APPENDIX C, EXHIBIT 1: SAMPLE LARGE CHRISTIAN ORGANIZATION

The following illustrative financial statement is taken from Appendix C, Exhibit 1 of the *Accounting and Financial Reporting Guide for Churches and Ministries* published by the Accounting Committee for Churches & Ministries. As noted in Appendix C, this example is illustrative, not prescriptive.

It also is not intended to present all required disclosures. Care should be taken to display the most meaningful presentation for each organization based on the needs of the financial statement users within the prescriptive requirements of all FASB and AICPA pronouncements.

Accounting Committee for Churches & Ministries

ABC MINISTRY

Consolidated Statements of Financial Position

	June 30, 20X2	June 30, 20X1
ASSETS:		
Cash and cash equivalents	$ 1,110,807	$ 845,815
Accounts receivable–net	72,043	66,113
Contributions receivable–net	226,394	350,249
Prepaid expenses	53,911	56,713
Inventory	535,799	570,970
Operating investments	1,595,179	1,598,746
Right-of-use assets-operating	141,195	170,878
Property and equipment–net	5,100,933	5,266,386
Long-term investments	7,668,497	7,762,137
Perpetual trusts held by others	516,158	511,721
Total Assets	$ 17,020,916	$ 17,199,728
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued liabilities	$ 413,116	$ 534,714
Deferred revenue	315,302	324,044
Refundable assets of revocable trusts	548,085	542,441
Annuity obligations	337,996	266,924
Amounts held on behalf of others	1,985,180	2,460,282
Split-interest obligations	149,544	126,115
Operating lease liabilities	156,584	184,457
Notes payable and finance leases	1,401,477	1,469,160
Liability for pension benefits	1,265,645	1,409,165
	6,572,929	7,317,302
Net Assets:		
Net Assets Without Donor Restrictions:		
Undesignated	1,804,354	2,221,614
Equity in property and equipment	3,699,456	3,797,226
Pension benefit obligation	(1,265,644)	(1,409,164)
State-required annuity reserves	241,910	176,430
Board designated:		
Operating reserve	175,000	150,000
Capital reserve	50,000	50,000
	4,705,076	4,986,106
Net Assets With Donor Restrictions:		
Restricted by purpose or time	2,010,903	1,353,864
Restricted in perpetuity	3,732,008	3,542,456
	5,742,911	4,896,320
	10,447,987	9,882,426
Total Liabilities and Net Assets	$ 17,020,916	$ 17,199,728

See notes to consolidated financial statements.

ABC MINISTRY

Consolidated Statements of Activities

	Year Ended June 30,					
	20X2			20X1		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE:						
Contributions of cash and investments	$ 15,451,315	$ 2,864,726	$ 18,316,041	$ 15,129,355	$ 2,985,723	$ 18,115,078
In-kind contributions	142,939	-	142,939	96,834	-	96,834
Program fees, net	12,465,793	-	12,465,793	13,076,424	-	13,076,424
Investment return	73,618	349,762	423,380	42,050	373,266	415,316
Change in value of annuities and split-interest trusts	(8,746)	(14,617)	(23,363)	9,569	16,040	25,609
Other revenue	10,969	-	10,969	10,225	-	10,225
Total Support and Revenue	28,135,888	3,199,871	31,335,759	28,364,457	3,375,029	31,739,486
RECLASSIFICATIONS:						
Net assets released from restrictions:						
Expiration of purpose	2,353,280	(2,353,280)	-	3,327,438	(3,327,438)	-
EXPENSES:						
Program services:						
Education and discipleship	14,526,168	-	14,526,168	15,066,630	-	15,066,630
Evangelism	5,019,939	-	5,019,939	5,126,902	-	5,126,902
Youth outreach	5,412,369	-	5,412,369	5,310,299	-	5,310,299
	24,958,476	-	24,958,476	25,503,831	-	25,503,831
Supporting activities:						
General and administrative	4,208,723	-	4,208,723	3,685,217	-	3,685,217
Fundraising	1,738,294	-	1,738,294	2,019,283	-	2,019,283
	5,947,017	-	5,947,017	5,704,500	-	5,704,500
Total Expenses	30,905,493	-	30,905,493	31,208,331	-	31,208,331
Change in Net Assets before other income (expense)	(416,325)	846,591	430,266	483,564	47,591	531,155
Other Pension-Related Costs	135,295	-	135,295	417,177	-	417,177
Change in Net Assets	(281,030)	846,591	565,561	900,741	47,591	948,332
Net Assets, Beginning of Year	4,986,106	4,896,320	9,882,426	4,085,365	4,848,729	8,934,094
Net Assets, End of Year	$ 4,705,076	$ 5,742,911	$ 10,447,987	$ 4,986,106	$ 4,896,320	$ 9,882,426

ABC MINISTRY

Consolidated Statements of Cash Flows

Indirect Method

	Year Ended June 30, 20X2	Year Ended June 30, 20X1
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 565,561	$ 948,332
Adjustments to reconcile change in net assets		
to net cash provided (used) by operating activities:		
Depreciation	205,503	230,890
Net realized and unrealized gains on investments	(182,225)	(97,366)
Change in value of split-interest obligations	23,363	(25,609)
Contributions for long-term purposes: annuities	(89,598)	-
Contributions for long-term purposes: split-interest trusts	(15,201)	-
Contributions for long-term purposes: endowments	(192,415)	(135,397)
Change in value of perpetual trusts	(4,437)	7,497
Changes in operating assets and liabilities:		
Accounts receivable	(5,930)	12,351
Contributions receivable	123,855	(61,854)
Prepaid and other assets	2,802	(7,213)
Inventory	35,171	(1,374)
Operating leases, net	1,810	1,563
Accounts payable	(121,598)	(13,335)
Deferred revenue	(8,742)	(4,697)
Post-retirement benefit obligation	(143,520)	(379,933)
Net Cash Provided (Used) by Operating Activities	194,399	473,855
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,491,288)	(2,037,979)
Proceeds from sale of investments	1,384,262	1,745,466
Purchases of property and equipment	(40,050)	(86,581)
Net Cash Used by Investing Activities	(147,076)	(379,094)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of split-interest obligations	(24,188)	(35,362)
Payments on annuities	(28,975)	(42,361)
Cash received for new split-interest trusts	30,000	-
Cash received for new annuities	116,100	-
Cash received for new endowments	192,415	135,397
Payments on notes payable and finance leases	(67,683)	(65,867)
Net Cash Provided (Used) by Financing Activities	217,669	(8,193)
Net Change in Cash and Cash Equivalents	264,992	86,568
Cash and Cash Equivalents, Beginning of Year	845,815	759,247
Cash and Cash Equivalents, End of Year	$ 1,110,807	$ 845,815
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$ 64,245	$ 66,077
Cash paid for taxes	$ -	$ 1,250
Operating cash flows from finance leases	$ 2,750	$ 2,750
Operating cash flows from operating leases	$ 34,369	$ 33,454
Investments contributed for annuity	$ 83,000	$ -

See notes to consolidated financial statements.

ABC MINISTRY

Consolidated Statements of Cash Flows

Direct Method

	Year Ended June 30, 20X2	Year Ended June 30, 20X1
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from donors	$ 18,147,235	$ 18,064,239
Cash collected from contributions receivable	323,855	112,005
Cash received from meeting and event fees	12,459,409	13,988,424
Interest and dividends received	149,451	124,113
Miscellaneous receipts	7,389	10,225
Cash paid to employees	(16,748,572)	(17,250,569)
Cash paid for benefits	(4,137,730)	(3,873,027)
Cash paid to suppliers and vendors	(9,942,393)	(10,634,228)
Interest paid	(64,245)	(66,077)
Taxes paid	-	(1,250)
Net Cash Provided (Used) by Operating Activities	194,399	473,855
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,491,288)	(2,037,979)
Proceeds from sale of investments	1,384,262	1,745,466
Purchases of property and equipment	(40,050)	(86,581)
Net Cash Used by Investing Activities	(147,076)	(379,094)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of split-interest obligations	(24,188)	(35,362)
Payments on annuities	(28,975)	(42,361)
Cash received for new split-interest trusts	30,000	-
Cash received for new annuities	116,100	-
Cash received for new endowments	192,415	135,397
Principal payments on notes payable	(67,683)	(65,867)
Net Cash Provided (Used) by Financing Activities	217,669	(8,193)
Net Change in Cash and Cash Equivalents	264,992	86,568
Cash and Cash Equivalents, Beginning of Year	845,815	1,111,174
Cash and Cash Equivalents, End of Year	$ 1,110,807	$ 1,197,742
SUPPLEMENTAL DISCLOSURE:		
Investments contributed for annuity	$ 83,000	$ -

ABC MINISTRY

Notes to Consolidated Financial Statements

June 30, 20X2 and 20X1

1. NATURE OF THE ORGANIZATION

ABC Ministry (ABC), founded in 1936, offers a variety of programs from its main campus in Dallas, Texas, and from additional locations in Austin, Houston, and San Antonio, Texas; Atlanta, Georgia; Nashville, Tennessee; and McClean, Virginia. The programs are aimed at educating, engaging, and equipping individuals to learn more about a personal relationship with Jesus and then to be able to train and disciple others. This is accomplished through the following types of activities:

Educational and discipleship (*Reach In*) – Small group Bible study and discipling programs. These are intensive studies grounding participants in the Word of God and training them on how to do the same for others. Approximately 120,000 and 140,000 people participated in the years ended June 30, 20X2 and 20X1.

Evangelism (*Reach Out*) – Local programs to evangelize a community. Individuals are encouraged to become actively involved in meeting local needs as a means of opening doors for evangelism. Over 50,000 volunteer hours have been provided to the community through these programs in each of the past two years.

Youth outreach (*Reach Up*) – Youth events collaboratively offered by local churches. This model works within a community to produce two city-wide youth events annually bringing together Christ-centered churches and drawing in unchurched youth. Currently, 122 cities participate.

ABC Foundation (Foundation) was formed in 1987. The ABC board approves the appointment of the Foundation board. The purpose of the Foundation is to promote and further the interests of ABC by educating individuals and organizations about the religious and educational purposes of ABC and by encouraging gifts through providing charitable gift planning and gift administration services.

ABC and the Foundation (collectively, the Ministry) are nonprofit corporations exempt from federal income tax as described in Section 501(c)(3) of the Internal Revenue Code, and, as such, are subject to income taxes only to the extent of unrelated business income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Ministry have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the balances and financial activities of ABC and its affiliated foundation, the Foundation. All inter-entity accounts and transactions have been eliminated.

ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash equivalents consist of cash in banks and highly liquid investments with original maturities of three months or less unless held for meeting restrictions of a capital, charitable trust, or endowment nature. The cash and cash equivalents, at times, may exceed federally insured limits. As of June 30, 20X2 and 20X1, the Ministry had approximately $860,000 and $600,000 of cash balances exceeding federally insured limits, respectively. The Ministry has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents because the Ministry chooses to deposit only with financial institutions of excellent financial health.

ACCOUNTS RECEIVABLE–NET

The Ministry's accounts receivable are primarily due from individuals and are recorded at estimated net realizable value. Credit is extended to program participants and collateral is not required. Accounts are due at the end of the program and individuals whose accounts are not current are not allowed to participate in additional training. The Ministry's policy for determining when an account is past due or delinquent is when the account is over 90 days or more past due. Allowances for doubtful accounts reflects the expected future credit losses over the life of the financial asset. The allowance for doubtful accounts are established based on prior and forecasted collection experience, current and future economic factors that, in management's judgment, could influence the ability of account receivable debtors to repay the amounts per the credit terms.

CONTRIBUTIONS RECEIVABLE–NET

Contributions, including unconditional promises to give and estate and trust gifts receivable, are recognized in the period the contribution or promise is made or the estate and trust gift has cleared probate or other uncertainty and the amount due to the Ministry can be reasonably estimated. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions are substantially met. Unconditional promises expected to be collected in future years are recorded at the present value of expected future cash flows discounted at an appropriate discount rate commensurate with the risks involved. Management believes all amounts are fully collectible and has not established an allowance.

INVENTORY

Inventory is stated at the lower of cost or net realizable value based on the first-in, first-out basis. Inventory consists of books and apparel.

INVESTMENTS

Investments are reported at fair value with gains and losses reported in the consolidated statements of activities. Donated investments typically are sold upon receipt; however, if management decides instead to retain them, they are recorded at fair value at the date of donation and are thereafter reported in conformity with the stated policy. Investment return is reported net of external and direct internal expenses.

Alternative investments consist of those investments that do not trade in secondary markets and are not redeemable with the issuer on demand in current transactions, such as non-marketable hedge fund and private equity assets. These funds invest in various partnership interests, managed accounts, and other vehicles to generate investment return. These funds are reported at fair value as estimated by their net asset value as reported by fund managers. That amount represents the Ministry's proportionate interest in the capital of the invested funds.

PROPERTY AND EQUIPMENT–NET

Property and equipment purchased with a cost in excess of $5,000 are capitalized and reported at cost at date of acquisition less accumulated depreciation. Donated items are recorded at their fair value on the date of donation.

Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis, ranging from 3 to 10 years for equipment, and 10 to 40 years for buildings and land improvements.

PERPETUAL TRUSTS HELD BY OTHERS

Perpetual trusts held by others are investments held by outside trustees for the benefit of the Ministry in accordance with the terms of the irrevocable trusts. These two trusts are neither in the possession nor under the control of the Ministry. Trust terms provide that the Ministry is to receive annually all or a portion of the income earned by the trust assets. The Ministry's beneficial interest in the trusts are recognized as assets and gift income at the dates the trusts are established. The beneficial interest is reported at fair value, which is estimated using the fair value of the assets of the trust at the date of measurement (or the proportionate share if the perpetual trust has multiple beneficiaries). Distributions from the perpetual trusts and other changes in the fair value of those beneficial interests are recorded as investment income.

DEFERRED REVENUE

Program fees are recognized in the fiscal year in which the programs are delivered. Financial aid awarded to participants reduces the amount of revenue recognized. Sales income is recognized when the goods are delivered or services are performed. Payments received for programs to be held in future periods are reported as deferred revenue. Payments for program fees are due approximately three weeks prior to the start of the event. Participants who withdraw completely within the first day of the event may receive a full or partial refund. Refunds reduce the amount of program fees recognized. Historically, refunds have been de minimis. Substantially all deferred revenue at June 30, 20x1 was recognized as revenue during the following year.

REFUNDABLE REVOCABLE TRUSTS

As trustee, the Ministry administers irrevocable charitable trusts. These trusts provide the payment of lifetime distributions to the grantor or other designated beneficiaries. Some of these trusts have beneficiaries revocable at the discretion of the grantor, and the trusts' assets are offset in the consolidated statement of financial position by a liability until an irrevocable beneficiary is specified. All trust income, deductions, and credits are reportable by the grantor for tax purposes. At the grantor's death, the remaining trust assets, if designated for the Ministry, will be recorded as gifts. If instead the remaining trust assets are designated for other beneficiaries, the trust assets will be distributed in accordance with the trust agreement.

ANNUITY OBLIGATIONS

The Ministry has issued charitable gift annuity agreements. Under these agreements, a donor transfers assets to the Ministry in exchange for the right to receive a fixed-dollar annual return during the donor's lifetime. A portion of the transfer is a charitable contribution for income tax purposes. The difference between the amount transferred for the gift annuity and the liability for future payments, which is determined on an actuarial basis, is recognized as a contribution at the date of the gift. The annuity liability is revalued annually using a discount rate established at the inception of the agreement (ranging from 4.5% to 6.5%) and appropriate actuarial assumptions. Actuarial changes and annuity payments are reported as change in value of annuity and split-interest trusts in the consolidated statements of activities. The Ministry maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws.

AMOUNTS HELD ON BEHALF OF OTHERS

Certain charitable trusts for which the Ministry is the trustee contain provisions that allow for the distribution of assets to remaindermen other than the Ministry. The portion to be distributed to other charitable remaindermen is reflected as amounts held on behalf of others on the consolidated statements of financial position.

SPLIT-INTEREST OBLIGATIONS

The Ministry serves as trustee for charitable remainder trusts, which make payments to the donor or other named beneficiary for a period of time (typically the beneficiary's life), and at the end of that term the Ministry is entitled to the remaining trust assets as the irrevocable remainder beneficiary. The present value of the lifetime beneficiaries' interests is reported as liabilities (split-interest obligations) during the trusts' terms. The obligations are computed using the estimated payments to be made, a market discount rate (currently between 2% and 5%), and mortality tables. The present value of the Ministry's remainder interest is reported as a restricted contribution in the period the agreement is signed, which increases net assets with donor restrictions. At the end of the agreement's term (typically, the death of the lifetime beneficiary), the time restriction on the net assets expires. If the grantor specified that remainder interest should support the Ministry without restriction, the net assets are reclassified to net assets without donor restrictions. If the grantor specified that the remainder interest should be used for a specified purpose, the net assets remain in net assets with donor restrictions until that purpose is accomplished, at which time the net assets are reclassified to net assets without donor restrictions. Certain trusts contain provisions to distribute a portion of the trust's assets to remaindermen other than the Ministry upon the death of the lifetime beneficiaries. If so, the portion attributable to the other remaindermen is included as amounts held on behalf of others on the consolidated statement of financial position. Note 7 provides additional information about the charitable trusts.

LEASES

The Ministry has operating and finance leases for office space and equipment. The Ministry determines if an arrangement is a lease at inception. Operating leases as a lessee are included in operating lease right-of-use assets and operating lease liabilities in the consolidated statement of financial position. Finance leases as a lessee are included in property plant and equipment-net, notes payable, and finance leases.

Right-of-use assets represent the Ministry's right to use the underlying asset for the lease term. Operating and finance lease right-of-use assets and related liabilities are recognized at commencement date based on the net present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. As most of the Ministry's leases do not provide an implicit rate, the Ministry uses its incremental borrowing rate, which is based on the information available at the commencement date in determining the present value of lease payments. The Ministry considers recent borrowings as well as publicly available data for instruments with similar characteristics when calculating incremental borrowing rates. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise the option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Interest expense is recognized as a component of the lease payment for finance leases.

CLASSES OF NET ASSETS

The consolidated financial statements report amounts by class of net assets.

Net assets without donor restrictions are resources currently available for operating purposes under the direction of the board, designated by the board for specific use, annuity reserves, pension benefit obligation as described in Note 14, or invested in property and equipment.

Net assets with donor restrictions are resources whose use is subject to donors' stipulations for specific operating purposes or for the acquisition of property and equipment or are restricted for use in a future period. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations and donor-restricted purposes (endowments) and the gift portions of split-interest trusts, which are restricted until obligations to lifetime beneficiaries are completed.

REVENUE AND EXPENSES

Exchange revenue is recognized when earned, and support is recognized when contributions are received, which may be when cash is received, unconditional promises to give are made, or ownership of other assets is transferred to the Ministry.

The Ministry reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations that limit the use of the donated net assets. When a stipulated time restriction expires or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. The Ministry has adopted an accounting policy to report donor-restricted contributions whose restrictions are met in the same reporting period as the revenue is recognized as support within net assets without donor restrictions. Similarly, the Ministry follows a consistent policy for reporting investment gains and income. These policies are applied consistently from period to period.

Donated goods are recorded at their estimated fair value when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation.

The Ministry reports gifts of land, buildings, and equipment as support increasing net assets without donor restrictions unless explicit donor stipulations specify how those donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as support increasing net assets with donor restrictions. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Ministry reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Expenses are recorded when incurred, in accordance with the accrual basis of accounting. The costs of providing the program services and supporting activities of the Ministry have been summarized on a functional classification basis in the consolidated statements of activities. Additional information about expenses is provided in Note 15.

ADVERTISING

Advertising costs are expensed as they are incurred. The Ministry expended approximately $42,000 and $45,000 for advertising for the years ended June 30, 20X2 and 20X1, respectively.

3. ACCOUNTS RECEIVABLE–NET

Accounts receivable–net consist of:

	June 30,	
	20X2	20X1
Program accounts receivable	$ 72,017	$ 59,611
Less allowance for doubtful accounts	(7,157)	(5,065)
	64,860	54,546
Other accounts receivable	7,183	11,567
	$ 72,043	$ 66,113

4. CONTRIBUTIONS RECEIVABLE–NET

The Ministry recognizes contributions receivable for pledges, estate gifts receivable, and irrevocable remainder interests in trusts held by others. Of the contributions receivable, $150,000 at June 30, 20X2 and 20X1 is receivable from a single estate. Contributions receivable are expected to be collected in the following manner:

	June 30, 20X2	June 30, 20X1
Less than one year	$ 182,291	$ 214,656
One to five years	52,756	150,780
More than five years	8,065	8,494
	243,112	373,930
Less imputed interest, at rates of 5% to 8%	(7,368)	(9,301)
Net present value	235,744	364,629
Less allowance for uncollectible accounts	(9,350)	(14,380)
	$ 226,394	$ 350,249

During the year ended 20X2, the Ministry received a conditional promise to give in the amount of $250,000 for a youth event in a specified community. The receipt of this gift is subject to the condition that the Ministry match the amount with new gifts restricted to this purpose before the end of the 20X4 fiscal year. As of Dec 31, 20X2, the Ministry has not fulfilled the matching condition. Accordingly, this conditional promise has not been recognized as a contribution receivable in the financial statements. The Ministry will continue to monitor the fulfillment of this condition and will recognize the gift receivable when the condition is met.

5. INVESTMENTS AND FAIR VALUE

Investments are held for the following purposes:

	June 30, 20X2	June 30, 20X1
Endowment investments	$ 3,405,056	$ 3,196,602
Annuity investments, including reserves	579,906	443,354
Charitable remainder trusts	2,910,450	3,379,740
Refundable revocable trusts	548,085	542,441
Operating and capital reserves	225,000	200,000
Total long-term investments	7,668,497	7,762,137
Operating investments	1,595,179	1,598,746
	$ 9,263,676	$ 9,360,883

Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value for the purpose of indicating the relative levels of uncertainty in the fair value measurements as of the reporting date. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2 inputs, other than the quoted prices in active markets, are observable either directly or indirectly; and Level 3 consists of unobservable inputs in which there is little or no market data, which requires the Ministry to develop its own assumptions. The Ministry uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Ministry measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. When quoted market prices are not available, fair value is estimated by reference to market values for similar securities or by discounting cash flows at an appropriate risk rate, taking into consideration the varying degrees of risk specific to each financial asset. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

The estimated fair value of alternative investments is based on the practical expedient of the reported net asset values provided by the respective external investment managers, adjusted for cash flows between the net asset valuation date and June 30. To determine the reasonableness of the reported net asset value, the Ministry also takes into consideration discussions with those external investment managers and audited financial information of the partnerships and funds. Audited financial information for these investments is only available annually at the partnership's or fund's year-end. Because these investments do not trade on exchanges or have ready markets, it is probable that if sold, proceeds would differ from net asset value per share.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 20X2:				
Investments assigned to hierarchical valuation levels:				
Money market funds	$ 441,513	$ 441,513	$ -	$ -
Fixed income:				
Domestic	2,127,658	-	2,127,658	-
International	494,649	-	494,649	-
	2,622,307	-	2,622,307	-
Equity:				
Domestic	2,000,093	2,000,093	-	-
International	2,205,786	2,205,786	-	-
	4,205,879	4,205,879	-	-
Real estate investment funds	677,092	-	343,745	75,242
	7,946,791	4,647,392	2,966,052	75,242
Investments measured at net asset value:				
Natural resources partnerships	56,405			
Hedge funds–fund of funds	1,021,513			
Private equity partnerships	238,967			
Total investments	$ 9,263,676			
Perpetual trusts held by others	$ 516,158	$ -	$ -	$ 516,158

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 20X1:				
Investments assigned to hierarchical valuation levels:				
Money markets	$ 336,994	$ 336,994	$ -	$ -
Fixed income:				
Domestic	2,040,655	-	2,040,655	-
International	274,572	-	274,572	-
	2,315,227	-	2,315,227	-
Equity:				
Domestic	2,079,499	2,079,499	-	-
International	2,190,352	2,190,352	-	-
	4,269,851	4,269,851	-	-
Real estate investment funds	1,065,328	-	956,967	108,361
	7,987,400	$ 4,606,845	$ 3,272,194	$ 108,361
Investments measured at net asset value:				
Natural resources partnerships	66,128			
Real estate partnerships	43,005			
Hedge funds–fund of funds	1,064,205			
Private equity partnerships	200,145			
Total investments	$ 9,360,883			
Perpetual trusts held by others	$ 511,721	$ -	$ -	$ 511,721

The measurements of the two perpetual trusts are Level 3 measurements within the fair value hierarchy because even though those measurements are based on the unadjusted fair value of trust assets reported by the trustee, there is no market in which the trusts can be sold and the Ministry will never receive the trust assets or have the ability to direct the trustees to redeem them. The Ministry received distributions from the trusts of $25,000 and $24,500 in the years ended June 30, 20X2 and 20X1, respectively, and recognized a gain in the fair value of the perpetual trusts of $4,437 for the year ended June 30, 20X2 and a loss in the fair value of the perpetual trusts of $7,497 for the year ended June 30, 20X1.

The Ministry uses net asset value (NAV) to determine the fair value of alternative investments that (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table provides further information about alternative investments by major category for the year ended June 30, 20X2.

Strategy		NAV in funds	# of funds	Remaining life		Amount of unfunded commitments	Redemption terms	Redemption restrictions	Redemption restrictions in place at year end
Hedge funds									
Fund of funds in various strategies, primarily long/short	$	1,021,513	2	N.A.	$	-	No lockup	Redemption annually with 90-day notice	None
Real Assets - Illiquid									
Natural resources		56,405	1	Upon liquidation of underlying investments*		-	N.A.	No ability to redeem	N.A.
Private Equity									
Secondary private investments		35,528	1	4 years	$	100,000	N.A.	No ability to redeem	N.A.
Distressed, buyout, and venture capital		203,439	8	4 to 10 years		164,371	N.A.	No ability to redeem	N.A.
	$	1,316,885			$	264,371			

Unfunded commitments are the amounts up to which the Ministry is obligated under investment agreements to advance to the partnership upon the request of the general partner.

*The Ministry receives distributions through the liquidation of the underlying assets of the investees, the timing of which has not been communicated by the investee or announced publicly.

The following table provides further information about alternative investments by major category for the year ended June 30, 20X1.

Strategy	NAV in funds	# of funds	Remaining life	Amount of unfunded commitments	Redemption terms	Redemption restrictions	Redemption restrictions in place at year end
Hedge funds							
Fund of funds in various strategies, primarily long/short	$ 1,064,205	2	N.A.	$ -	No lockup	Redemption annually with 90-day notice	None
Real Assets - Illiquid							
Real estate investment trust	43,005	1	Less than one year	-	N.A.	No ability to redeem	N.A.
Natural resources	66,128	1	Upon liquidation of underlying investments*	-	N.A.	No ability to redeem	N.A.
Private Equity							
Secondary private investments	32,685	1	5 years	100,000	N.A.	No ability to redeem	N.A.
Distressed, buyout, and venture capital	167,460	8	4 to 10 years	193,820	N.A.	No ability to redeem	N.A.
	$ 1,373,483			$ 293,820			

Unfunded commitments are the amounts up to which the Ministry is obligated under investment agreements to advance to the partnership upon the request of the general partner.

*The Ministry receives distributions through the liquidation of the underlying assets of the investees, the timing of which has not been communicated by the investee or announced publicly.

6. ENDOWMENT FUNDS

The Ministry's endowment consists of 16 individual donor-restricted funds established to support Ministry operations or specific ministry programs. As required by GAAP, net assets associated with donor-restricted endowment funds are classified as net assets with donor restrictions. Donor-restricted endowment funds are established by donor-restricted gifts and bequests for the purposes of providing a source of income in perpetuity (perpetual endowment) or for a specified term (term endowment).

Endowment net asset composition by type of fund as of June 30, 20X2:

		Perpetual Endowments			
	Term endowment	Original gift amount	Accumulated gains (losses)	Total perpetual endowment	Donor-restricted net assets
Donor-restricted funds	$ 69,738	$ 3,215,850	$ 119,468	$ 3,335,318	$ 3,405,056

Changes in endowment net assets for the year ended June 30, 20X2:

		Perpetual Endowments			
	Term endowment	Original gift amount	Accumulated gains (losses)	Total perpetual endowment	Donor-restricted net assets
Endowment net assets, beginning of year	$ 57,678	$ 3,030,735	$ 108,189	$ 3,138,924	$ 3,196,602
Investment return, net	4,760	-	208,225	208,225	212,985
Contributions	7,300	185,115		185,115	192,415
Amounts appropriated for expenditure		-	(196,946)	(196,946)	(196,946)
	12,060	185,115	11,279	196,394	208,454
Endowment net assets, end of year	$ 69,738	$ 3,215,850	$ 119,468	$ 3,335,318	$ 3,405,056

Endowment net asset composition by type of fund as of June 30, 20X1:

			Perpetual Endowments		
	Term endowment	Original gift amount	Accumulated gains (losses)	Total perpetual endowment	Donor-restricted net assets
Donor-restricted funds	$ 57,678	$ 3,030,735	$ 108,189	$ 3,138,924	$ 3,196,602

Changes in endowment net assets for the year ended June 30, 20X1:

			Perpetual Endowments		
	Term endowment	Original gift amount	Accumulated gains (losses)	Total perpetual endowment	Donor-restricted net assets
Endowment net assets, beginning of year	$ 53,408	$ 2,973,089	$ 79,754	$ 3,052,843	$ 3,106,251
Investment return, net	4,270	-	201,090	201,090	205,360
Contributions	-	57,646		57,646	57,646
Amounts appropriated for expenditure		-	(172,655)	(172,655)	(172,655)
	4,270	57,646	28,435	86,081	90,351
Endowment net assets, end of year	$ 57,678	$ 3,030,735	$ 108,189	$ 3,138,924	$ 3,196,602

The Uniform Prudent Management of Institution Funds Act (UPMIFA) was enacted in the state of Texas in 2006. Although UPMIFA does not preclude the Ministry from spending below the original gift value of donor-restricted endowments, the Ministry considers a donor-restricted endowment fund to be "underwater" if the fair value of the investments of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Ministry has adopted a policy not to spend from "underwater" endowment funds unless directed to do so by the donor.

Underwater Endowment Funds: From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires the Ministry to retain as a fund of perpetual duration. Deficiencies of this nature exist in two donor-restricted endowment funds, which together have an original gift value of $62,780, a fair value of $60,550, and a deficiency of $2,230 as of June 30, 20X2. In the prior year, deficiencies existed in the same two donor-restricted endowment funds, which together had an original gift value of $62,780, a fair value of $59,930, and a deficiency of $2,850 as of June 30, 20X1. These deficiencies resulted from unfavorable market conditions that occurred shortly after the investment of contributions that established the new perpetual endowment funds.

Return objectives and risk parameters: The Ministry has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce results that exceed the spending rate and aggregate costs of portfolio management, the long-term inflation rate, and any growth factor that the board may, from time to time, determine appropriate, while assuming a moderate level of investment risk. The Ministry expects its endowment funds, over time, to provide an average rate of return net of portfolio management costs of approximately 7% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Ministry relies on a total-return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Ministry targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policies and how the investment objectives relate to spending policy: The Ministry has a policy of appropriating for distribution for the current fiscal year 5% of the average fair value of its aggregate endowment funds over the 12 previous calendar quarters. In establishing this policy, the Ministry considered the long-term expected return on its endowment. Accordingly, over the long-term, the Ministry expects the current spending policy to allow its endowment to grow at an average of 2% annually.

7. CHARITABLE TRUSTS (SPLIT-INTEREST AGREEMENTS)

As explained in Note 2, the Ministry serves as trustee for irrevocable charitable remainder trusts. Until the death of the lifetime beneficiaries, the Ministry must invest the trust assets and comply with the trust terms. If the Ministry is the irrevocable beneficiary of the remainder interest of a trust, the difference between the trust's assets and its liability to make payments during the trust term is reported as net assets with donor restrictions. If another entity is the irrevocable beneficiary of a portion of the remainder interest, the difference between the trust's assets and its liability is reported as an amount held on behalf of others. If the grantor has the ability to change the remainder beneficiary, a refundable revocable trust liability is reported equal to the trust's assets. The assets and related liabilities of the 12 charitable trusts for which the Ministry is trustee are included in the consolidated statement of financial position, as shown below:

	June 30,			
	20X2		20X1	
Trust assets:				
Accounts receivable–net	$	1,364	$	1,400
Prepaid expense		2,250		2,214
Investments		3,458,535		3,922,181
	$	3,462,149	$	3,925,795
Trust liabilities and net assets:				
Refundable revocable trusts	$	548,085	$	542,441
Amounts held on behalf of others		1,985,180		2,460,282
Split-interest obligations		149,544		126,115
Net assets with donor restrictions		779,340		796,957
	$	3,462,149	$	3,925,795

8. LEASES

The Ministry has operating and finance leases for office space and equipment. The Ministry elected to apply the short-term lease exception under ASU 2016-02; therefore, leases with an initial term of 12 months or less are not recorded on the consolidated statement of financial position. The lease for the Houston facilities represents substantially all of the operating lease liability. The discount rate represents the Ministry's estimated incremental borrowing rate at July 1, 20X0, the beginning of the earliest comparative period. Nonlease components, such as payments required under the lease for common-area maintenance, are not included in the lease liability. These are expensed as incurred. Variable lease expense includes in-kind services provided to the landlord. The Ministry has the right to extend the Houston facility lease for two additional periods of up to five years each. These additional periods were not included in the lease liability due to their lack of sufficient economic incentive.

Components of lease balances	Classification in consolidated statement of position	June 30, 20X2	June 30, 20X1
Assets			
Operating right-of-use assets	Operating lease assets	$ 141,195	$ 170,878
Finance lease assets	Property and equipment–net	5,941	6,041
Total leased assets		$ 147,136	$ 176,919
Liabilities			
Operating lease liabilities	Operating lease liabilities	$ 156,584	$ 184,457
Finance leases (Note 10)	Notes payable and finance leases	$ 6,149	$ 6,359
Total lease liabilities		$ 162,733	$ 190,816

Components of lease expense	Classification in consolidated statement of Activities	June 30, 20X2	June 30, 20X1
Operating lease cost	Education and discipleship	$ 36,180	$ 36,170
Variable operating lease cost	Education and discipleship	$ 832	$ 984
Finance lease expense			
Amortization of leased assets	General and administrative	$ 1,590	$ 1,651
Interest on lease liabilities	General and administrative	$ 700	$ 730
Total lease expense		$ 39,302	$ 39,535
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows		$ 34,369	$ 33,454
Financing cash flows		$ 2,750	$ 2,750
Weighted-average remaining lease term - operating leases		4.9 Years	5.9 Years
Weighted-average remaining lease term - finance leases		3.7 Years	4.7 Years
Weighted-average discount rate - operating leases		3.8%	3.8%
Weighted-average discount rate - finance leases		4.2%	4.2%

Maturities of lease liabilities are as follows:

Years Ending June 30,	Operating Leases	Finance Leases Amounts
2021	$ 34,528	$ 2,750
2022	33,087	2,750
2023	33,983	2,144
2024	34,888	-
2025	35,793	-
Total lease payments	172,279	7,644
Less imputed interest	(15,695)	(1,495)
Total	$ 156,584	$ 6,149

9. PROPERTY AND EQUIPMENT–NET

Property and equipment–net consists of:

	June 30, 20X2	June 30, 20X1
Land	$ 726,226	$ 726,226
Land improvements	104,070	104,070
Buildings	7,829,540	7,826,345
Library acquisitions	185,506	163,770
Equipment	732,210	729,706
	9,577,552	9,550,117
Less accumulated depreciation	(4,476,619)	(4,283,731)
Property and equipment–net	5,100,933	5,266,386
Less notes payable secured by property and equipment	(1,401,477)	(1,469,160)
Net investment in property and equipment	$ 3,699,456	$ 3,797,226

10. NOTES PAYABLE AND FINANCE LEASES

Notes payable consist of:

	June 30,	
	20X2	20X1
Note payable to ABC Bank of $1,000,000, fixed interest rate of 4.5%, with a $536,771 balloon payment maturing December 15, 20X6, secured by property and equipment, due in monthly principal and interest installments of $5,497.	$ 671,440	$ 706,560
Note payable to ABC Bank of $1,000,000, fixed interest rate of 4.5%, with a $536,723 balloon payment maturing July 31, 20X8, secured by building, due in monthly principal and interest installments of $5,497.	723,888	756,241
Total notes payable	$ 1,395,328	$ 1,462,801
Total finance leases (Note 8)	$ 6,149	$ 6,359
Total notes payable and finance leases	$ 1,401,477	$ 1,469,160

Future payments for notes payable consist of:

Year Ended June 30,	
20X3	$ 72,984
20X4	74,911
20X5	78,423
20X6	593,650
20X7	41,238
Thereafter	540,271
	$ 1,401,477

The notes payable agreements contain covenants which include minimum liquidity and debt service coverage ratios. At June 30, 20X2, management believes they are in compliance with these covenants.

11. NET ASSETS WITH DONOR RESTRICTIONS

	June 30,	
	20X2	20X1
Subject to expenditure for specified purpose:		
Training	$ 123,244	$ 15,791
Evangelism in specified communities	282,116	-
Youth events in specified communities	246,148	-
New equipment	164,455	25,000
	815,963	40,791
Subject to the passage of time:		
Contributions receivable	226,394	350,249
Term endowment	69,738	57,678
Charitable remainder trusts	779,340	796,957
	1,075,472	1,204,884
Subject to the Ministry's spending policy and appropriation:		
Accumulated gains (losses) of donor-restricted endowments	119,468	108,189
Original gifts of perpetual endowments	3,215,850	3,030,735
	3,335,318	3,138,924
Subject to restriction in perpetuity:		
Perpetual trusts held by others	516,158	511,721
Total net assets with donor restrictions	$ 5,742,911	$ 4,896,320

12. LIQUIDITY AND FINANCIAL ASSETS AVAILABLE

The following table reflects the Ministry's financial assets as of June 30, 20X2 and 20X1, reduced by amounts that are not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, when donors or laws prevent the Ministry from spending the financial assets for general expenditures during the coming year, when the financial assets are held for others, when spending policies for perpetual endowments limit the amount that can be spent within a year, or when governing board has set aside the resources for specific reserves. Resources that are unavailable because of the governing board's policies could be drawn upon if the board approves that action, but the governing board is not contemplating doing so.

	June 30,	
	20X2	20X1
Financial assets:		
Cash and cash equivalents	$ 1,110,807	$ 845,815
Accounts and contributions receivable	298,437	416,362
Investments	9,263,676	9,360,883
Perpetual trusts held by others	516,158	511,721
Financial assets, at year-end	11,189,078	11,134,781
Less those unavailable for general expenditure within one year, due to:		
Accounts receivable collectible beyond one year	(7,183)	(11,567)
Contributions receivable collectible beyond one year	(53,453)	(149,973)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(3,405,056)	(3,196,602)
Perpetual trusts held by others	(516,158)	(511,721)
Investments and receivables held in charitable trusts	(3,459,899)	(3,923,581)
Investments held for annuity payments and required reserves	(579,906)	(443,354)
Board-designated operating reserve	(175,000)	(150,000)
Board-designated capital reserve	(50,000)	(50,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,942,423	$ 2,697,983

The Ministry has a policy to structure its financial assets to be available as its general expenditures are incurred and as liabilities and other obligations come due. The Ministry also has an unsecured $1,000,000 line of credit, which it could draw upon in the event of an anticipated liquidity need. The line of credit matures on December 31, 20X3. The line bears interest at the prime rate (5.0% as of June 30, 20X2), with interest due monthly and principal due upon maturity. No funds were borrowed under this agreement during the fiscal year ended June 30, 20X2. Net assets with donor restrictions subject to expenditure for specified purposes have been included in available amounts as they are expected to be released from restriction in the following year.

13. PROGRAM FEES–NET

A discount to program fees results when the Ministry reduces the obligation of an individual by granting financial aid. The following details the gross and net amounts of program fees:

	Year Ended June 30,	
	20X2	20X1
Program fees	$ 14,466,442	$ 15,433,704
Less financial aid	(2,000,649)	(2,357,280)
	$ 12,465,793	$ 13,076,424

14. IN-KIND CONTRIBUTIONS

The Ministry recognized the following gifts-in-kind for the years ended June 30:

	Year Ended June 30,	
	20X2	20X1
Meeting space	$ 49,450	$ 39,570
Printing, supplies, and other	78,840	47,914
Professional services	14,649	9,350
	$ 142,939	$ 96,834

The Ministry's policy related to gifts-in-kind is to utilize the assets given in carrying out the mission of the Ministry. If an asset is contributed that does not allow the Ministry to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or by a specialist depending on the type of asset.

The Ministry received the free use of meeting space from a local hotel for several of its quarterly training conferences. The meeting facilities were recognized using current market rates for the facilities.

The Ministry received donated printing, supplies, and other items, which were used in its Reach In, Reach Out, and Reach Up programs. Those services and goods were recognized at prices for similar items that were purchased by the Ministry during the year.

The Ministry was provided entertainment services without cost for several of its youth events. The services were recognized using current market rates for similar services.

In addition to the above, numerous volunteers have donated significant amounts of time to the Ministry's program services, especially as teachers for the small group Bible study program and the discipling training program, and as group leaders for the youth events. Although no amounts have been reflected in the statements of activities because the services provided by the volunteers did not meet the criteria for recognition in financial statements, management estimates the volunteer hours for those services to be approximately 33,000 and 24,000 for the years ended June 30, 20X2 and 20X1, respectively.

All gifts-in-kind received by the Ministry were without donor restrictions and able to be used by the Ministry as determined by the board of directors and management.

15. EXPENSES BY BOTH NATURE AND FUNCTION

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Ministry. These expenses include depreciation, interest, communications, media production, information technology, and facilities operations and maintenance. Depreciation is allocated based on square footage and interest is allocated based on usage of space. Costs of other categories were allocated on estimates of time and effort. Total expenses include all operating expenses and the net periodic pension cost other than service cost.

Functional expenses by natural classification as of June 30, 20X2:

	Program Services			Supporting Activities		
	Education and Discipleship	Evangelism	Youth Outreach	General and Administrative	Fundraising	Total Expense
Salaries and wages	$ 9,283,744	$ 3,326,706	$ 2,485,731	$ 1,402,386	$ 374,829	$ 16,873,396
Employee benefits	2,320,936	864,944	621,433	416,692	98,723	4,322,728
Printing, supplies, and other	1,128,583	220,072	877,403	1,669,548	803,738	4,699,344
Insurance	136,214	52,394	39,150	32,085	5,905	265,748
Occupancy, utilities, and maintenance	556,765	246,631	484,767	365,865	5,527	1,659,555
Travel and conference costs	818,020	233,242	727,601	25,730	98,204	1,902,797
Professional fees	200,983	22,000	122,334	242,467	324,392	912,176
Depreciation	61,649	41,101	41,101	41,101	20,551	205,503
Interest	19,274	12,849	12,849	12,849	6,425	64,246
Total expenses	$ 14,526,168	$ 5,019,939	$ 5,412,369	$ 4,208,723	$ 1,738,294	$ 30,905,493

Functional expenses by natural classification as of June 30, 20X1:

	Program Services			Supporting Activities		
	Education and Discipleship	Evangelism	Youth Outreach	General and Administrative	Fundraising	Total Expense
Salaries and wages	$ 9,567,931	$ 3,054,221	$ 2,383,745	$ 1,329,336	$ 425,038	$ 16,760,271
Employee benefits	2,391,983	763,555	691,285	385,507	119,011	4,351,341
Printing, supplies, and other	1,329,377	456,876	887,239	967,555	982,938	4,623,985
Insurance	125,308	47,858	29,910	226,053	-	429,129
Occupancy, utilities, and maintenance	612,822	312,039	588,322	388,928	19,283	1,921,394
Travel	871,174	368,460	506,051	54,302	156,882	1,956,869
Professional fees	78,945	64,500	164,354	274,143	286,433	868,375
Depreciation	69,266	46,178	46,178	46,178	23,090	230,890
Interest	19,824	13,215	13,215	13,215	6,608	66,077
Total expenses	$ 15,066,630	$ 5,126,902	$ 5,310,299	$ 3,685,217	$ 2,019,283	$ 31,208,331

16. EMPLOYEE BENEFIT PLANS

The Ministry has a noncontributory defined benefit pension plan (the Plan) covering approximately 10% of its full-time employees. The benefits are based on years of service and the average of the employee's highest-paid five consecutive years of employment. The plan was frozen to new employees effective January 1, 2003.

The Ministry uses June 30 of the current fiscal year as the measurement date for its Plan. An independent actuary provided the following actuarial information for the Plan.

The funded status of the Plan, which is the difference between the projected benefit obligation of the plan and the fair value of the Plan's assets, is reported in the consolidated statements of financial position. The projected benefit obligation is the actuarial present value as of June 30 of all benefits attributed by the pension benefit formula to employee service rendered before that date, using assumptions about future compensation levels. Because the Plan's assets are less than the projected benefit obligation, the Ministry recognizes the unfunded amount as a liability for pension benefits. The accumulated benefit obligation of the Plan at June 30 is similar, in that it also is the actuarial present value of all benefits as of June 30 attributed by the pension benefit formula to employee service rendered before that date, but it does not include assumptions about future compensation levels. The Plan's funded status and accumulated benefit obligation at June 30 was as follows:

	Year Ended June 30,	
	20X2	20X1
Projected benefit obligation	$ (4,204,945)	$ (4,236,428)
Plan assets at fair value	2,939,301	2,827,264
Unfunded projected benefit obligation	$ (1,265,644)	$ (1,409,164)
Accumulated benefit obligation	$ 3,954,690	$ 3,951,410

Net periodic benefit cost, included in program services and supporting activities in the consolidated statements of activities:

	Year Ended June 30,	
	20X2	20X1
Service costs	$ 58,470	$ 68,580
Interest costs	157,534	149,849
Expected return on plan assets	(169,620)	(157,438)
Reclassification of net gain or loss	155,190	193,052
Net periodic pension cost other than service cost	143,104	185,463
Net periodic pension costs	$ 201,574	$ 254,043

Pension-related changes other than net periodic benefit cost, included as other pension-related costs in the consolidated statements of activities:

	Year Ended June 30,	
	20X2	20X1
Net gain (loss)	$ 19,895	$ (224,125)
Amortization of net loss to net periodic benefit cost	(155,190)	(193,052)
	$ (135,295)	$ (417,177)

The Ministry contributed $209,800 and $216,800 during the fiscal years ended June 30, 20X2 and 20X1, respectively. The Ministry expects to contribute $206,800 to its pension plan in 20X3.

Items not yet recognized as a component of net periodic pension costs:

	Year Ended June 30,	
	20X2	20X1
Net loss	$ 1,607,671	$ 1,724,966

The following weighted-average assumptions are used in the accounting for the Plan:

	June 30,	
	20X2	20X1
Discount rate		
Net periodic pension cost	3.72%	3.44%
Benefit obligations	3.96%	3.72%
Expected return on plan assets, beginning of fiscal year	6.00%	6.00%
Rate of compensation increase, beginning of fiscal year	3.00%	3.00%
Rate of compensation increase, end of fiscal year	3.00%	3.00%
Census date	7/1/20X1	7/1/20X0
Measurement date	6/30/20X2	6/30/20X1

The total expected long-term rate of return on assets is determined by assessing the rates of return on each targeted asset class, return premiums generated by portfolio management, and a comparison of rates utilized by other companies.

The Plan's assets are invested with external investment managers and independent consultants assist the Plan in the attainment of its objectives. The targeted and actual composition of the Plan's assets by investment class were as follows:

		Year Ended June 30,	
	Target	20X2	20X1
Asset category:			
Cash	1%	1%	1%
Equity securities	35%	44%	40%
Debt securities	44%	40%	42%
Real estate	5%	5%	5%
Hedge funds	10%	10%	10%
Publicly traded limited partnerships	5%	0%	2%
	100%	100%	100%

The fair values of the Plan's investments and their respective levels in the fair value hierarchy by asset category were as follows at June 30, 20X2:

	Year Ended June 30, 20X2		
	Total	Level 1	Level 2
Asset category:			
Cash	$ 28,730	$ 28,730	
Equity securities—Domestic	808,307	782,441	25,866
Equity securities—International	483,954	483,954	
Debt securities—U.S. Government	774,735	75,002	699,733
Debt securities—Domestic corporate	400,985		400,985
Real estate	146,965		146,965
Assets assigned to hierarchy	2,643,676	$ 1,370,127	$ 1,273,549
Hedge funds reported at net asset value	295,625		
Total Plan investments	$2,939,301		

The fair values of the Plan's investments and their respective levels in the fair value hierarchy by asset category were as follows at June 30, 20X1:

	Year Ended June 30, 20X1		
	Total	Level 1	Level 2
Asset category:			
Cash	$ 27,208	$ 27,208	
Equity securities—Domestic	745,764	720,747	25,017
Equity securities—International	385,004	385,004	
Debt securities—U.S. Government	832,398	100,045	732,353
Debt securities—Domestic corporate	355,050		355,050
Real estate	141,365		141,365
Publicly traded limited partnerships	55,545		55,545
Assets assigned to hierarchy	2,542,334	$ 1,233,004	$ 1,309,330
Hedge funds reported at net assets value	284,930		
Total Plan investments	$2,827,264		

With each investment category, assets are allocated to various investment styles. Periodically, the entire account is rebalanced to maintain these percentages. Annually, the investment policy is reviewed. The Plan's current target return objective is to earn 5.2%, composed of both capital appreciation (realized and unrealized) and current yield (interest, dividends, etc.). The targeted return exceeds the actuarial assumption of 5% return on the Plan's assets.

For the years ended June 30, 20X2 and 20X1, benefits paid from the plan were $204,282 and $165,932, respectively. The following benefit payments, which reflect expected future service, are expected to be paid in future years as follows:

Year Ending June 30,	
20X3	$ 228,220
20X4	238,450
20X5	241,350
20X6	252,750
20X7	253,910
Five years beginning in 20X8	1,317,820
	$ 2,532,500

17. COMMITMENTS AND CONTINGENCIES

The Ministry is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its activities. In the opinion of Ministry management, the liability, if any, for such contingencies will not have a material effect on the Ministry's consolidated financial position.

At June 30, 20X2, the Ministry has commitments to expend approximately $1,112,000 to fulfill contracts related to construction and renovation of buildings.

18. ASSET RETIREMENT OBLIGATION

The Ministry owns a building that contains asbestos and lead paint. It has recognized an asset and a liability associated with removing that asbestos. Estimated asset retirement costs are capitalized and depreciated over the estimated remaining useful life of the related building, and the asset retirement obligation is adjusted annually to its current present value. There are no renovation plans that would require remediation of either the asbestos or the lead paint.

The liability was estimated using an inflation rate of 2.00% and a discount rate of 5%. The liability for asset retirement obligations is included in accounts payable and accrued liabilities in the consolidated statements of financial position.

	Year Ended June 30,	
	20X2	20X1
Asset retirement obligation, beginning of year	$ 42,127	$ 37,567
Liabilities incurred during the year	-	-
Liabilities settled during the year	-	-
Accretion	2,110	1,875
Adjustments due to revisions of cash flows	4,212	2,685
Asset retirement obligation, end of year	$ 48,449	$ 42,127

19. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 27, 20X2, which is the date the consolidated financial statements were available to be issued. Events after that date have not been evaluated.