

GOOD SHEPHERD UNITED METHODIST CHURCH

Financial Statements
With Independent Accountants' Review Report

July 31, 2021

**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 financial position as of July 31, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review 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.

Basis for Qualified Conclusion

Good Shepherd United Methodist Church has property and buildings with a cost basis totaling \$6,448,846, net of accumulated depreciation, as of July 31, 2021, and depreciation expense in the amount of \$344,291, for the year then ended; however, we were unable to obtain sufficient evidence to support the cost basis of certain assets due to the insufficiency of historical records. Consequently, we were unable to determine whether any material modifications to these amounts were necessary.

Accountants' Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the *Basis for Qualified Conclusion* paragraph, 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

Change in Basis of Accounting

As discussed in Note 14 to the financial statements, in 2021 Good Shepherd United Methodist Church adopted a policy of preparing its financial statements on the accrual basis of accounting, which is the basis of accounting consistent with generally accepted accounting principles. Accordingly, the accompanying financial statements are intended to present financial position and results of operations in accordance with accounting principles generally accepted in the United States of America. The beginning balances have been restated to reflect the accrual basis of accounting adopted in 2021. Our conclusion is not modified with respect to that matter.

Capin Crouse LLP

Columbia, South Carolina
March 24, 2022

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Statement of Financial Position

July 31, 2021

ASSETS:

Cash and cash equivalents	\$ 1,079,662
Restricted cash	393,047
Investments	435,299
Sales tax receivable	44,434
Property and buildings	<u>6,484,486</u>

Total Assets \$ 8,436,928

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable and accrued expenses	\$ 156,198
Deferred revenue	48,761
Capital lease obligation	17,367
Notes payable	<u>2,907,833</u>
Total liabilities	<u>3,130,159</u>

Net assets:

Without donor restrictions	4,910,904
With donor restrictions	<u>395,865</u>
Total net assets	<u>5,306,769</u>

Total Liabilities and Net Assets \$ 8,436,928

See independent accountants' review report

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Statement of Activities

Year Ended July 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES:			
Contributions	\$ 4,299,071	\$ 581,168	\$ 4,880,239
School tuition	298,420	-	298,420
Investment income	89,786	-	89,786
Gain on extinguishment of debt	390,200	-	390,200
Other income	54,960	-	54,960
Total Revenues	<u>5,132,437</u>	<u>581,168</u>	<u>5,713,605</u>
RECLASSIFICATIONS:			
Satisfaction of purpose restrictions	<u>192,431</u>	<u>(192,431)</u>	<u>-</u>
EXPENSES:			
Program services:			
Church ministries	2,352,259	-	2,352,259
Outreach ministries	777,591	-	777,591
School programs	741,177	-	741,177
	<u>3,871,027</u>	<u>-</u>	<u>3,871,027</u>
Supporting services:			
General and administrative	703,642	-	703,642
Total Expenses	<u>4,574,669</u>	<u>-</u>	<u>4,574,669</u>
Change in Net Assets	<u>750,199</u>	<u>388,737</u>	<u>1,138,936</u>
Net Assets, Beginning of Year:			
As previously reported	12,727,245	7,128	12,734,373
Prior Period Adjustment—Change in basis of accounting	(8,566,540)	-	(8,566,540)
As restated	<u>4,160,705</u>	<u>7,128</u>	<u>4,167,833</u>
Net Assets, End of Year	<u>\$ 4,910,904</u>	<u>\$ 395,865</u>	<u>\$ 5,306,769</u>

See independent accountants' review report

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Statement of Cash Flows

July 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 1,138,936
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	344,291
Forgiveness of Paycheck Protection Program loan	(390,200)
Realized and unrealized gains on investments	(82,114)
Contributions for long-term purposes	(437,617)
Changes in operating assets and liabilities:	
Accounts payable and accrued expenses	123,004
Deferred revenue	13,158
Accounts receivable	(25,314)
Net Cash Provided by Operating Activities	684,144

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment	(414,968)
Purchase of investments	(11,639)
Proceeds from the sale of investments	3,967
Net Cash Used by Investing Activities	(422,640)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on notes payable	(420,247)
Payments on capital lease obligation	(12,187)
Contributions for long-term purpose	437,617
Net Cash Provided by Financing Activities	5,183

Net Change in Cash and Cash Equivalents 266,687

Cash and Cash Equivalents, Beginning of Year 1,242,420

Cash and Cash Equivalents, End of Year \$ 1,509,107

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of cash flows:

Cash and cash equivalents	\$ 1,079,662
Restricted cash	393,047
	\$ 1,472,709

See independent accountants' review report

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

**Statement of Cash Flows
(continued)**

July 31, 2021

NON CASH INVESTING AND FINANCING ACTIVITY:

Paycheck Protection Program loan forgiveness	<u>\$ 390,200</u>
Cash paid for interest	<u>\$ 123,031</u>
Fixed assets purchased via accounts payable	<u>\$ 33,383</u>

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GOOD SHEPHERD UNITED METHODIST CHURCH

Notes to Financial Statements

July 31, 2021

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. 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 a 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.

USE OF ESTIMATES

The preparation of the Church's 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 \$1,275,581. The Church has not experienced any losses on such accounts.

RESTRICTED CASH

Restricted cash consists of cash held for future capital projects.

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

PROPERTY AND BUILDINGS

Items capitalized as property and buildings are stated at cost or, if donated, at fair value on the date of donation. The Church reports donations of property and buildings as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Church reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5-39 years. The Church generally capitalizes and reports property and building acquisitions in excess of \$5,000.

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 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 was 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 of the loan was forgiven in March 2021.

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

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 buildings, time-restricted, or requiring that they be held in perpetuity.

REVENUES, EXPENSES, AND RECLASSIFICATIONS

Revenue, including tuition revenue, is recognized when the performance obligation has been met. Contributions are recognized when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Church. Conditional promises to give with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

The Church reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statements of activities as satisfaction of purpose restrictions. The Church shows contributions and grants with restrictions whose restrictions are met in the same reporting period as contributions without restrictions on the statements of activities.

Donated goods (including securities, property, and buildings) are recorded at fair value at the date of the gift. The Church's policy is to convert donated securities to cash immediately upon receipt of the gift.

Expenses are recorded when incurred in accordance with the accrual basis of accounting. The costs of providing various program services and supporting activities of the Church have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited (Note 10).

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ISSUED ACCOUNTING STANDARDS

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The Church adopted the provisions of this new standard during the year ended July 31, 2021. The new standard applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. 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 financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets available to meet cash needs for general expenditures within one year:

Cash and cash equivalents (including restricted cash)	\$ 1,472,709
Investments	89,786
Sales tax receivable	44,434
	<hr/> 1,606,929

Less those unavailable for general expenditures within one year due to:

Contractual or donor-imposed restrictions:

Restricted by donor with time or purpose restrictions	<hr/> (395,865)
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Financial assets available to meet cash needs for general expenditures within one year

\$ 1,211,064

In addition to the \$1,211,064 in financial assets available to meet cash needs for general expenditures within one year, the Church has a \$250,000 operating line of credit that it could drawn 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.

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

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:

Investments measured at net asset value (NAV):

UMF of WNC balanced fund	\$ 435,299
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Investment income, for the year ended July 31, 2021, is as follows:

Interest income	\$ 11,387
Realized and unrealized gains	82,368
Investment fees	(3,969)
	<hr/>
	\$ 89,786

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 held by the Church are carried at the net asset value, which approximates fair value, as provided by the foundation based on the Church's share of the pooled investment funds.

Changes in valuation techniques—None.

The Church uses Net Asset Value (NAV) to determine the fair value of all underlying investments which (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 Church's interest in the pooled investment fund calculates NAV per share (or its equivalent). There are no redemption restrictions and there were no unfunded commitments at year-end.

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

5. PROPERTY AND BUILDINGS:

Property and buildings, consists of:

Buildings and building improvements	\$ 6,902,783
Land and land improvements	2,889,880
Equipment	1,313,314
Furniture and fixtures	226,174
Buses	98,026
	<u>11,430,177</u>
Less accumulated depreciation	<u>(4,995,539)</u>
	6,434,638
Construction in progress	<u>49,848</u>
	<u><u>\$ 6,484,486</u></u>

6. LINE OF CREDIT:

The Church has a \$250,000 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% at July 31, 2021. There was no outstanding principal balance at July 31, 2021. The line of credit expires June 29, 2022.

7. NOTES PAYABLE:

Notes payable consist of:

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.	\$ 2,821,054
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.	33,635
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.	<u>53,144</u>
	<u><u>\$ 2,907,833</u></u>

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

7. NOTES PAYABLE, continued:

Maturities of notes payable are as follows:

<u>Years Ending July 31,</u>	<u>Amounts</u>
2022	\$ 273,541
2023	252,020
2024	2,382,272
Thereafter	<u>-</u>
	<u><u>\$ 2,907,833</u></u>

Interest expense on all long-term debt for the year ended July 31, 2021, was \$123,031. The Church was in compliance with all covenants as of July 31, 2021.

8. NET ASSETS:

Net assets are as follows:

Net assets without donor restrictions:	
Undesignated	<u>\$ 4,910,904</u>
Net assets with donor restrictions:	
Restricted by time or purpose:	
K-Zone Renovations	393,047
Cemetery fund	<u>2,818</u>
	<u>395,865</u>
	<u><u>\$ 5,306,769</u></u>

9. CAPITAL LEASE OBLIGATIONS:

The Church is obligated under capital leases that expire April 2024. The gross amount of equipment and related accumulated amortization recorded under these capital leases was as follows:

Equipment	\$ 62,686
Less accumulated amortization	<u>(48,838)</u>
	<u><u>\$ 13,848</u></u>

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

9. CAPITAL LEASE OBLIGATIONS, continued:

Future minimum capital lease payments as of July 31, 2021, were:

Years Ending July 31,	Amounts
2022	\$ 13,056
2023	2,677
2024	2,070
Thereafter	-
	17,803
	(436)
	\$ 17,367

10. 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, 2021				
	Program Expenses				Total Expenses
	Church Ministries	Outreach Ministries	School Programs	General & Administrative	
Salaries and benefits	1,314,308	\$ 142,194	\$ 435,994	\$ 537,790	\$ 2,430,286
Facilities, maintenance, and repairs	270,611	28,350	119,413	11,168	429,542
Interest	77,510	8,120	34,203	3,198	123,031
Grants to partners and missions	73,402	571,133	9,424	-	653,959
Depreciation	216,903	22,723	95,713	8,952	344,291
Safety and security	48,402	5,071	21,359	1,998	76,830
Technology	143,848	-	2,716	-	146,564
Supplies, materials, and services	121,535	-	17,151	40,314	179,000
Other Expenses	85,740	-	5,204	100,222	191,166
	\$2,352,259	\$ 777,591	\$ 741,177	\$ 703,642	\$ 4,574,669

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

11. 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 \$11,448 for the year ended July 31, 2021.

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 \$23,330, for the year ended July 31, 2021, respectively.

12. RISKS AND UNCERTAINTIES:

In March 2020, the World Health Organization declared the outbreak of 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 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 the Church for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

13. RELATED PARTIES:

During the year ended July 31, 2021, the Church received contributions from board members in the amount of \$323,672.

**GOOD SHEPHERD
UNITED METHODIST CHURCH**

Notes to Financial Statements

July 31, 2021

14. PRIOR PERIOD ADJUSTMENTS:

During the year ended June 30, 2021, the Church elected to change their basis from a special purpose frame work, modified cash basis, to GAAP basis financial statement. Accordingly, the beginning balances at August 1, 2020, have been restated to reflect this change in basis. The effects of these adjustments on the beginning net assets, without donor restriction, as of August 1, 2020, and the change in net assets for the year ended July 31, 2020, were as follows:

	<u>As Previously Stated</u>	<u>Prior Period Adjustment</u>	<u>Restated</u>
Net assets without donor restrictions	<u>\$ 12,727,245</u>	<u>\$ (8,566,540)</u>	<u>\$ 4,160,705</u>
Change in net assets without donor restriction	<u>\$ 632,326</u>	<u>\$ (546,328)</u>	<u>\$ 85,998</u>

15. SUBSEQUENT EVENTS:

Subsequent to July 31, 2021, the Church became aware of structural roof damage to a portion of their building that will require significant repairs. An insurance claim has been submitted, project estimates and damage inspections are complete, and restoration and required inspections are underway with an anticipated project completion date of June 30, 2022.

Subsequent events have been evaluated through March 24, 2022, which represents the date the financial statements were issued. Subsequent events after that date have not been evaluated.