

GOOD SHEPHERD UNITED METHODIST CHURCH

Financial Statements
With Independent Accountants' Review Report

July 31, 2020 and 2019

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Finance Committee
Good Shepherd United Methodist Church
Charlotte, North Carolina

We have reviewed the accompanying financial statements of Good Shepherd United Methodist Church, which comprise the statement of assets, liabilities, and net assets—modified cash basis as of July 31, 2020, and the related statement of revenues, expenses, and changes in net assets—modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with *Statements on Standards for Accounting and Review Services* issued by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Known Departure From the Modified Cash Basis of Accounting

As discussed in Note 2, Good Shepherd United Methodist Church has elected to carry real property totaling \$14,845,600 and \$14,680,000 for the years ended July 31, 2020 and 2019, respectively, on the statement of assets, liabilities, and net assets—modified cash basis at values assessed for current local property tax purposes. In addition, the change in property tax value is recognized on the statement of revenues, expenses, and changes in net assets—modified cash basis annually. The effects of this departure from the modified cash basis of accounting have not been determined.

Accountants' Conclusions

Based on our review, except for the presentation of certain property and buildings and the change in their tax assessed values, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Finance Committee
Good Shepherd United Methodist Church
Charlotte, North Carolina

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to that matter.

Report on 2019 Financial Statements

The 2019 financial statements were audited by us, and we expressed a qualified opinion on them in our report dated November 7, 2019. We have not performed any auditing procedures since that date.

Capin Crouse LLP

Charlotte, North Carolina
December 2, 2020

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Statement of Assets, Liabilities, and Net Assets—Modified Cash Basis

	July 31,	
	2020	2019
ASSETS:		
Cash and cash equivalents	\$ 1,242,420	\$ 963,717
Investments	345,513	-
Sales tax receivable	19,120	16,596
Property and buildings	14,845,600	14,680,000
Total Assets	\$ 16,452,653	\$ 15,660,313
LIABILITIES AND NET ASSETS:		
Liabilities:		
Notes payable	\$ 3,718,280	\$ 3,562,766
Net assets:		
Without donor restrictions	12,727,245	12,094,919
With donor restrictions	7,128	2,628
	12,734,373	12,097,547
Total Liabilities and Net Assets	\$ 16,452,653	\$ 15,660,313

See independent accountants' review report

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Statement of Revenues, Expenses, and Changes in Net Assets—Modified Cash Basis

Year Ended July 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES:			
Contributions	\$ 4,133,407	\$ 161,595	\$ 4,295,002
School tuition	522,019	-	522,019
Investment income	18,106	-	18,106
Other income	181,045	-	181,045
Total Revenues	<u>4,854,577</u>	<u>161,595</u>	<u>5,016,172</u>
RECLASSIFICATIONS:			
Satisfaction of purpose restrictions	<u>157,095</u>	<u>(157,095)</u>	<u>-</u>
EXPENSES:			
Program services:			
Church ministries	2,199,626	-	2,199,626
Outreach ministries	572,905	-	572,905
School programs	819,732	-	819,732
	<u>3,592,263</u>	<u>-</u>	<u>3,592,263</u>
Supporting services:			
General and administrative	787,083	-	787,083
Total Expenses	<u>4,379,346</u>	<u>-</u>	<u>4,379,346</u>
Change in Net Assets	632,326	4,500	636,826
Net Assets, Beginning of Year	<u>12,094,919</u>	<u>2,628</u>	<u>12,097,547</u>
Net Assets, End of Year	<u>\$ 12,727,245</u>	<u>\$ 7,128</u>	<u>\$ 12,734,373</u>

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**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Statement of Revenues, Expenses, and Changes in Net Assets—Modified Cash Basis

Year Ended July 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES:			
Contributions	\$ 3,947,431	\$ 307,096	\$ 4,254,527
School tuition	703,288	-	703,288
Other income	179,769	-	179,769
Change in tax assessed property value	2,245,101	-	2,245,101
Total Revenues	<u>7,075,589</u>	<u>307,096</u>	<u>7,382,685</u>
RECLASSIFICATIONS:			
Satisfaction of purpose restrictions	<u>317,378</u>	<u>(317,378)</u>	<u>-</u>
EXPENSES:			
Program services:			
Church ministries	2,280,935	-	2,280,935
Outreach ministries	964,873	-	964,873
School programs	992,799	-	992,799
	<u>4,238,607</u>	<u>-</u>	<u>4,238,607</u>
Supporting services:			
General and administrative	652,898	-	652,898
	<u>652,898</u>	<u>-</u>	<u>652,898</u>
Total Expenses	<u>4,891,505</u>	<u>-</u>	<u>4,891,505</u>
Change in Net Assets	2,501,462	(10,282)	2,491,180
Net Assets, Beginning of Year	<u>9,593,457</u>	<u>12,910</u>	<u>9,606,367</u>
Net Assets, End of Year	<u>\$ 12,094,919</u>	<u>\$ 2,628</u>	<u>\$ 12,097,547</u>

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GOOD SHEPHERD UNITED METHODIST CHURCH

Notes to Financial Statements

July 31, 2020 and 2019

1. NATURE OF ORGANIZATION:

Good Shepherd United Methodist Church (the Church) was organized in 1991 and operates as a local church within the Charlotte District of the Western North Carolina Conference of the Southeastern Jurisdiction of the United Methodist Church. The Church is located at 13110 Moss Road, Charlotte, North Carolina. The Church also conducts services at one other location known as the Zoar Campus. The Church's primary source of funding is contributions from members and nonmember attendees and preschool and afterschool program fees.

The activities of the Church's preschool and afterschool programs have been included in the Church's financial statements as revenues and expenditures in the statement of revenues, expenses, and changes in net assets—modified cash basis. The Church is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (Code). Contributions to the church are deductible from federal income taxes. The Church is not a private foundation under Section 509(a)(1) of the Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

MODIFIED CASH BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, certain revenues and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Consequently, the Church has not recognized a receivable for unpaid tuition, or a liability for accounts payable to vendors, tuition paid for in advance or their related effects on the change in net assets in the accompanying financial statements. In addition, purchases of property and equipment are recorded as expenses instead of being capitalized and depreciated over their estimated useful lives.

The Church has adopted the following modifications to the cash basis of accounting:

- Funds with market earnings and maturities greater than three months are recorded as investments at their fair market value rather than as cash and cash equivalents at cost.
- The payment and refund of state sales tax are shown as changes in an asset rather than as receipts and disbursements. The balance at year-end is expected to be collected in full in the following year.
- Loans incurred for asset acquisitions, construction, and renovations and subsequent principal repayments have been recorded as increases and decreases to liability accounts, rather than as receipts and disbursements. In the current year, the Paycheck Protection Program loan was also recorded in this manner.

GOOD SHEPHERD UNITED METHODIST CHURCH

Notes to Financial Statements

July 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

USE OF ESTIMATES

The preparation of financial statements on the modified cash basis of accounting requires Church management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash equivalents are defined as short-term, highly liquid debt securities that are both readily convertible to cash and have an original maturity of three months or less. The Church generally maintains its cash and cash equivalents in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposit amounts may, at times, exceed federally insured limits. Deposits in excess of federally insured limits were \$1,028,235 and \$549,517 at July 31, 2020 and 2019, respectively. The Church has not experienced any losses on such accounts.

INVESTMENTS

Investments consist of a pooled funds, which are stated at fair value. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Interest and dividend income and the realized and unrealized gain or loss on investments are reported as without donor restriction investment income unless a donor or law restricts its use.

SALES TAX RECEIVABLES

Sales tax receivables consist of sales tax refunds due from municipal organizations. Management has not established an allowance for doubtful accounts as it believes all amounts are fully collectible at this time.

PAYCHECK PROTECTION PROGRAM LOAN

In June 2020, the Church qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$390,200. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has an initial term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the loan is subject to forgiveness under the Paycheck Protection Program upon the Church's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Church. The full balance has been recorded as debt on the statement of assets, liabilities, and net assets—modified cash basis as of July 30, 2020. To the extent that all or part of the PPP loan is not forgiven, the Church will be required to pay interest on the loan at a rate of 1.0% per annum with payments deferred for six months from initiation of the loan.

GOOD SHEPHERD UNITED METHODIST CHURCH

Notes to Financial Statements

July 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS

The financial statements report amounts separately by class of net assets. Under the *Not-for-Profit Entities* topic of the FASB Accounting Standards Codification (ASC), the net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Church and changes therein are classified and reported as follows:

Without donor restrictions are currently available at the direction of the finance committee for use in operations.

With donor restrictions are stipulated by donors for specific purposes, for the acquisition of property and equipment, time-restricted, or requiring that they be held in perpetuity.

REVENUES, EXPENSES, AND RECLASSIFICATIONS

As described above, the Church uses the modified cash basis of accounting. Accordingly, support and revenue are recognized when received. Investment income and losses are recognized when earned as the client has elected to make a modification for investments.

The Church reports gifts of cash as support with donor restrictions if they are received with donor stipulations that limit the use of the donated net assets. When a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of revenues, expenses, and changes in net assets—modified cash basis as net assets released from restrictions.

Expenses are recorded when paid in accordance with the modified cash basis of accounting. The costs of providing the program services and supporting activities of the Church have been summarized on a functional basis in Note 8. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

DEPARTURE FROM MODIFIED CASH BASIS OF ACCOUNTING

Certain property and buildings have been capitalized; however, they are valued at their appraised value by Mecklenburg County for property tax purposes at the end of each year. These values consisted of \$13,267,000 and \$13,101,400 for property and buildings located on Moss Road and \$1,578,600 and \$1,578,600 for property and the building located on Zoar Road at July 31, 2020 and 2019, respectively. The change in property tax value is recognized as a change in property tax assessed value on the statement of revenues, expenses, and changes in net assets—modified cash basis on an annual basis. This treatment is a departure from the modified cash basis of accounting.

GOOD SHEPHERD UNITED METHODIST CHURCH

Notes to Financial Statements

July 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ISSUED ACCOUNTING STANDARDS

In 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The Church adopted the provisions of this new standard during the year ended July 31, 2020. The new standard assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance (e.g. Topic 606, *Revenue from Contracts with Customers*) and (2) determining whether a contribution is conditional. Adoption of this standard did not have a material effect on the financial statements.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following reflects the Church's financial assets as of the statement of assets, liabilities, and net assets—modified cash basis date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of assets, liabilities, and net assets—modified cash basis date.

	July 31,	
	2020	2019
Financial assets available to meet cash needs for general expenditures within one year:		
Cash and cash equivalents	\$ 1,242,420	\$ 963,717
Investments	345,513	-
Sales tax receivable	19,120	16,596
	1,607,053	980,313
Less those unavailable for general expenditures within one year due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(7,128)	(2,628)
	\$ 1,599,925	\$ 977,685

In addition to the \$1,599,925 in financial assets available to meet cash needs for general expenditures within one year, the Church has a \$150,000 operating line of credit that it could draw upon if needed to meet cash needs for general expenditures within one year. The Church's financial policy requires a minimum of 8% of the budget be available to fund operations at any point in time. The financial assets that the Church has available approximated 37%, or four months of the Church's budget, and 24%, or three months of the Church's budget, as of the years ended July 31, 2020 and 2019, respectively.

**GOOD SHEPHERD
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Notes to Financial Statements

July 31, 2020 and 2019

4. **INVESTMENTS:**

The Church maintains an account with the United Methodist Foundation of Western North Carolina (UMF of WNC). Accounts at UMF of WNC are pooled.

Investments consist of:

	July 31,	
	2020	2019
Investments carried at fair value:		
UMF of WNC balanced fund	\$ 345,513	\$ -

Investment income (loss) is as follows:

	Year Ended July 31,	
	2020	2019
Realized gains	\$ 4,671	\$ -
Unrealized gains	14,664	-
Investment fees	(1,229)	-
	\$ 18,106	\$ -

The Fair Value Measurements and Disclosure topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Church uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Church measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. All investments measured at fair value are considered Level 2.

5. **LINE OF CREDIT:**

The Church has a \$150,000 unsecured operating line of credit with a financial institution. The line of credit bears interest at the prime rate plus 0.5%, which was 3.75% and 6.00% at July 31, 2020 and 2019, respectively, and matures on May 25, 2021. There was no outstanding principal balance at July 31, 2020 or 2019.

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2020 and 2019

6. NOTES PAYABLE:

Notes payable consist of:

	July 31,	
	2020	2019
Note payable to a financial institution bearing interest at 3.50%; principal and interest payable in monthly installments of \$25,471 through December 17, 2023, at which time any unpaid principal is due; secured by real property.	\$ 3,134,895	\$ 3,381,794
Note payable to a financial institution bearing interest at 3.25%; principal and interest payable in monthly installments of \$6,497 through December 17, 2021; secured by real property.	108,097	180,972
In June of 2020, GSC was issued a Payroll Protection Program (PPP) Loan through the SBA at a 1.00% interest rate. Under the provisions of the loan, GSC is eligible for forgiveness of the loan if certain criteria are met. The loan matures June 2022.	390,200	-
Note payable to a financial institution bearing interest at 3.80%; principal and interest payable in monthly installments of \$2,888 through February 20, 2023.	85,088	-
	\$ 3,718,280	\$ 3,562,766

Maturities of notes payable are as follows:

Years Ending July 31,	Amounts
2021	\$ 695,330
2022	270,060
2023	217,111
2024	2,535,779
	\$ 3,718,280

Interest expense on all long-term debt for the year ended July 31, 2020 and 2019, was \$126,565 and \$137,629.

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2020 and 2019

7. NET ASSETS:

Net assets are as follows:

	July 31,	
	2020	2019
Net assets without donor restrictions:		
Undesignated	\$ 12,727,245	\$ 12,094,919
Net assets with donor restrictions:		
Restricted by time or purpose:		
Cemetery fund	7,128	2,628
	\$ 12,734,373	\$ 12,097,547

8. FUNCTIONAL ALLOCATION OF EXPENSES:

The financial statements report certain categories of expenses that are attributable to more than one program or support function. The expenses that are allocated include salaries, benefits, and staff development, which are allocated on the basis of estimates of time and effort, as well as facilities, repairs and maintenance, security, and technology, which are allocated on a square footage basis.

	Year Ended July 31, 2020				
	Program Expenses				Total
	Church Ministries	Outreach Ministries	School Programs	General & Administrative	Expenses
Salaries and benefits	\$ 1,393,256	\$ 150,736	\$ 462,183	\$ 570,093	\$ 2,576,269
Facilities, maintenance and repairs	401,898	42,138	234,020	16,386	694,442
Interest	79,717	8,358	35,240	3,250	126,565
Grants to partners and missions	-	363,555	-	-	363,555
Safety and security	15,091	1,582	6,671	615	23,959
Technology	54,028	5,665	23,884	2,203	85,779
Training and development	8,306	871	3,672	339	13,188
Office administration	-	-	-	194,197	194,197
Supplies, materials, and services	247,330	-	54,062	-	301,392
	\$ 2,199,626	\$ 572,905	\$ 819,732	\$ 787,083	\$ 4,379,346

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2020 and 2019

8. FUNCTIONAL ALLOCATION OF EXPENSES, continued:

	Year Ended July 31, 2019				
	Program Expenses			General & Administrative	Total Expenses
	Church Ministries	Outreach Ministries	School Programs		
Salaries and benefits	\$ 1,230,148	\$ 109,671	\$ 464,350	\$ 403,837	\$ 2,208,006
Facilities, maintenance and repairs	505,833	53,035	370,554	20,624	950,046
Interest	86,685	9,089	38,321	3,534	137,629
Grants to partners and missions	-	780,030	-	-	780,030
Safety and security	33,309	3,492	14,725	1,358	52,884
Technology	47,159	4,945	20,848	1,923	74,875
Training and development	43,980	4,611	19,442	1,793	69,826
Office administration	-	-	-	219,829	219,829
Supplies, materials, and services	333,821	-	64,559	-	398,380
	\$ 2,280,935	\$ 964,873	\$ 992,799	\$ 652,898	\$ 4,891,505

**GOOD SHEPHERD
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Notes to Financial Statements

July 31, 2020 and 2019

9. OPERATING LEASE COMMITMENTS:

The Church leases office equipment under non-cancelable operating lease agreements that end in August 2022 and April 2024. Lease payments related to these leases during the years ended July 31, 2020 and 2019, totaled \$55,262 and \$61,968, respectively. Minimum future rental payments under these leases are as follows:

Years Ending July 31,	Amounts
2021	\$ 49,012
2022	49,012
2023	6,651
2024	2,100
Thereafter	-
	\$ 106,775

10. EMPLOYEE BENEFIT PLAN:

All ordained ministers of the Church participate in a pension plan administered and funded through the General Board of Pensions of the United Methodist Church and under the control of The United Methodist Church. The cost of pension benefits related to ordained ministers are included in the annual apportionment fees determined by and paid to the conference. The total paid to the conference for the pastor's pension was \$9,801 and \$12,650 for the years ended July 31, 2020 and 2019, respectively.

The Church sponsors a 403(b) plan for full-time employees except ordained ministers. Participating employees defer a portion of their salaries subject to limits determined annually by the Internal Revenue Service and the Church matches their contributions up to 3% of their salaries. Total contributions to the plan by the Church totaled \$14,232 and \$12,927, for the years ended July 31, 2020 and 2019, respectively.

GOOD SHEPHERD UNITED METHODIST CHURCH

Notes to Financial Statements

July 31, 2020 and 2019

11. RISKS AND UNCERTAINTIES:

During March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant declines and volatility in financial markets. The Church responded to the COVID-19 financial impact by adjusting expenditures to minimize cost impact, applied for and received the SBA PPP Loan in the amount of \$390,200, and developed online church membership engagement methods. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of Good Shepherd United Methodist Church for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

12. RELATED PARTIES:

During the years ended July 31, 2020 and 2019, the Church received contributions from board members in the amount of \$363,667 and \$324,407, respectively.

13. SUBSEQUENT EVENTS:

Subsequent to July 31, 2020, the Church became aware of structural roof damage to a portion of their building that will require significant repairs, however the extent of the costs is unknown. An insurance claim has been submitted and management is in the process of obtaining further inspections and obtaining estimates.

Subsequent events have been evaluated through December 2, 2020, which represents the date the financial statements were issued. Subsequent events after that date have not been evaluated.