

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee
Foundry United Methodist Church
Washington, D.C.

Opinion

We have audited the accompanying financial statements of Foundry United Methodist Church (a nonprofit organization), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundry United Methodist Church as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Foundry United Methodist Church and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



CERTIFIED PUBLIC ACCOUNTANTS

Fairfax, Virginia
April 18, 2022

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 920,535	\$ 1,146,572
Accounts receivable	<u>13,473</u>	<u>33,064</u>
Total current assets	<u>934,008</u>	<u>1,179,636</u>
Other assets:		
Investments, at fair value (Note 5)	1,686,412	1,241,818
Property and equipment, net (Note 6)	<u>5,769,143</u>	<u>5,990,774</u>
Total other assets	<u>7,455,555</u>	<u>7,232,592</u>
TOTAL ASSETS	<u>\$ 8,389,563</u>	<u>\$ 8,412,228</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 27,747	\$ 31,338
Note payable, due in less than one year (Note 7)	144,224	138,120
Paycheck Protection Program loan (Note 8)	-	217,600
Accrued interest	7,508	7,909
Other liabilities	<u>8,079</u>	<u>5,281</u>
Total current liabilities	187,558	400,248
Long-term liabilities:		
Note payable, due in more than one year (Note 7)	<u>2,418,153</u>	<u>2,562,145</u>
Total liabilities	<u>2,605,711</u>	<u>2,962,393</u>
Commitments and contingencies (Notes 10 and 12)		
Net assets:		
Without donor restrictions:		
Designated by the board (Note 9)	1,653,877	1,565,535
Undesignated	<u>3,460,862</u>	<u>3,357,753</u>
Total	<u>5,114,739</u>	<u>4,923,288</u>
With donor restrictions:		
Purpose or time restricted for future periods	459,807	317,241
Perpetual in nature	<u>209,306</u>	<u>209,306</u>
Total	<u>669,113</u>	<u>526,547</u>
Total net assets	<u>5,783,852</u>	<u>5,449,835</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,389,563</u>	<u>\$ 8,412,228</u>

See accompanying notes to financial statements.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Contributions	\$ 2,518,167	\$ 230,279	\$ 2,748,446
Net investment income	162,821	37,641	200,462
Gain on forgiveness of Paycheck Protection Program loan	217,600	-	217,600
Rental and other income	18,221	-	18,221
Net assets released from restrictions	<u>125,354</u>	<u>(125,354)</u>	<u>-</u>
Total support and revenues	<u>3,042,163</u>	<u>142,566</u>	<u>3,184,729</u>
Expenses:			
Program services	<u>1,923,315</u>	<u>-</u>	<u>1,923,315</u>
Supporting services:			
Management and general	822,854	-	822,854
Fundraising	<u>104,543</u>	<u>-</u>	<u>104,543</u>
Total supporting services	<u>927,397</u>	<u>-</u>	<u>927,397</u>
Total expenses	<u>2,850,712</u>	<u>-</u>	<u>2,850,712</u>
Change in net assets	191,451	142,566	334,017
Net assets - beginning	<u>4,923,288</u>	<u>526,547</u>	<u>5,449,835</u>
NET ASSETS - ENDING	<u>\$ 5,114,739</u>	<u>\$ 669,113</u>	<u>\$ 5,783,852</u>

See accompanying notes to financial statements.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenues:			
Contributions	\$ 2,431,539	\$ 606,175	\$ 3,037,714
Net investment income	120,074	33,564	153,638
Other income	12,109	-	12,109
Net assets released from restrictions	<u>961,148</u>	<u>(961,148)</u>	<u>-</u>
Total support and revenues	<u>3,524,870</u>	<u>(321,409)</u>	<u>3,203,461</u>
Expenses:			
Program services	<u>1,919,149</u>	<u>-</u>	<u>1,919,149</u>
Supporting services:			
Management and general	830,080	-	830,080
Fundraising	<u>68,748</u>	<u>-</u>	<u>68,748</u>
Total supporting services	<u>898,828</u>	<u>-</u>	<u>898,828</u>
Total expenses	<u>2,817,977</u>	<u>-</u>	<u>2,817,977</u>
Change in net assets	706,893	(321,409)	385,484
Net assets - beginning	<u>4,216,395</u>	<u>847,956</u>	<u>5,064,351</u>
NET ASSETS - ENDING	<u><u>\$ 4,923,288</u></u>	<u><u>\$ 526,547</u></u>	<u><u>\$ 5,449,835</u></u>

See accompanying notes to financial statements.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Services					Total Program Services	Supporting Services		Total Supporting Services	Total Expenses
	Discipleship	Worship & Music	Family	Hospitality & Care	Social Justice		Management and General	Fundraising		
Salaries and benefits	\$ 129,578	\$ 219,980	\$ 167,245	\$ 167,245	\$ 144,645	\$ 828,693	\$ 244,841	\$ 56,502	\$ 301,343	\$ 1,130,036
Staff benefits	8,607	14,612	11,109	11,109	9,608	55,045	16,263	3,753	20,016	75,061
Advertising/website	8,741	14,840	11,282	11,282	9,758	55,903	16,517	3,812	20,329	76,232
Interest expense and bank/online giving fees	-	-	-	-	-	-	113,772	35,212	148,984	148,984
Building support	13,608	23,102	17,564	17,564	15,190	87,028	31,646	-	31,646	118,674
Cleaning	4,034	6,848	5,206	5,206	4,503	25,797	8,981	-	8,981	34,778
Depreciation and amortization	30,890	52,442	39,870	39,870	34,482	197,554	70,952	-	70,952	268,506
Equipment leasing	2,082	3,535	2,687	2,687	2,324	13,315	4,842	-	4,842	18,157
Information technologies	9,363	15,895	12,084	12,084	10,451	59,877	17,691	4,083	21,774	81,651
Insurance	4,059	6,891	5,239	5,239	4,531	25,959	9,440	-	9,440	35,399
Apportionments	37,929	64,391	48,955	48,955	42,339	242,569	88,207	-	88,207	330,776
Student scholarships	862	1,464	1,113	1,113	963	5,515	2,005	-	2,005	7,520
In/out - collection accounts	386	655	498	498	430	2,467	897	-	897	3,364
Community support	14,487	24,594	18,698	18,698	16,171	92,648	33,690	-	33,690	126,338
Meals and entertainment	531	-	7,386	65	-	7,982	-	-	-	7,982
Postage and printing	1,820	3,089	2,349	2,349	2,031	11,638	3,438	793	4,231	15,869
Professional fees and contract services	4,300	67,033	-	10,911	375	82,619	115,100	-	115,100	197,719
Repairs and maintenance	598	1,014	771	771	667	3,821	1,390	-	1,390	5,211
Supplies	9,951	6,542	11,234	5,351	200	33,278	10,395	-	10,395	43,673
Telephone	890	1,511	1,149	1,149	994	5,693	1,682	388	2,070	7,763
Travel	376	-	-	-	-	376	-	-	-	376
Utilities	13,375	22,707	17,263	17,263	14,930	85,538	31,105	-	31,105	116,643
TOTAL EXPENSES	\$ 296,467	\$ 551,145	\$ 381,702	\$ 379,409	\$ 314,592	\$ 1,923,315	\$ 822,854	\$ 104,543	\$ 927,397	\$ 2,850,712

See accompanying notes to financial statements.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 30, 2020

	Program Services					Total Program Services	Supporting Services			Total Expenses
	Discipleship	Worship & Music	Family	Hospitality & Care	Social Justice		Management and General	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 197,977	\$ 187,203	\$ 140,066	\$ 207,405	\$ 72,726	\$ 805,377	\$ 243,192	\$ 27,609	\$ 270,801	\$ 1,076,178
Staff benefits	10,380	9,815	7,344	10,874	3,813	42,226	12,816	1,448	14,264	56,490
Advertising/website	13,085	12,373	9,258	13,708	4,807	53,231	16,156	1,825	17,981	71,212
Interest expense and bank/online giving fees	-	-	-	-	-	-	139,804	35,212	175,016	175,016
Building support	14,975	14,160	10,595	15,688	5,501	60,919	20,578	-	20,578	81,497
Cleaning	6,966	6,587	4,929	7,298	2,559	28,339	5,523	-	5,523	33,862
Depreciation and amortization	49,473	46,780	35,001	51,829	18,174	201,257	67,983	-	67,983	269,240
Equipment leasing	3,286	3,107	2,324	3,442	1,207	13,366	4,515	-	4,515	17,881
Information technologies	15,214	14,386	10,764	15,939	5,589	61,892	18,785	2,122	20,907	82,799
Insurance	5,919	5,597	4,188	6,201	2,174	24,079	8,134	-	8,134	32,213
Apportionments	60,483	57,192	42,791	63,363	22,218	246,047	83,113	-	83,113	329,160
Student scholarships	1,148	1,086	813	1,203	422	4,672	1,578	-	1,578	6,250
In/out - collection accounts	4,376	4,138	3,096	4,585	1,608	17,803	6,014	-	6,014	23,817
Community support	30,403	28,748	21,509	31,850	11,168	123,678	41,778	-	41,778	165,456
Meals and entertainment	443	103	206	2,125	419	3,296	562	-	562	3,858
Miscellaneous	-	-	-	-	-	-	4,457	-	4,457	4,457
Postage and printing	2,342	2,214	1,657	2,453	860	9,526	2,891	327	3,218	12,744
Professional fees and contract services	6,100	54,468	40	2,473	29,870	92,951	108,730	-	108,730	201,681
Repairs and maintenance	741	701	525	777	272	3,016	1,019	-	1,019	4,035
Supplies	4,913	6,913	4,404	7,036	2,650	25,916	13,153	-	13,153	39,069
Telephone	1,471	1,391	1,041	1,541	540	5,984	1,816	205	2,021	8,005
Travel	14,176	-	-	39	-	14,215	-	-	-	14,215
Utilities	20,000	18,911	14,149	20,952	7,347	81,359	27,483	-	27,483	108,842
TOTAL EXPENSES	\$ 463,871	\$ 475,873	\$ 314,700	\$ 470,781	\$ 193,924	\$ 1,919,149	\$ 830,080	\$ 68,748	\$ 898,828	\$ 2,817,977

See accompanying notes to financial statements.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 334,017	\$ 385,484
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	268,506	269,240
Realized and unrealized gain on investments	(177,318)	(135,119)
Gain on forgiveness of Paycheck Protection Program loan	(217,600)	-
Changes in operating assets and liabilities:		
Accounts receivable	19,591	(2,171)
Accounts payable and accrued expenses	(3,591)	13,126
Accrued interest	(401)	(1,794)
Other liabilities	<u>2,798</u>	<u>134</u>
Net cash provided by operating activities	<u>226,002</u>	<u>528,900</u>
Cash flows from investing activities:		
Purchases of property and equipment	(46,875)	-
Purchases of investments	(706,369)	(319,571)
Proceeds from sales of investments	<u>439,093</u>	<u>40,251</u>
Net cash used in investing activities	<u>(314,151)</u>	<u>(279,320)</u>
Cash flows from financing activities:		
Repayments on notes payable	(137,888)	(97,606)
Proceeds from Paycheck Protection Program loan	<u>-</u>	<u>217,600</u>
Net cash provided by (used in) financing activities	<u>(137,888)</u>	<u>119,994</u>
Net increase (decrease) in cash and cash equivalents	(226,037)	369,574
Cash and cash equivalents - beginning	<u>1,146,572</u>	<u>776,998</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 920,535</u></u>	<u><u>\$ 1,146,572</u></u>
Supplemental disclosures of cash flow information:		
Interest paid	<u><u>\$ 112,795</u></u>	<u><u>\$ 132,323</u></u>

See accompanying notes to financial statements.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1. PURPOSE OF ORGANIZATION

Foundry United Methodist Church (the "Church") is a nonprofit organization established in Washington, D.C. in 1814 and given non-profit 501(c)(3) status by the Internal Revenue Service in October 1974. The Church is a member of the United Methodist Church, Inc. and of the Baltimore Washington Annual Conference. The Church's Statement of Call is as follows: *We at Foundry are called by God to deepen faith through transcendent worship and challenging study, to create an engaged community through inclusion and caring, and to transform the world through active service and prophetic leadership.*

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of the Church have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Those standards require the Church to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for various purposes, see Note 9.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and cash equivalents

Cash and cash equivalents include amounts invested in short-term investments with original maturities of 90 days or less. Cash and cash equivalents held by an investment custodian to facilitate investment transactions or for investment are excluded from cash and cash equivalents and are included in investments in the accompanying statements of financial position.

Accounts receivable

Accounts receivable are stated at the amount the Church expects to collect. The Church determines the allowance for uncollectible accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At December 31, 2021 and 2020, the Church has determined that an allowance for uncollectible accounts receivable was not needed.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give, that is, those with a right of return of funds and a measurable performance or other barrier, are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met.

Investment earnings that are restricted by the donor are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the assets.

Property and equipment

The Church follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$2,500. Assets donated are capitalized at the fair market value at date of donation. Depreciation of property and equipment is provided for on the straight-line method over the estimated useful lives, ranging from five to 39 years. Repairs and maintenance that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or otherwise retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss reported is reported in the statements of activities.

Investments

The investments of the Church consist primarily of amounts invested in group or pooled investment funds managed by Mid-Atlantic United Methodist Foundation, Inc. Investments in these funds are valued at fair value based on the applicable ownership of the underlying funds' net assets as of the measurement date. The net asset value is used as the practical expedient to estimate fair value. The net asset value of each of these funds is calculated at least monthly by the fund's management based on quoted market values of the underlying securities of the pools. There are no limitations on redemptions of investments.

All other investments are carried at fair value, which may differ from the amount ultimately realized at the time of sale. Both realized and unrealized gains and losses are reflected in the statements of activities. The cost of securities sold is determined by the specific-identification method. Investments acquired by donation are initially recorded at their fair value at the date of donation.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment funds

The District of Columbia enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") on July 1, 2008, the provisions of which apply to endowment funds existing on or established after the date of enactment. The board of trustees has determined that the majority of the Church's net assets restricted in perpetuity meet the definition of endowment funds under UPMIFA. Amounts in excess of the original corpus are considered to be net assets with donor restrictions until appropriated for expenditure based on the terms of the donors' instructions.

Fair value

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value is defined as the exit price or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Investments using net asset value is used as the practical expedient to estimate fair value as excluded from this hierarchy.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Church has the ability to access.

Level 2 - inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and, inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

FOUNDRY UNITED METHODIST CHURCH
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently issued but not yet effective accounting pronouncements

Leases

In February 2016, FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The amendments to the ASU revise the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. In June 2020, FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)* ("ASU 2020-05"). ASU 2020-05 provided for the deferral of the effective date for ASU 2016-02 and related amendments for an additional year. As a result, ASU 2016-02 will be effective for the Church beginning on January 1, 2022, with early adoption permitted, and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

Contributed nonfinancial assets

In September 2020, FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)* ("ASU 2020-07"). ASU 2020-07 requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash and other financial assets. ASU 2020-07 is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted and should be applied on a retrospective basis.

Income taxes

The Church is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Church's tax-exempt purpose is subject to taxation as unrelated business income. For the years ended December 31, 2021 and 2020, the Church had no unrelated business taxable income.

The Church performed an evaluation of uncertain tax positions for the years ended December 31, 2021 and 2020, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. It is the Church's policy to recognize interest and penalties related to uncertain tax positions, if any, in tax expense.

Donated services

The Church receives in-kind support in the form of services. This support is recorded if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations. There were no donated services recorded for the years ended December 31, 2021 and 2020, respectively.

Additionally, the Church does not pay rent for its use of the historic building in which it operates. Given the unique, historic nature of the building, the value of the use of the building has not been determined by the Church.

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NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional allocation of expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and employee benefits	Time and effort
Occupancy expenses	Square footage

Subsequent events

In accordance with FASB ASC 855, *Subsequent Events*, the Church has evaluated subsequent events through April 18, 2022, which is the date the financial statements were available to be issued. Except as disclosed in Note 7, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 3. LIQUIDITY AND AVAILABILITY

The following represents the Church's financial assets as of December 31, 2021 and 2020, reduced by any amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or because the governing board has set aside the funds for a specific purpose or reserve.

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 920,535	\$ 1,146,572
Investments, at fair value	<u>1,686,412</u>	<u>1,241,818</u>
Total	2,606,947	2,388,390
Less: amounts not available to be used within one year:		
Net assets with donor restrictions	669,113	526,547
Less: amounts unavailable to management without board's approval:		
Net assets without donor restrictions - designated by the board	<u>1,653,877</u>	<u>1,565,535</u>
Financial assets available to meet general expenditures over the next 12 months	<u>\$ 283,957</u>	<u>\$ 296,308</u>

The Church's financial assets available to meet cash needs for general expenditures within one year represent funding for ongoing operational requirements. Amounts designated by the board may be undesignated at the board's discretion at any time. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts.

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NOTE 4. CONCENTRATIONS OF CREDIT RISK

The Church routinely maintains cash deposits with high credit quality financial institutions in excess of federally insured limits. The Church has not experienced any losses in such accounts and believes it is not exposed to significant credit risk.

The Church invests in professionally managed portfolios. Such investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term could materially affect investment balances and the amounts reported in the financial statements.

NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENT

The following are the major categories of assets measured at fair value on a recurring basis during the years ended December 31, 2021 and 2020:

<u>2021</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Money market accounts	\$ 90,652	\$ -	\$ 90,652	\$ -	
Preferred Inc. partnership	<u>5,657</u>	<u>-</u>	<u>5,657</u>	<u>-</u>	
Total	96,309	<u>\$ -</u>	<u>\$ 96,309</u>	<u>\$ -</u>	
Investments measured at net asset value	<u>1,590,103</u>				
Total investments	<u>\$ 1,686,412</u>				
	<u>2020</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market accounts		\$ 55,483	\$ -	\$ 55,483	\$ -
Preferred Inc. partnership		<u>5,657</u>	<u>-</u>	<u>5,657</u>	<u>-</u>
Total		61,140	<u>\$ -</u>	<u>\$ 61,140</u>	<u>\$ -</u>
Investments measured at net asset value		<u>1,180,678</u>			
Total investments		<u>\$ 1,241,818</u>			

Investment income is composed of the following for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 23,144	\$ 18,519
Net unrealized/realized loss	<u>177,318</u>	<u>135,119</u>
Total	<u>\$ 200,462</u>	<u>\$ 153,638</u>

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NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

The investments measured at net asset value consist of investments in pooled funds managed by Mid-Atlantic United Methodist Foundation ("Mid-Atlantic Fdn"). Such funds include a combination of foreign and domestic common and preferred stocks, U.S. Treasury Bills and bonds, exchange-traded funds and various derivative contracts managed by Mid-Atlantic Fdn.

The value of these alternative investments is based on the net asset value as determined by the investment manager. The fair value of the money market fund is based upon cost plus accrued interest, which approximates fair value based upon the short duration of such investments. The fair value of the marketable securities is based on the closing price reported in an active market in which the individual security is traded.

The following table summarizes the fair value measurements of investment funds that calculate net assets per share (or its equivalent) as of December 31, 2021:

<u>Investment</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Mid-Atlantic Fdn core fixed income (a)	\$ 319,264	\$ -	Monthly	25th to last day of the month
Mid-Atlantic Fdn international equity (b)	78,559	-	Monthly	25th to last day of the month
Mid-Atlantic Fdn growth equity (c)	252,220	-	Monthly	25th to last day of the month
Mid-Atlantic Fdn value equity (d)	224,533	-	Monthly	25th to last day of the month
Mid-Atlantic Fdn core equity (e)	175,120	-	Monthly	25th to last day of the month
Mid-Atlantic Fdn fixed income (f)	158,596	-	Monthly	25th to last day of the month
Mid-Atlantic Fdn emerging market equity (g)	54,320	-	Monthly	25th to last day of the month
Mid-Atlantic Fdn small cap equity (h)	246,425	-	Monthly	25th to last day of the month
Mid-Atlantic Fdn international Plus (i)	<u>81,066</u>	<u>-</u>	Monthly	25th to last day of the month
Total	<u>\$ 1,590,103</u>	<u>\$ -</u>		

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NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

- (a) The fund's investment objective is to provide a strong income stream with the possibility of some appreciation but with very little risk. The average maturity of the portfolio is typically in the four- to five-year range with the ability to shift longer and shorter as interest rate forecasts change. Account performance is reviewed quarterly.
- (b) The fund strategy pursues its objective through investments in non-U.S. dividend paying stocks that have demonstrated above-median yield, increasing dividends, and favorable earnings growth. The fund invests in the common stocks of companies that represent a broad spectrum of the global economy. Although the strategy invests primarily in large-cap stocks, it is also able to invest in mid-cap and small-cap stocks. The non-U.S. investments are primarily in the form of depositary receipts which are U.S. dollar-denominated instruments representing securities of non-U.S. issuers that are traded in the U.S. The primary benchmark for the strategy is the S&P Global 1200 Index. The secondary benchmark is the S&P 500 Index.
- (c) The fund strategy promotes diversification by targeting stocks at three different stages of their growth lifecycle: emerging, secular and structural growth companies. Bottom-up global approach leads to significant differences in regional weightings compared to the benchmark.
- (d) The fund builds a diversified portfolio of stocks that, when properly constructed, has an increased probability of success. For the fund, successful investing is executed at the margins where seemingly small gains can lead to long-term success.
- (e) The fund strategy pursues its objective through investment in U.S. dividend paying stocks that have demonstrated above-median yield, increasing dividends, and favorable earnings growth. The fund invests in the common stocks of companies that represent a broad spectrum of the economy. Although the strategy invests primarily in large-cap stocks, it is also able to invest in mid-cap and small-cap stocks. The primary benchmark for the strategy is the S&P Global 1200 Index. The secondary benchmark is the S&P 500 Index.
- (f) The fund uses a flexible multi-sector approach that takes advantage of the relative valuations among distinct bond sectors, provides greater opportunities to generate income and capital appreciation, while helping to manage risk in changing economic environments. The fund buys only investment grade securities and maintains a similar risk profile to that of the Barclays Aggregate Index.
- (g) The fund's strategy seeks to invest in companies located in emerging markets that are exhibiting above-average profitability and earnings growth and are trading at reasonable valuations. Exposure to these companies is gained through the purchase of American Depositary Receipts (ADRs) and U.S.-listed shares of foreign companies.

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NOTE 5. INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

- (h) The fund seeks out domestic companies with a market capitalization within the range of the Russell 2000 at the time of initial purchase. The fund's target number of companies to have in this discipline is 20 to 30 at any time. No single company will generally be greater than 10% of the portfolio value.
- (i) The fund strategy pursues its objective through investments in non-U.S. dividend paying stocks that have demonstrated above-median yield, increasing dividends, and favorable earnings growth. The fund invests in the common stocks of companies that represent a broad spectrum of the global economy. Although the strategy invests primarily in large-cap stocks, it is also able to invest in mid-cap and small-cap stocks. The non-U.S. investments are primarily in the form of depositary receipts which are U.S. dollar-denominated instruments representing securities of non-U.S. issuers that are traded in the U.S. The primary benchmark for the strategy is the S&P Global 1200 Index. The secondary benchmark is the S&P 500 Index.

NOTE 6. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 724,852	\$ 712,533
Furniture and fixtures	38,932	49,569
Building improvements	<u>6,305,645</u>	<u>6,295,739</u>
Subtotal	7,069,429	7,057,841
Less: accumulated depreciation	<u>1,300,286</u>	<u>1,067,067</u>
Property and equipment, net	<u>\$ 5,769,143</u>	<u>\$ 5,990,774</u>

Depreciation and amortization expense totaled \$268,506 and \$269,240 for the years ended December 31, 2021 and 2020, respectively

NOTE 7. NOTE PAYABLE

In February 2015, the Church entered into a \$4,000,000 loan agreement with a bank for renovations to the Church. The funds will be drawn down as applications for payment are made by the Church. Interest-only monthly payments are due during the draw period at a fixed rate of 5% per annum. Monthly principal and interest payments commenced March 6, 2017. In July 2020, the terms of the loan were modified based on a new fixed rate of 4.19% per annum and a maturity date of June 6, 2035. The loan is secured by the property deed of trust.

The agreement requires compliance with certain reporting and financial covenants. As of December 31, 2021 and 2020, the Church was in compliance with the financial covenants.

Interest incurred for the years ended December 31, 2021 and 2020, was \$112,394 and \$131,910, respectively, and is included within "Interest expense and bank/online giving fees" on the accompanying statements of functional expenses.

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NOTE 7. NOTE PAYABLE (CONTINUED)

The future loan repayments at December 31, 2021, are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>	<u>Amortization of debt issuance costs</u>	<u>Net</u>
2022	\$ 145,447	\$ (1,223)	\$ 144,224
2023	151,502	(1,223)	150,279
2024	157,973	(1,223)	156,750
2025	164,721	(1,223)	163,498
2026	171,757	(1,223)	170,534
Thereafter	<u>1,787,488</u>	<u>(10,396)</u>	<u>1,777,092</u>
Total	<u>\$ 2,578,888</u>	<u>\$ (16,511)</u>	<u>\$ 2,562,377</u>

In March 2022, the Church modified its loan agreement to obtain an additional loan amount of \$589,181 to fund green energy improvements. Additionally the maturity date of the loan was extended to March 6, 2037. All other terms remain unchanged.

NOTE 8. PAYCHECK PROTECTION PROGRAM LOAN

On April 20, 2020, the Church received loan proceeds of \$217,600 under the Paycheck Protection Program (“PPP”). The PPP, which was established as part of the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times certain average monthly payroll expenses of the qualifying business. The loan and accrued interest, or a portion thereof, may be forgiven after 24 weeks so long as the borrower uses the loan proceeds for eligible purposes including payroll, benefits, rent, mortgage interest and utilities, and maintains its payroll levels, as defined by the PPP. At least 60% of the loan proceeds must be spent on payroll costs, as defined by the PPP for the loan to be eligible for forgiveness.

The PPP loan matures two years from the date of first disbursement of proceeds to the Church (the “PPP Loan Date”) and accrues interest at a fixed rate of 1%. Payments are deferred for the first six months and payable in 17 equal consecutive monthly installments of principal and interest commencing upon expiration of the deferral period of the PPP Loan Date.

U.S. GAAP does not contain authoritative accounting standards for forgivable loans provided by governmental entities. Absent authoritative accounting standards, interpretative guidance issued and commonly applied by financial statement preparers allows for the selection of accounting policies amongst acceptable alternatives. Based on the facts and circumstances, the Church has determined it most appropriate to account for the PPP loan proceeds under the debt model. Under the debt model, the Church recognizes the proceeds received as debt, recognizes periodic interest expense in the period in which the interest accrues at the stated interest rate and defers recognition of any potential forgiveness of the loan principal or interest until the period in which the Church has been legally released from its obligation by the lender. The Church deemed the debt model to be the most appropriate accounting policy for this arrangement as the underlying PPP loan is a legal form of debt and there are significant contingencies outside of the control of the Church, mainly related to the third-party approval process for forgiveness.

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NOTE 8. PAYCHECK PROTECTION PROGRAM LOAN (CONTINUED)

In January 2021, the Church received approval from the Small Business Administration (“SBA”) for \$217,600 of PPP loan forgiveness. If it is determined that the Church was not eligible to receive the PPP loan or that the Church has not adequately complied with the rules, regulations and procedures applicable to the SBA’s loan program, the Church could be subject to penalties and could be required to repay the amounts previously forgiven.

NOTE 9. NET ASSETS

Without donor restrictions

Board Designated

The Church's board has designated net assets without donor restrictions at December 31, 2021 and 2020, as follows:

	<u>2021</u>	<u>2020</u>
Capital reserve fund	\$ 683,614	\$ 620,098
Operating reserve fund	823,009	535,120
Capital fund	-	267,289
Building projects fund	133,739	132,689
Carter memorial fund	4,492	4,492
Strategic investment fund	3,273	2,354
General memorial fund	2,664	1,394
Leo Lawless Memorial Fund	1,697	932
Persigehl memorial fund	675	675
Harris memorial fund	338	338
John Harden Memorial Fund	<u>376</u>	<u>154</u>
Total	<u>\$ 1,653,877</u>	<u>\$ 1,565,535</u>

With donor restrictions

Donor restricted net assets at December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Designated offerings	\$ 334,301	\$ 218,002
Endowment special project fund	113,616	90,494
Sawyer music fund - music	1,198	6,409
Annual contributions - time-restricted	<u>10,692</u>	<u>2,336</u>
	<u>459,807</u>	<u>317,241</u>
Subject to restriction in perpetuity:		
Smith scholarship fund	112,730	112,730
King children's fund	75,593	75,593
Bauman scholarship fund	10,983	10,983
Schick mission fund	<u>10,000</u>	<u>10,000</u>
	<u>209,306</u>	<u>209,306</u>
Total net assets with donor restrictions	<u>\$ 669,113</u>	<u>\$ 526,547</u>

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NOTE 9. NET ASSETS (CONTINUED)

With donor restrictions (continued)

Net assets released from donor restrictions are as follows for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Mission Possible fund	\$ -	\$ 396,057
Designated offerings	105,623	553,881
Sawyer music fund	5,211	4,460
Endowment special project fund	<u>14,520</u>	<u>6,750</u>
Total	<u>\$ 125,354</u>	<u>\$ 961,148</u>

The District of Columbia enacted UPMIFA on July 1, 2008, the provisions of which apply to endowment funds existing on or established after the date of enactment. Those charged with governance have interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Church classifies as donor restricted in perpetuity net assets the original value of gifts donated to the perpetual endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as restricted in perpetuity is classified as restricted for purpose or time until those amounts are appropriated for expenditure by the Church in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Church considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund, the purposes of the Church and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Church, and the investment policies of the Church.

The Church has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Under this policy, endowment assets are invested in a pooled endowment fund managed by an investment broker. To satisfy its long-term objective, the Church has adopted an investment policy that attempts to maximize return within reasonable and prudent levels of risk. Endowment assets are invested in a well diversified asset mix, which includes cash and cash equivalents, fixed income and equity securities.

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NOTE 9. NET ASSETS (CONTINUED)

With donor restrictions (continued)

The endowment net asset composition by type of fund for the year ended December 31, 2021, was as follows:

	With donor restrictions
Donor-restricted endowment funds	\$ 322,922

The changes in endowment net assets for 2021, were as follows:

	With donor restrictions
Endowment net assets - January 1, 2021	\$ 299,800
Investment return	37,642
Appropriation of endowment assets for expenditure	(14,520)
Endowment net assets - December 31, 2021	\$ 322,922

The endowment net asset composition by type of fund for the year ended December 31, 2020, was as follows:

	With donor restrictions
Donor-restricted endowment funds	\$ 299,800

The changes in endowment net assets for 2020, were as follows:

	With donor restrictions
Endowment net assets - January 1, 2020	\$ 272,986
Investment return	33,564
Appropriation of endowment assets for expenditure	(6,750)
Endowment net assets - December 31, 2020	\$ 299,800

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NOTE 10. LEASE COMMITMENTS

Operating leases

The Church has entered into various leases for equipment under agreements that are classified as operating leases and are scheduled to expire through 2023.

Future minimum lease payments at December 31, 2021, are as follows:

<u>Year ending December 31:</u>	<u>Amount</u>
2022	\$ 17,508
2023	<u>13,131</u>
Total	<u>\$ 30,639</u>

Rent expense for the years ended December 31, 2021 and 2020, was \$18,157 and \$17,881, respectively.

NOTE 11. RETIREMENT BENEFITS

The Church is a member of the General Board of Pensions of the United Methodist Church pension plan. The Church sponsors eligible employees, its ministers, associates in ministry and certain lay employees, who normally work at least 80 hours per month. Contributions to the plan by the Church are 6% for lay employees. The Church's contribution on behalf of ministers is calculated by the Baltimore Washington Annual Conference. The General Board of Pensions of the United Methodist Church pension plan is exempt from the provisions of the Employees Retirement Income Security Act of 1974. For the years ended December 31, 2021 and 2020, the Church's pension expense for its employees was \$92,099 and \$73,752, respectively.

NOTE 12. RISK AND UNCERTAINTIES

COVID-19

On March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy, including the industries in which the Church operates.

The extent of the impact of COVID-19 on the Church's business and financial results will depend on future developments, including the duration and spread of the outbreak within the markets in which it operates and the related impact on consumer confidence and spending, all of which are highly uncertain. No adjustments or provisions were made in these financial statements related to uncertainties which have arisen or which may arise in the future due to COVID-19.