

Church Loan Fund, Inc. Board Summary

General Information

Date: June 26, 2024

Borrower Name: Church of God Publishing House dba Pathway Press
Cleveland, TN

Director: Bishop David Ray

Loan Request Information

Amount Requested: \$3,500,000 Participation with COG Foundation

Interest Rate: 7.25%

Projected Payment: \$27,663

Appraisal Value: To be determined

60% Loan to Value:

Membership/Attendance/Giving Information

Current Membership: N/A

Current Worship Attendance: N/A

Receipts for Previous 12 Mo:

Disbursements for Previous 12 Mo:

25% of Annual Income/12:

Request Summary

Please see attached packet.

Church Loan Fund, Inc. Information Worksheet

General Information/History

Borrower Name Church of God Publishing House dba Pathway Press
 Mailing Address: P.O. Box 2250, Cleveland, TN 37320-2250
 Physical Property Address: 1080 Montgomery Ave NE, Cleveland, TN 37311
 Primary Contact E-mail Address: dray@pathwaypress.org
 Phone Number: (423) 596-1566 (cell)
 Tax ID#: _____

Director David W. Ray Ministerial
 File #: 26866
 Home Phone: N/A Mobile Phone: (423) 596-1566

Board Chair Dr. Tony Cooper, Administrative Bishop of Kentucky
 Home Phone: N/A Mobile Phone: (423) 331-6601

Vice Chair: N/A Phone: N/A
 State Trustee: N/A Phone: N/A
 State Trustee: N/A Phone: N/A

Paid Staff Information

<i>Current Staff</i>	<i>Title</i>	<i>Years in Position</i>
Do not complete this section		

Financial Information Overview

Financial Contact Person: Carrie Rice, Director of Finance

	YTD	Most Recent		
		Prior Year	Prior Year 2	Prior Year 3
	2024	2023	2022	2021
Operating Budget **	\$ 2,979,453	\$ 3,935,638	\$ 3,748,763	\$ 4,554,230
Actual Income	\$ 2,465,952	\$ 3,855,756	\$ 4,072,622	\$ 4,121,112
Actual Expenses	\$ 2,642,642	\$ 4,179,806	\$ 3,970,862	\$ 3,656,591
	\$ (176,690)	\$ (324,050)	\$ 101,760	\$ 464,521

***In addition, please complete the detailed 24-month analysis requested.*

Current Debt Obligations

Creditor(s)	Balance Owed	Monthly Payments	Collateral	Rate
SmartBank - PPH Term LOC (*0700)	\$ 138,615	\$ 2,016	N/A	3.85%
SmartBank - HVAC Loan (*1600)	\$ 165,221	\$ 5,727	HVAC Equipment	5.31%
SmartBank - Mortgage (*8400)	\$ 1,807,539	\$ 11,884	1080 Montgomery Ave NE, 37311	4.16%
SmartBank - Min Retirement Fund Ln (*8200)	\$ 1,490,035	\$ 9,000	CD #6548572 - Interest Only Pymts	3.75%
SmartBank - Dockins LOC (*6700)	\$ 110,000	\$ 834	N/A - Interest Only Pymts Avg	9.10%
SBA - EIDL	\$ 130,165	\$ 1,000	Equipment	2.75%
Church of God Foundation	\$ 250,000	\$ 1,250	N/A - Interest Only Pymts	6.00%
Pentecostal Theological Seminary	\$ 150,000	\$ 625	N/A - Interest Only Pymts	5.00%
Total Debt Obligations:	\$ 4,241,576	\$ 32,336		

Project Needs and Fundraising Goals

<u>Project Description</u>	<u>Fundraising Campaign</u>
<i>Fill in ONLY if Construction Project</i>	
Land Cost: _____	Cash On-Hand for project: _____
Construction Cost: _____	Start date of pledge campaign: _____
Soft Costs: _____	Length of Campaign: _____
Furniture/Fixtures: _____	Amount pledged to date: _____
Contingency: _____	
Interest Costs: _____	
Other: \$ _____ -	
Total Est. Project Cost \$ _____ -	

	Number	Total Amount
# and Amount of pledges > \$25,000:		
# and Amount of pledges > \$50,000:		

Professional Fundraiser (name): _____

Loan Request*

Loan Amount	Interest Rate	Term/Months	Payment
\$ 3,500,000.00	7.25%	240	\$ 27,663.16

240 months =
20 yrs 0.006042

Proposed Collateral Information

Property Description:	1080 Montgomery Ave NE, 37311 (CM 049M, K 001, 011, 014; H 002, 003, 006)		
Acquisition Date (Proposed):	09/01/57	Acquisition Cost:	\$ 540,917
Square Footage of Buildings:	112,521		
Acreage Owned:	5.04	Acreage in Use:	5.04
Has the property been appraised yet (Y/N):	N	If yes, Date:	NA
Appraised Value:	NA	Appraiser:	NA

Insurance Coverage Company: Brotherhood
 Agent: McGriff Insurance Agency Amount of Coverage: 13,577,000
(Building)

Other Attachments

Summary of project and how loan proceeds will be used (Y/N):	Y
Current Balance Sheet (Y/N)	Y
Last two years' Income and Expense Reports (Y/N):	Y
Most recent YTD interim financial statements - income statement and balance sheet (Y/N):	Y
Copy of real estate contract (if applicable) (Y/N):	NA
Copy of current budget (Y/N):	Y

Church of God Publishing House dba Pathway Press

Bishop David Ray, Director of Publications at Pathway Press has requested a \$3.5 million loan to refinance their current debt load. I will start with a bit of history on Pathway and conclude with a plan for the future.

Pathway Press currently has \$5 million in debt. This debt accumulated over many years primarily due to failed business ventures and poor decisions. In the 1990's, Pathway was a profitable business with approximately \$2 million in reserve. Then, in the early 2000's, Pathway Press opened a new, 50,000+ sq ft bookstore on 25th Street in Cleveland, that at one time, was known as the second largest bookstore in the US. Unfortunately, the store was never profitable and in early 2009, closed its doors. During that time, Pathway Press Bookstore lost about \$5 million.

There were other decisions that heaped debt on Pathway Press, including the purchase of the Department of Education building on Georgetown Road for the benefit of the Church of God, the creation and failure of a "bookless bookstore," an online store, paying salaries to executives they could not afford, and so on.

In 2018, Bishop David Ray was appointed General Director of Pathway Press. At that time, Pathway had accumulated \$4.2 million in debt. They were managing and even making a little progress toward paying the debt down when COVID arrived. During the pandemic, Pathway Press took advantage of PPP twice and ERC (Employee Retention Credit) to survive financially. However, during COVID, 500+ churches stopped their Sunday School curriculum orders which resulted in a 30% loss in income. With the debt and loss of income, Pathway Press subsequently borrowed almost a million dollars via auxiliary sources just to survive. Coupling new debt with the debt Pathway carried prior to the appointment of Bishop Ray, they continued to struggle to pay vendors and sometimes to even make payroll.

In an effort to save Pathway Press and repay some of the "gifts" from Pathway to the church, the Church of God Executive Committee recently agreed to provide assistance in two forms. First, they allocated \$500,000 to Pathway which was used to pay off credit cards, pay \$200,000 for a software upgrade, and pay some of the accounts payable. Secondly, the Executive Committee agreed to appropriate \$1.5 million (currently securing one of the consolidation loans) to Pathway to pay all ancillary debt that is not covered by the \$3.5 million loan request.

The loan of \$3.5 million, that is being requested would be a participation loan with the Church Loan Fund and the Church of God Foundation. If the loan is approved by both Board of Directors, it will pay a \$1.5 million loan and another \$1.8 million loan both from SmartBank, which are collateralized by the property. The additional \$143,000+/- will help cover General Assembly costs.

With all the ancillary debt, credit card debt, and major accounts payable paid, Pathway should be able to afford the monthly debt service for the \$3.5 million loan along with operating in a positive budget environment.

The current yearly operational expense of the Pathway building is approximately \$200,000 per year. They currently have \$120,000 in rental income and have plans to increase lease revenue to \$170,000 per year.

Pathway's distribution and inventory staff and product will remain at 1080 Montgomery Avenue for the time being. Following the General Assembly, administration and accounting staff will move from the current Montgomery Avenue location to the International Offices allowing for more rental space which will increase revenue. This move also helps reduce operational expense. The long-term plan is to sell the property. When that happens, Pathway distribution and inventory will either rent from the new owner or find a new location.

Should this loan be approved, it will be contingent upon a satisfactory appraisal, with the guaranty of the Church of God Executive Committee and the understanding (outlined in the loan documents) Pathway is to take on no new debt until the loan is paid in full.

The appropriations from the Executive Committee in conjunction with the loan from CLF and COG Foundation will allow Pathway to continue to serve more than 8,000 unique customers each year with a positive budget outcome. These accomplishments should set Pathway up for years of sustainability and success.

**Church of God Publications - Pathway Press
Planned Use of Appropriation Proceeds
June 13, 2024**

APPROPRIATION PROCEEDS ANTICIPATED :

Executive Committee Appropriation (1x) 1,500,000.00

PLANNED USE OF PROCEEDS:

Outstanding Auxillary Loans 944,001.99
 Church of God Foundation 250,000.00
 PTS 150,000.00
 EIDL - SBA 130,165.22
 SmartBank - Dockins LOC 110,000.00
 SmartBank - LOC Term Loan 138,615.37
 SmartBank - HVAC 165,221.40

Dockins Graphics, Inc. (net as of June 14, 2024) 401,980.46

Remaining Accounts Payable 79,017.55

Operating Cash Flow 75,000.00

Total Expenditures: 1,500,000.00

Remaining Appropriation: -

**Church of God Publications - Pathway Press
Planned Use of Loan Proceeds
June 13, 2024**

LOAN PROCEEDS ANTICIPATED:

COG Benefits Board and COG Foundations Joint Loan Proceeds	<u>3,500,000.00</u>
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PLANNED USE OF PROCEEDS:

SmartBank Aged Ministers Loan	1,500,000.00
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SmartBank Mortgage Loan Payoff	1,807,539.14
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General Assembly Assistance	192,460.86
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Total Expenditures:	<u>3,500,000.00</u>
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Remaining Appropriation:	<u>-</u>
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Angie Conine

From: Denise Watkins <dwatkins@churchofgod.org>
Sent: Wednesday, June 19, 2024 3:49 PM
To: Angie Conine; Dwight Spivey; David Ray
Cc: Derek Turner
Subject: Pathway Press Underwriting - REVISED

CHURCH OF GOD INTERNATIONAL OFFICES
Office of the Secretary General

MEMORANDUM

TO: Angie Conine
T. Dwight Spivey
FROM: Gary J. Lewis, Secretary General
DATE: June 19, 2024
SUBJECT: International Executive Committee Action

Christian greetings!

The International Executive Committee met May 28, 2024, and the following action was taken:

The International Executive Committee voted to underwrite a \$3.5 million participation loan from Church Loan Fund, Inc., and Church of God Foundation for Pathway Press/Dockins Graphics Printing. Further, the International Executive Committee is assuming the \$2 million owed in ancillary loans.

Please call me if you have any questions.

GJL:dsw
c: David Ray

**CHURCH OF GOD PUBLISHING HOUSE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED AUGUST 31, 2023 AND 2022**

**CHURCH OF GOD PUBLISHING HOUSE
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED AUGUST 31, 2023 AND 2022**

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INDEPENDENT AUDITORS' REPORT

Editorial and Publications Board
Church of God Publishing House

Opinion

We have audited the accompanying consolidated financial statements of the Church of God Publishing House (a nonprofit organization), which comprise the statements of financial position as of August 31, 2023 and 2022, and the related statements of activities (FRF for SME Basis) and cash flows (FRF for SME Basis) for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, except for the effects of the unaudited financial statements of the subsidiary as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above represent fairly, in all material respects, the financial position of the Church of God Publishing House as of August 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in conformity with the Financial Reporting Framework for Small-and Medium-Sized Entities issued by the American Institutes of Certified Public Accountants.

Basis for Qualified Opinion

As more fully described in Note 5 to the financial statements, the Church of God Publishing House is reporting an equity investment in an unconsolidated subsidiary. The financial statements of that subsidiary have not been audited for the period coinciding with the August 31, 2023 and 2022 financial statements. In our opinion, the Financial Reporting Framework for Small-and Medium-Sized Entities require that these financial statements be audited. While the financial effects of this departure cannot be reasonable determined, the investment in the subsidiary is reported at \$509,157 and \$637,544 as of August 31, 2023 and 2022, respectively, with net loss reported for the year ending August 31, 2023 of \$128,387 and net loss reported for the year ending August 31, 2022 of \$214,900.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The accompanying financial statements have been prepared in accordance with the Financial Reporting Framework for Small-and Medium-Sized Entities issued by the American Institute of Certified Public Accountants. This special purpose framework, unlike generally accepted accounting principles (GAAP) in the United States of America, does not require the consolidation of financial statements with those of a closely-held business. The choice has been made to present this investment on the equity method.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Reporting Framework for Small-and Medium-Sized Entities issued by the American Institute of Certified Public Accountants described in Note 1; this includes determining that the Financial Reporting Framework for Small-and Medium-Sized Entities is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 Church of God Publishing House's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Church of God Publishing House's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The following additional information on pages 14 – 18 is presented for purposes of additional analysis and is 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 audits 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, except of the effects of the unaudited financial statements of the subsidiary, the information is fairly stated in all material respects in relation to the financials as a whole.

January 12, 2024

**CHURCH OF GOD PUBLISHING HOUSE
STATEMENTS OF FINANCIAL POSITION (FRF FOR SME BASIS)
AUGUST 31, 2023 AND 2022**

ASSETS	2023	2022
Current assets:		
Cash and cash equivalents	\$ 119,993	\$ 172,353
Accounts receivable, less allowance for doubtful accounts of \$8,186 in 2023 and \$5,034 in 2022	264,247	453,236
Inventories	504,488	525,703
Prepaid assets	<u>20,549</u>	<u>33,221</u>
Total current assets	<u>909,277</u>	<u>1,184,513</u>
Non-current assets:		
Investment in subsidiary	509,157	637,544
Property, plant and equipment, net	<u>1,295,416</u>	<u>1,351,442</u>
Total non-current assets	<u>1,804,573</u>	<u>1,988,986</u>
Total assets	<u><u>\$2,713,850</u></u>	<u><u>\$3,173,499</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable - trade	\$ 452,436	\$ 721,137
Accrued liabilities	77,039	49,889
Unearned subscription revenue	15,549	17,294
Mortgages and notes payable, current portion	690,912	348,678
Accrued future payroll costs	<u>197,290</u>	<u>189,911</u>
Total current liabilities	1,433,226	1,326,909
Non-current liabilities:		
Mortgages and notes payable, long-term portion	<u>3,692,601</u>	<u>3,711,566</u>
Total liabilities	5,125,827	5,038,475
Net assets:		
Without donor restrictions (deficit)	<u>(2,411,977)</u>	<u>(1,864,976)</u>
Total liabilities and net assets	<u><u>\$2,713,850</u></u>	<u><u>\$3,173,499</u></u>

The accompanying notes are an integral part of these financial statements.

**CHURCH OF GOD PUBLISHING HOUSE
STATEMENTS OF ACTIVITIES (FRF FOR SME BASIS)
YEARS ENDED AUGUST 31, 2023 AND 2022**

	2023	2022
CHANGES IN NET ASSETS:		
Revenues:		
Sales and operating revenues	\$ 3,535,211	\$ 3,243,380
Other revenues	<u>320,545</u>	<u>829,242</u>
Total revenues	<u>3,855,756</u>	<u>4,072,622</u>
Expenses:		
Cost of goods sold	1,836,703	1,743,617
Selling, administrative and general	2,080,228	1,962,063
Depreciation	75,667	81,620
Other expenses	<u>187,208</u>	<u>183,562</u>
Total expenses	<u>4,179,806</u>	<u>3,970,862</u>
Operating income (loss)	(324,050)	101,760
Appropriations to related organizations	(94,564)	(122,305)
Loss from unconsolidated subsidiary	<u>(128,387)</u>	<u>(214,900)</u>
Change in net assets	(547,001)	(235,445)
Net assets (deficit), beginning of year	<u>(1,864,976)</u>	<u>(1,629,531)</u>
Net assets (deficit), end of year	<u><u>\$ (2,411,977)</u></u>	<u><u>\$ (1,864,976)</u></u>

The accompanying notes are an integral part of these financial statements.

**CHURCH OF GOD PUBLISHING HOUSE
STATEMENTS OF CASH FLOWS (FRF FOR SME BASIS)
YEARS ENDED AUGUST 31, 2023 AND 2022**

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (547,001)	\$ (235,445)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	75,667	81,620
Gain on disposition of fixed assets	-	(3,000)
Government grant recognized from PPP loan forgiveness	-	(342,953)
Change in assets and liabilities:		
Accounts receivable	188,989	19,233
Inventories	21,215	(79,885)
Prepaid assets	12,672	(5,917)
Accounts payable - trade	(268,701)	502,540
Accrued liabilities	27,150	(15,097)
Unearned subscription revenue	(1,745)	12,855
Accrued future payroll cost	7,379	14,719
Total adjustments	<u>62,626</u>	<u>184,115</u>
Net cash used in operating activities	<u>(484,375)</u>	<u>(51,330)</u>
Cash flows from investing activities:		
Investment in subsidiary	128,387	214,900
Proceeds from sale of fixed assets	-	3,000
Capital expenditures	<u>(19,641)</u>	<u>(38,936)</u>
Net cash provided by investing activities	<u>108,746</u>	<u>178,964</u>
Cash flows from financing activities:		
Payments on notes payable	(154,037)	(440,510)
Proceeds from notes payable	<u>477,306</u>	<u>50,000</u>
Net cash provided by (used in) financing activities	<u>323,269</u>	<u>(390,510)</u>
Net decrease in cash and cash equivalents	(52,360)	(262,876)
Cash and cash equivalents, beginning of year	<u>172,353</u>	<u>435,229</u>
Cash and cash equivalents, end of year	<u>\$ 119,993</u>	<u>\$ 172,353</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 180,491</u>	<u>\$ 176,317</u>

The accompanying notes are an integral part of these financial statements.

**CHURCH OF GOD PUBLISHING HOUSE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Church of God Publishing House is a self-directed entity affiliated with the Church of God International Offices. The company distributes printed material and music to the various departments and ministries of the international organization, member and other churches, general public and to other retail outlets. Customers consist of both wholesale and retail organizations. The major business of the company is the sale of denominational and other Christian literature.

Reporting Entities

The accompanying financial statements include only the accounts of the Church of God Publishing House and its wholly-owned Pathway Bookstore. No departments or accounts of the Church of God International Offices, except for those directly under the supervision of the Director of Publications, are included. All significant intercompany transactions have been eliminated.

Basis of Accounting

The accompanying financial statements have been prepared in accordance with Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SME Basis) issued by the American Institute of Certified Public Accountants. This special purpose framework, unlike generally accepted accounting principles (GAAP) in the United States of America, does not require the consolidation of variable interest entities, which is a term and concept found in GAAP. In addition, this special purpose framework requires the amortization of goodwill, unlike GAAP, which requires impairment testing of goodwill and no amortization.

Financial Statement Presentation

Under FAS ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are those that are free of donor-imposed restriction. Net assets with donor restrictions are those limited by donor-imposed stipulations. The Organization reported no assets with donor restrictions at August 31, 2023 and 2022.

**CHURCH OF GOD PUBLISHING HOUSE
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents

Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less are treated as cash equivalents. Funds with a longer maturity date are recorded as investments.

At various times during the fiscal year, the Organization's cash in bank balances exceeded the federally insured limits. It is the opinion of management that the solvency of the rendered financial institutions is not of particular concern at this time.

Accounts Receivable

Accounts receivable are recorded when invoices are issued and are presented on the balance sheet net of the allowance for doubtful accounts. Accounts receivable are written off when they are determined to be uncollectible. The allowance for doubtful accounts is an amount estimated by management to be adequate to absorb possible losses.

Investments

Investments in marketable securities with readily determinable fair values are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change of net assets in the accompanying statements of activities.

Inventories

The following methods of inventory valuation are used:

Inventory Type	Valuation Method
Retail Stock - Pathway Press	Lower of average cost or market
Retail Stock - Bookstore	Retail method

Property, Plant and Equipment

Property, plant and equipment is recorded at historical cost less accumulated depreciation. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to operations when incurred. Renewals of significant amounts are capitalized. When property, plant and equipment is sold or otherwise disposed, the asset account and the related accumulated depreciation account are relieved, and any gain or loss is included in operations.

**CHURCH OF GOD PUBLISHING HOUSE
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Depreciation

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is calculated by the straight-line method. The useful lives of property, plant and equipment for purposes of computing depreciation are:

Buildings	10 – 40 years
Machinery and equipment	4 – 25 years
Vehicles	4 – 5 years

Amortization

The cost of the investment in the unconsolidated subsidiary in excess of the underlying fair value of the net assets is recorded as goodwill. Per the guidelines of the Financial Reporting Framework for Small- and Medium-Sized Entities, this amount is being amortized over 15 years by the straight-line method.

Use of Estimates

The preparation of financial statements in conformity with the Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SME Basis) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Church of God Publishing House is an affiliated entity associated with the Church of God International Offices which, as a religious organization, is exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code. The Publishing House does not file a Form 990.

Reclassifications

Certain items have been reclassified in order to present more clearly the financial statements as of August 31, 2023.

Events Occurring After Reporting Date

The Church of God Publishing House has evaluated events and transactions that occurred after August 31, 2023, through the date of the issued financial statements. During the period there was a material recognizable subsequent events that required recognition in the disclosures to the August 31, 2023 financial statements. The subsequent event is described in Note 11.

**CHURCH OF GOD PUBLISHING HOUSE
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022**

NOTE 2 - LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year of August 31, 2023 include the following:

Cash and cash equivalents	\$ 119,993
Accounts receivable	264,247
Inventories	<u>504,488</u>
	<u>\$ 888,728</u>

The Publishing House has a goal to maintain financial assets, which consist of cash, receivables and inventory on hand to meet 60 days of normal operating expense, which are, on average, approximately \$657,000. The Publishing House has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 3 - INVENTORIES

The major classes of inventory are as follows for the years ended August 31:

	2023	2022
Retail Stock:		
Stockroom	\$ 496,605	\$ 518,027
Bookstore	<u>7,883</u>	<u>7,676</u>
	<u>\$ 504,488</u>	<u>\$ 525,703</u>

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT, NET

The major classes of property, plant and equipment are as follows for the years ended August 31:

	2023	2022
Land	\$ 220,598	\$ 220,598
Buildings and improvements	4,037,932	4,023,915
Machinery and equipment	<u>1,056,809</u>	<u>1,051,940</u>
	5,315,339	5,296,453
Less: accumulated depreciation	<u>(4,019,923)</u>	<u>(3,945,011)</u>
	<u>\$ 1,295,416</u>	<u>\$ 1,351,442</u>

Total depreciation expense for the years ended August 31, 2023 and 2022, was \$75,667 and \$81,620, respectively.

**CHURCH OF GOD PUBLISHING HOUSE
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022**

NOTE 5 - INVESTMENT IN SUBSIDIARY

Analysis of Investment in Dockins Graphics, Inc.

Purchase price (principal) of original investment, 10/24/2012		\$	352,595
Less: Book value at time of purchase			<u>(113,576)</u>
Amount of purchase price in excess of book value		\$	239,019
Value of fixed assets per parameters of transaction	\$ 250,000		
Less: Book value of fixed assets, 10/24/2012	<u>(68,046)</u>		
Less: Differential related to fixed-lived assets			<u>181,954</u>
Purchase price in excess of book value and fair value of assets (Goodwill)		\$	<u>57,065</u>
Loss of Dockins Graphics, Inc. from 9/1/22 - 8/31/2023		\$	(124,583)
Amortization of Goodwill			<u>(3,804)</u>
Equity in Income on Unconsolidated Subsidiary		\$	<u>(128,387)</u>
<u>Investment in Subsidiary</u>			
Investment in Subsidiary, 8/31/2022		\$	637,544
Equity in Loss of Subsidiary			<u>(128,387)</u>
Investment in Subsidiary, 8/31/2023		\$	<u>509,157</u>

**CHURCH OF GOD PUBLISHING HOUSE
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022**

NOTE 6 - NOTES PAYABLE

Notes payable consists of the following notes at August 31, 2023 and 2022:

Payee	2023	2022	Collateral	Date of loan	Interest Rate
USBA - EIDL Loan	\$ 136,416	\$ 144,699	Inventory, Equip, Accounts Receivable	7/6/2020	2.75%
Church of God Foundation	250,000	-	Operating Funds	11/21/2022	6.00%
Dockins Graphics	140,000	-	Operating Funds	4/20/2022	9.10%
SmartBank	1,491,842	1,414,535	Assignment of Deposit Account*	10/26/2020	3.75%
Smart Bank	209,097	264,939	HVAC Construction	6/27/2019	5.31%
Smart Bank	152,469	170,354	Montgomery Ave Land, Building and Fixtures	11/20/2020	3.85%
Smart Bank	1,856,330	1,919,112	Montgomery Ave Land, Building and Fixtures	6/30/2017	4.16%
Pentecostal Theological Seminary	150,000	150,000	Unsecured	7/18/2023	5.00%
Total Notes	4,386,154	4,063,639			
Less current maturities	(690,912)	(348,678)			
Less unamortized debt issuance costs	(2,641)	(3,395)			
Long-term Notes	<u>\$ 3,692,601</u>	<u>\$ 3,711,566</u>			

Maturities of debt for years ended after August 31, 2023, are as follows:

<u>Year</u>	<u>Amount</u>
2024	\$ 690,912
2025	156,117
2026	1,655,474
2027	1,708,227
2028	30,948
2029 & thereafter	144,476
	<u>\$4,386,154</u>

**CHURCH OF GOD PUBLISHING HOUSE
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022**

NOTE 7 - COMPENSATED ABSENCES

Employees of the Company are entitled to paid vacation, sick and personal days off, depending on job classification, length of service and other factors. The Organization was able to estimate the amount of compensation for future absences as of August 31, 2023 and 2022; accordingly, that liability has been recorded in the accompanying financial statements. The balance of this liability for the years ending August 31, 2023 and 2022, were \$197,290 and \$189,911, respectively.

NOTE 8 - APPROPRIATIONS TO RELATED ORGANIZATIONS

The Church of God International Offices directs the Publishing House to make certain non-cash appropriations to related organizations. The Publishing House has also been directed to include the net costs of publishing the Evangel magazine as a part of appropriations to these organizations. Appropriations to related organizations are as follows:

	2023	2022
Operation Compassion	\$ 49,652	\$ 51,617
Evangel/Ministers	39,804	68,177
Free Sunday School Literature	8	11
International - Secretary General	5,000	-
International - Executive Committee	-	2,500
Other appropriations	100	-
Total	\$ 94,564	\$ 122,305

NOTE 9 - PENSION PLANS

The Church of God Ministers Retirement Plan was established by the International Offices for eligible ministers and missionaries of the Church and other persons serving the Church. The plan is a contributory plan as participants contribute 5% of cash compensation received. All contributions are 100% vested at the time of contribution and are maintained in separate accounts for each participant. Contributions are invested at the discretion of a Board of Trustees which is appointed by the Executive Council of the Church. Earnings are added to each participant's account annually based on the earnings rate established by the Church of God Benefits Board, Inc. The amount paid to the Church of God Benefits Board, Inc. on behalf of the Church of God Publishing House for the years ended August 31, 2023 and 2022, was \$13,189 and \$13,000, respectively.

**CHURCH OF GOD PUBLISHING HOUSE
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022**

NOTE 10 - LINE OF CREDIT

The Company obtained a line of credit with SmartBank dated October 26, 2020 in the amount of \$1,500,000. The Company is required to make monthly payments of all accrued unpaid interest at a fixed rate of 3.75%. The note is due in full on October 26, 2025. The principal balance of the note payable at August 31, 2023 was \$1,491,842, with \$8,158 available to be drawn.

NOTE 11 - SUBSEQUENT EVENTS

In the SmartBank documents, there was a covenant regarding GAAP presentation of financial statements. Management of both the Publishing House and SmartBank have waived the covenant requiring GAAP financial statements to allow for the continued use of FRF for SME basis financial statements.

**CHURCH OF GOD PUBLISHING HOUSE
 DETAIL - CASH AND CASH EQUIVALENTS
 AUGUST 31, 2023 AND 2022**

	2023	2022
General	\$ 60,640	\$ 142,090
Savings	24,150	210
Credit card account	19,453	15,226
Payroll	12,901	13,416
Bookstore credit card	967	50
General Assembly account	629	113
Credit card account	628	348
E-sales credit card	25	50
Petty cash:		
Bookstore	200	200
Conference	-	250
General Director	300	300
Telemarketing	100	100
	\$ 119,993	\$ 172,353
	\$ 119,993	\$ 172,353

**CHURCH OF GOD PUBLISHING HOUSE
 DETAIL - PROPERTY, PLANT AND EQUIPMENT
 AUGUST 31, 2023**

	Assets	Accumulated Depreciation	Book Value
<u>Pathway Press</u>			
Buildings and improvements	<u>\$4,037,932</u>	<u>\$3,106,282</u>	<u>\$ 931,650</u>
Machinery, equipment and furniture			
Computer software	405,899	356,938	48,961
Computers and printers	312,472	237,631	74,841
Printing and shipping equipment	124,495	122,813	1,682
Office equipment	87,211	84,583	2,628
Office furniture	<u>77,594</u>	<u>62,538</u>	<u>15,056</u>
Total machinery, equipment and furniture	<u>1,007,671</u>	<u>864,503</u>	<u>143,168</u>
Vehicles	<u>49,138</u>	<u>49,138</u>	<u>-</u>
Total Pathway Press	5,094,741	4,019,923	1,074,818
Land	<u>220,598</u>	<u>-</u>	<u>220,598</u>
Total property, plant and equipment	<u><u>\$5,315,339</u></u>	<u><u>\$4,019,923</u></u>	<u><u>\$1,295,416</u></u>

**CHURCH OF GOD PUBLISHING HOUSE
DETAIL - ACCRUED LIABILITIES
AUGUST 31, 2023 AND 2022**

	2023	2022
Accrued payroll	\$ 41,811	\$ 22,127
Accrued expense - ministry projects	16,931	3,717
Accrued interest	7,812	10,848
Sales tax	4,781	4,781
Property taxes	3,048	6,413
Accrued payroll taxes	<u>2,656</u>	<u>2,003</u>
 Total accrued liabilities	 <u>\$ 77,039</u>	 <u>\$ 49,889</u>

**CHURCH OF GOD PUBLISHING HOUSE
DETAIL - SALES
AUGUST 31, 2023 AND 2022**

	2023	2022
Pathway Press:		
Sales - regular	\$3,371,812	\$3,083,680
Evangel subscriptions	<u>163,399</u>	<u>159,700</u>
 Total sales	 <u><u>\$3,535,211</u></u>	 <u><u>\$3,243,380</u></u>

**CHURCH OF GOD PUBLISHING HOUSE
 DETAIL - OTHER REVENUES AND EXPENSES
 AUGUST 31, 2023 AND 2022**

	2023	2022
Other revenue:		
Rent	\$ 169,470	\$ 138,340
Postage and freight	57,809	57,139
Advertising	39,750	38,950
Miscellaneous	38,740	36,023
Royalties and commissions	7,925	5,410
Finance charges	5,965	4,227
Interest and dividends	886	137
Government grants and loan forgiveness	-	396,016
Church of God support	-	150,000
Gain on sale of fixed assets	-	3,000
	<u>\$ 320,545</u>	<u>\$ 829,242</u>
Total other revenues	<u>\$ 320,545</u>	<u>\$ 829,242</u>
Other expenses:		
Interest expense	\$ 177,126	\$ 178,026
Donations	5,670	3,887
Bad debts and returned checks	4,412	1,649
	<u>\$ 187,208</u>	<u>\$ 183,562</u>
Total other expenses	<u>\$ 187,208</u>	<u>\$ 183,562</u>