-to-use assets and lease liability are eliminated in the combined statement of activities.

Lease terms may include options to extend or terminate certain leases which is reflected in the valuation if it is reasonably certain management will exercise an option to extend or terminate a lease.

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform to the current year's presentation.

New Accounting Pronouncement

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in the standard is a shift from the incurred loss model to the expected loss model. The standard requires disclosures which are intended to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to the guidance in FASB 326 were grants receivables.

The Organization adopted the standard effective January 1, 2023 utilizing the modified retrospective transition method. The impact of the adoption was not material to the financial statements and primarily resulted in new/enhanced disclosures only.

NOTES TO COMBINED FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note B – Liquidity and Availability

The Organization regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Organization's sources of liquidity at its disposal include cash and cash equivalents, grants receivable, and promises to give.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The following represents the Organization's financial assets at December 31, 2023 and 2022:

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 1,893,173	\$ 3,345,847
Grants receivable, net	79,951	96,655
Promises to give, net	171,206	299,327
Notes receivable	5,408,875	5,408,875
Total financial assets	7,553,205	9,150,704
Less amounts not available to be used within one year:		
Cash within Degage Ministries for capital campaign	-	916,995
Donor restricted cash	280,000	-
Donor restricted pledges, net	95,500	299,327
Cash restricted for property and equipment acquisitions	394,216	1,544,516
Notes receivable due after one year	5,408,875	5,408,875
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 1,374,614</u>	<u>\$ 980,991</u>

Certain donor-restricted net assets are available for general expenditures within one year of the applicable year-end because the restrictions on the net assets are expected to be met by conducting the normal activities related to programs of the Organization in the coming year. Accordingly, the related resources have been included in the financial assets available to meet general expenditures within one year.

NOTES TO COMBINED FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note C – Promises to Give

The balance of unconditional promises to give is expected to be collected as follows:

	2023	2022
Amounts due in:		
Less than one year	\$ 195,500	\$ 290,287
One to five years	-	33,334
Total unconditional promises to give	195,500	323,621
Less allowance for uncollectible pledges	(24,294)	(24,294)
Total unconditional promises to give, net	<u>\$ 171,206</u>	<u>\$ 299,327</u>

Unconditional promises to give due in more than one year are recognized at fair value, using present value techniques and a discount rate. When the donor makes an initial unconditional promise to give, a fair value calculation is completed and is only recognized when material. There were no material discounts recognized as of December 31, 2023 and 2022.

Note D – Property and Equipment

Property and equipment at December 31, 2023 and 2022 consisted of the categories below:

	2023	2022	Estimated Useful Life - Years
Land	\$ 68,333	\$ 68,333	
Building and improvements	9,380,060	2,899,709	15 - 40
Equipment	233,508	138,686	5 - 10
Vehicles	66,779	66,779	5
Furniture and fixtures	935,298	145,451	3 - 7
Computers and office equipment	63,966	65,916	5 - 10
Construction in progress	26,000	5,824,159	
	10,773,944	9,209,033	
Accumulated depreciation	<u>(1,719,027)</u>	<u>(1,367,775)</u>	
Property and equipment, net	<u>\$ 9,054,917</u>	<u>\$ 7,841,258</u>	

Depreciation expense as of December 31, 2023 and 2022 was \$351,252 and \$111,161, respectively.

NOTES TO FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS For the years ended December 31, 2023 and 2022

Note E – Net Assets With Donor Restrictions

Net asset with donor restrictions as of December 31, 2023 and 2022 are available for the following purposes:

	2023	2022
Capital campaign	\$ 71,206	\$ 5,631,989
Bridge to Home	50,000	-
Heartside Landings	330,000	-
Purchase of fixed assets	-	33
	<hr/>	<hr/>
Total Net Assets with Donor Restrictions	<u>\$ 451,206</u>	<u>\$ 5,632,022</u>

Net assets released from donor-imposed restrictions:

	2023	2022
Capital campaign	\$ 5,763,073	\$ 69,003
Purchase of fixed assets	33	-
	<hr/>	<hr/>
Total Net Assets Released from Donor Restrictions	<u>\$ 5,763,106</u>	<u>\$ 69,003</u>

Note F - Capital Campaign

In January of 2017, the Organization acquired an additional building that is adjacent to its current location of operations. The Organization renovated the facilities to combine, expand, and improve current operations. Renovation of these facilities began in fall of 2020 and was completed in the spring of 2023.

Cash and promises to give raised through the Capital Campaign are restricted to renovation expenses and to cover payment of the lines of credit. Fundraising expenses for 2023 and 2022 included amounts paid to consultants to help raise funds. All net assets restricted for the capital campaign, with the exception of capital campaign pledge amounts not received as of December 31, 2023, were released from restriction when the renovation project was completed and placed in service during the year.

Note G – Commitments and Contingencies

As of December 31, 2020, the Organization had two conditional grants receivable of \$800,000 from two major donors to be used towards building renovation expenses. The grant for \$300,000 was conditioned upon receiving 75% of the capital campaign goal. The grant for \$500,000 was conditioned upon the timeline of completed construction and complying with various other terms and conditions of the grant agreement. The conditional grants were considered unconditional until the grant requirements were met. As of December 31, 2022, the \$300,000 grant was received in full and as of December 31, 2023, the \$500,000 grant was received in full.

NOTES TO FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note G – Commitments and Contingencies (Continued)

As of December 31, 2022, the Organization had an additional conditional grant of \$500,000 from a major donor to be used towards building renovation expenses. The grant was conditioned upon verification that the first \$250,000 disbursement was expended in full and in accordance with the terms of the grant agreement. As of December 31, 2023, the \$500,000 grant was received in full.

Note H – Related Parties

During 2022, the Organization's line of credits and majority cash accounts were held by a local bank whose senior commercial lender is a member of the board of directors to the Organization. However, this member excuses himself from any deliberations on the lines of credit and the cash accounts.

The following related party transactions occurred between the Organization and its board members:

	2023	2022
Nature of service:		
Construction labor and materials	\$ 19,667	\$ 108,031
Food items	68,519	50,501
Professional/marketing fees	1,717	9,435
Total related party transactions	<u>\$ 89,903</u>	<u>\$ 167,967</u>

In addition, the Organization received monetary donations from related parties totaling \$74,663 and \$192,110 for the years ended December 31, 2023 and 2022, respectively.

Note I – Notes Payable

During 2021, the Organization entered into a \$1,000,000 loan from Macatawa Bank. Interest payments were to be made monthly beginning November 25, 2021 at the prime rate. The loan was to be repaid in one payment of all outstanding principal and unpaid accrued interest at its maturity on October 25, 2024. The Organization paid \$700,000 of the balance during the year ended December 31, 2022, and the remaining \$300,000 was paid in full in February 2023. The prime rate was 7.75% and 7.5% on February 28, 2023 and December 31, 2022, respectively.

During 2021, Degage Holdings entered into a \$7,350,000 loan agreement with MCC 401 CDE LLC (a Michigan limited liability company). The loan proceeds are to be used to fund the renovation and expansion of the building. Payments on the remaining balances are expected to begin in 2029, including interest at the rate of 1.00%. Interest only payments are required between now and 2029 and those payments are approximately \$70,000 per year.

NOTES TO FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note I – Notes Payable (Continued)

Principal payments are due as follows:

December 31, 2024	\$	-
2025		-
2026		-
2027		-
2028		-
Thereafter		<u>7,350,000</u>
Total	\$	<u>7,350,000</u>

Note J – Line of Credit

During 2021, the Organization entered into a \$3,250,000 line of credit with Macatawa Bank to fund construction of their building. The line of credit matured on March 30, 2023 and was not renewed. Outstanding borrowings bear interest at the prime rate which was 7.5% on December 31, 2022. There were no outstanding borrowings on the line of credit as of December 31, 2022.

Note K – Contributed Nonfinancial Assets

Contributed nonfinancial assets recognized within the statement of activities as of December 31, 2023 and 2022 included:

Category	2023 Revenue Recognized	2022 Revenue Recognized	Utilization in Programs/ Activities	Donor Restrictions	Valuation Techniques and Inputs
Clothing	\$10,743	\$16,627	Open Door Women's Center - thrift store	No associated donor restrictions.	Estimated the fair value based on wholesale values that would be received for selling similar used products in the United States.

NOTES TO FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note K – Contributed Nonfinancial Assets (Continued)

Category	2023 Revenue Recognized	2022 Revenue Recognized	Utilization in Programs/ Activities	Donor Restrictions	Valuation Techniques and Inputs
Food	\$411,856	\$189,012	Community Center meal services	No associated donor restrictions.	Estimated the fair values based on estimates from wholesale values that would be received for selling similar products in the United States.
Household goods	\$2,672	\$22,266	Open Door Women's Center, Advancement Center, Health and Wellness Center, and general building needs	No associated donor restrictions.	Estimated the fair values based on estimates from wholesale values that would be received for selling similar products in the United States.
Services	\$3,000	\$30,926	General administration, Advancement Center	No associated donor restrictions.	Estimated the fair value based on current rates for similar services.
Miscellaneous	\$2,352	\$12,064	Special events, general overall program usage	No associated donor restrictions.	Estimated the fair values based on estimates from wholesale values that would be received for selling similar products in the United States.

NOTES TO FINANCIAL STATEMENTS

DEGAGE MINISTRIES AND DEGAGE HOLDINGS
For the years ended December 31, 2023 and 2022

Note L – Subsequent Events

Subsequent year end, the Organization sold the Bridge to Home project house purchased in February 2023 at a sales price of \$221,500, on February 12, 2024.

On January 1, 2024, the Organization entered into a one-year lease agreement with Trinity Health – Michigan to rent building space for their administrative offices and new Heartside Landings transitional housing program. Monthly base rent payments are \$7,024, with annual rent expense totaling \$84,289.

Note M - Prior Period Restatement

A restatement was made to the year ending December 31, 2022 combining financial statements to recognize an operating lease term between Degage Ministries and Degage Holdings as a right-of-use asset and lease liability in Degage Ministries. The amount increased Degage Ministries' total assets by \$4,383,920 and total liabilities by \$4,620,676 and decreased net assets without donor restrictions by \$236,756 as of December 31, 2022. The prior period restatement did not impact the prior period combined financial statements due to the elimination of inter-company lease transactions.

SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS OF FINANCIAL POSITION

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

December 31, 2023

	Degage Ministries	Degage Holdings	Eliminations	Total
Assets				
Cash	\$ 1,498,957	\$ -	\$ -	\$ 1,498,957
Cash restricted for property and equipment acquisitions	-	394,216	-	394,216
Accounts receivable	224,313	-	(224,313)	-
Grants receivable, net	79,951	-	-	79,951
Promises to give, net	171,206	-	-	171,206
Investments	2,260,929	-	(2,260,929)	-
Prepaid expenses	9,686	-	-	9,686
Notes receivable	5,408,875	-	-	5,408,875
Operating lease right-of-use assets	4,272,231	-	(4,272,231)	-
Property and equipment, net	238,857	8,816,060	-	9,054,917
Total Assets	\$ 14,165,005	\$ 9,210,276	\$ (6,757,473)	\$ 16,617,808
Liabilities and Net Assets				
Accounts payable	\$ 237,916	\$ 150,813	\$ (150,813)	\$ 237,916
Accrued expenses	76,284	91,875	(73,500)	94,659
Operating lease liability	4,697,826	-	(4,697,826)	-
Notes payable	-	7,350,000	-	7,350,000
Total Liabilities	5,012,026	7,592,688	(4,922,139)	7,682,575
Net Assets				
Without donor restrictions	8,701,773	1,617,588	(1,835,334)	8,484,027
With donor restrictions	451,206	-	-	451,206
Total Net Assets	9,152,979	1,617,588	(1,835,334)	8,935,233
Total Liabilities and Net Assets	\$14,165,005	\$ 9,210,276	\$ (6,757,473)	\$16,617,808

COMBINING STATEMENTS OF FINANCIAL POSITION

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

December 31, 2022, as restated

	Degage Ministries	Degage Holdings	Eliminations	Total
Assets				
Cash	\$ 1,801,331	\$ -	\$ -	\$ 1,801,331
Cash restricted for property and equipment acquisitions	-	1,544,516	-	1,544,516
Grants receivable, net	96,655	-	-	96,655
Promises to give, net	299,327	-	-	299,327
Investments	2,260,929	-	(2,260,929)	-
Prepaid expenses	4,605	-	-	4,605
Notes receivable	5,408,875	-	-	5,408,875
Operating lease right-of-use assets	4,383,920	-	(4,383,920)	-
Property and equipment, net	48,521	7,792,737	-	7,841,258
Total Assets	\$ 14,304,163	\$ 9,337,253	\$ (6,644,849)	\$ 16,996,567
Liabilities and Net Assets				
Accounts payable	\$ 76,222	\$ -	\$ -	\$ 76,222
Accrued expenses	52,531	18,375	-	70,906
Operating lease liability	4,620,676	-	(4,620,676)	-
Notes payable	300,000	7,350,000	-	7,650,000
Total Liabilities	5,049,429	7,368,375	(4,620,676)	7,797,128
Net Assets				
Without donor restrictions	3,622,712	1,968,878	(2,024,173)	3,567,417
With donor restrictions	5,632,022	-	-	5,632,022
Total Net Assets	9,254,734	1,968,878	(2,024,173)	9,199,439
Total Liabilities and Net Assets	\$14,304,163	\$ 9,337,253	\$(6,644,849)	\$ 16,996,567

COMBINING STATEMENTS OF ACTIVITIES

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

For the year ended December 31, 2023

	Degage Ministries		Degage Holdings		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Public Support and Revenue						
Contributions of cash and other financial assets	\$ 2,272,958	\$ 582,290	\$ -	\$ -	\$ -	\$ 2,855,248
Contributions of nonfinancial assets	430,623	-	-	-	-	430,623
Government grants	426,842	-	-	-	-	426,842
Program revenue	109,325	-	-	-	-	109,325
Gross revenues from special events:						
Event revenue	230,575	-	-	-	-	230,575
Less: direct expenses	(39,550)	-	-	-	-	(39,550)
Net special events revenue	191,025	-	-	-	-	191,025
Interest income	78,764	-	-	-	(73,500)	5,264
Other income	15,910	-	-	-	-	15,910
Net assets released from restrictions	5,763,106	(5,763,106)	-	-	-	-
Total Public Support and Revenue	9,288,553	(5,180,816)	-	-	(73,500)	4,034,237
Expenses						
Dining Room	1,053,529	-	-	-	-	1,053,529
Life Enrichment Center	729,698	-	-	-	-	729,698
Open Door	879,494	-	-	-	-	879,494
Open Door Bakery	194,815	-	-	-	-	194,815
Workforce Development	141,885	-	-	-	-	141,885
Management and general	759,947	-	351,290	-	(262,339)	848,898
Fundraising expenses	450,124	-	-	-	-	450,124
Total Expenses	4,209,492	-	351,290	-	(262,339)	4,298,443
Change in Net Assets	5,079,061	(5,180,816)	(351,290)	-	188,839	(264,206)
Net Assets - beginning of year	3,622,712	5,632,022	1,968,878	-	(2,024,173)	9,199,439
Net Assets - end of year	\$ 8,701,773	\$ 451,206	\$ 1,617,588	\$ -	\$ (1,835,334)	\$ 8,935,233

COMBINING STATEMENTS OF ACTIVITIES

DEGAGE MINISTRIES AND DEGAGE HOLDINGS

For the year ended December 31, 2022, as restated

	Degage Ministries		Degage Holdings		Eliminations	Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		
Public Support and Revenue						
Contributions of cash and other financial assets	\$ 1,873,056	\$ 1,142,125	\$ 25,000	\$ -	\$ -	\$ 3,040,181
Contributions of nonfinancial assets	270,895	-	-	-	-	270,895
Government grants	531,935	-	-	-	-	531,935
Program revenue	120,277	-	-	-	-	120,277
Gross revenues from special events:						
Event revenue	161,596	-	-	-	-	161,596
Less: direct expenses	(60,335)	-	-	-	-	(60,335)
Net special events revenue	101,261	-	-	-	-	101,261
Interest income	74,874	-	11,637	-	(73,500)	13,011
Other income	108,898	-	-	-	-	108,898
Gain on disposals of property and equipment	11,975	-	-	-	-	11,975
Net assets released from restrictions	69,003	(69,003)	-	-	-	-
Total Public Support and Revenue	3,162,174	1,073,122	36,637	-	(73,500)	4,198,433
Expenses						
Dining Room	934,437	-	-	-	-	934,437
Life Enrichment Center	595,957	-	-	-	-	595,957
Open Door	774,100	-	-	-	-	774,100
Open Door Bakery	109,064	-	-	-	-	109,064
Workforce Development	161,044	-	-	-	-	161,044
Management and general	595,372	-	209,990	-	(310,256)	495,106
Fundraising expenses	645,271	-	-	-	-	645,271
Total Expenses	3,815,246	-	209,990	-	(310,256)	3,714,980
Change in Net Assets	(653,072)	1,073,122	(173,353)	-	236,756	483,453
Net Assets - beginning of year	4,275,784	4,558,900	2,142,231	-	(2,260,929)	8,715,986
Net Assets - end of year	\$ 3,622,712	\$ 5,632,022	\$ 1,968,878	\$ -	\$ (2,024,173)	\$ 9,199,439