

*North Carolina Baptist Financial Services*

*Financial Statements*

*December 31, 2022, 2021 and 2020*

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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

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**December 31, 2022, 2021 and 2020**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
North Carolina Baptist Financial Services  
Cary, North Carolina

### Opinion

We have audited the accompanying financial statements of North Carolina Baptist Financial Services (the "Organization" - a nonprofit organization), which comprises the statement of financial position as of December 31, 2022, 2021 and 2020 and the related statements of activities 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 North Carolina Baptist Financial Services as of December 31, 2022, 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 of Opinion

We conducted our audit 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 North Carolina Baptist Financial Services and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 North Carolina Baptist Financial Services'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 auditors' 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.

North Carolina Baptist Financial Services  
Cary, North Carolina

Misstatements, including omissions, 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 purposes of expressing an opinion on the effectiveness of North Carolina Baptist Financial Services'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 North Carolina Baptist Financial Services'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.

Related Party Relationship

The accompanying financial statements are those of North Carolina Baptist Financial Services who is under the control of the North Carolina Baptist Foundation. The consolidated financial statements of the North Carolina Baptist Foundation are presented separately.

*Foard & Company, P.A.*

March 4, 2023

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**NORTH CAROLINA BAPTIST FINANCIAL SERVICES****Statements of Financial Position****December 31, 2022, 2021, and 2020**

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	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 6,427,608	\$ 10,638,217	\$ 9,223,908
Interest receivable	173,408	184,960	193,719
Investments	32,903,430	23,535,577	11,953,056
Church loans receivable, net of allowance	43,277,775	44,146,487	44,897,942
Due from related party	-	-	100,113
Equipment, net of depreciation	4,058	11,847	23,424
Software, net of amortization	65,068	-	-
Offering costs, net	8,041	13,396	18,751
<b><i>TOTAL ASSETS</i></b>	<b><i>\$ 82,859,388</i></b>	<b><i>\$ 78,530,484</i></b>	<b><i>\$ 66,410,913</i></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
<b>Liabilities:</b>			
Accounts payable	\$ 12,689	\$ 4,673	\$ 21,492
Accrued vacation	52,257	44,781	42,276
Certificates of participation	82,491,987	78,402,632	66,514,007
<b><i>Total Liabilities</i></b>	<b><i>82,556,933</i></b>	<b><i>78,452,086</i></b>	<b><i>66,577,775</i></b>
<b><i>Net Assets - Without Donor Restrictions</i></b>	<b><i>302,455</i></b>	<b><i>78,398</i></b>	<b><i>(166,862)</i></b>
<b><i>TOTAL LIABILITIES AND NET ASSETS</i></b>	<b><i>\$ 82,859,388</i></b>	<b><i>\$ 78,530,484</i></b>	<b><i>\$ 66,410,913</i></b>

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**NORTH CAROLINA BAPTIST FINANCIAL SERVICES****Statements of Activities****Years Ended December 31, 2022, 2021, and 2020**

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	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b><u>REVENUE AND OTHER SUPPORT</u></b>			
Interest on notes receivable	\$ 2,294,638	\$ 2,481,642	\$ 2,362,388
Investment income	674,054	318,880	71,016
Origination fees	48,605	16,665	10,355
Other income	17,827	131,236	311,862
<b><i>Total Revenue and Other Support</i></b>	<b><i>3,035,124</i></b>	<b><i>2,948,423</i></b>	<b><i>2,755,621</i></b>
<b><u>EXPENSES</u></b>			
Interest paid to investors	1,922,233	1,865,644	1,550,072
Compensation	727,347	693,669	659,426
Loan loss provision	(13,229)	(11,443)	39,230
All other expenses	174,716	155,293	141,893
<b><i>Total Expense</i></b>	<b><i>2,811,067</i></b>	<b><i>2,703,163</i></b>	<b><i>2,390,621</i></b>
<b><i>CHANGE IN NET ASSETS</i></b>	<b><i>224,057</i></b>	<b><i>245,260</i></b>	<b><i>365,000</i></b>
<b><i>NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING</i></b>	<b><i>78,398</i></b>	<b><i>(166,862)</i></b>	<b><i>(531,862)</i></b>
<b><i>NET ASSETS WITHOUT DONOR RESTRICTIONS, ENDING</i></b>	<b><i>\$ 302,455</i></b>	<b><i>\$ 78,398</i></b>	<b><i>\$ (166,862)</i></b>

# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Statements of Cash Flows**

**Years Ended December 31, 2022, 2021, and 2020**

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b><u>OPERATING ACTIVITIES</u></b>			
Change in net assets	\$ 224,057	\$ 245,260	\$ 365,000
Adjustments to reconcile changes in net assets to cash flows from operating activities:			
Depreciation and amortization	19,028	16,932	21,741
Increase (decrease) in loan reserve	(13,229)	(11,443)	39,230
(Gain) Loss on disposal of fixed assets	-	-	(5,905)
Realized and unrealized loss on fair value of marketable securities	61,361	139,800	157,005
(Increase) decrease in operating assets:			
Interest receivable	11,552	8,759	(13,706)
Due to related party	-	100,113	(100,113)
Increase (decrease) in operating liabilities:			
Accounts payable	8,016	(16,819)	(58,588)
Accrued vacation	7,476	2,505	4,560
<b><i>Cash Flows from Operating Activities</i></b>	<b><i>318,261</i></b>	<b><i>485,107</i></b>	<b><i>409,224</i></b>
<b><u>INVESTING ACTIVITIES</u></b>			
Purchases of equipment and software	(70,952)	-	(23,001)
Proceeds from disposal of fixed assets	-	-	7,750
Purchases of marketable securities	(22,347,221)	(39,750,017)	(41,303,702)
Proceeds from sale and maturities of marketable securities	12,918,007	28,027,696	34,954,047
Notes receivable issued	(2,901,804)	(8,082,177)	(5,438,791)
Principal repayment of notes receivable	3,783,745	8,845,075	5,167,821
Purchase of notes receivable	-	-	(2,183,160)
<b><i>Cash Flows from Investing Activities</i></b>	<b><i>(8,618,225)</i></b>	<b><i>(10,959,423)</i></b>	<b><i>(8,819,036)</i></b>
<b><u>FINANCING ACTIVITIES</u></b>			
Proceeds from certificates of participation	15,737,675	15,200,597	19,500,752
Redemptions of certificates of participation	(11,648,320)	(3,311,972)	(4,089,290)
<b><i>Cash Flows from Financing Activities</i></b>	<b><i>4,089,355</i></b>	<b><i>11,888,625</i></b>	<b><i>15,411,462</i></b>
<b><i>NET CHANGE IN CASH AND CASH EQUIVALENTS</i></b>	<b><i>(4,210,609)</i></b>	<b><i>1,414,309</i></b>	<b><i>7,001,650</i></b>
<b><i>CASH AND CASH EQUIVALENTS, BEGINNING</i></b>	<b><i>10,638,217</i></b>	<b><i>9,223,908</i></b>	<b><i>2,222,258</i></b>
<b><i>CASH AND CASH EQUIVALENTS, ENDING</i></b>	<b><i>\$ 6,427,608</i></b>	<b><i>\$ 10,638,217</i></b>	<b><i>\$ 9,223,908</i></b>
<b>Interest Paid</b>	<b><u>\$ 1,922,233</u></b>	<b><u>\$ 1,865,644</u></b>	<b><u>\$ 1,550,072</u></b>

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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

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### **NOTE 1 - NATURE OF ACTIVITIES**

The North Carolina Baptist Financial Services (the Organization) was formed on April 17, 2009, under the laws of North Carolina as a charitable and religious organization supporting the North Carolina Baptist Foundation (the Foundation) and its mission to promote the Baptist denomination in North Carolina. The Organization is a wholly-owned subsidiary of the Foundation. Its primary focus is to engage in lending activities providing loans to Baptist churches and other Baptist entities for construction and expansion of facilities. The Organization has issued unsecured debt securities (certificates of participation) to fund these activities.

The Organization's primary sources of revenue are interest income on loans receivable and investment income. The Organization is generally exempt from income tax under section 501(c)(3) of the Internal Revenue Code (the Code) and comparable state law and is classified as a publicly supported organization, which is not a private foundation, under section 509(a)(1) of the Code.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Basis of Presentation***

The financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP). Under GAAP, The Organization is required to report information regarding its financial position and activities according to the following classes of net assets.

Net assets without donor restrictions - are amounts not subject to any donor-imposed stipulations and are currently available for use in operations under the direction of the Board of Directors.

Net assets with donor restrictions – are comprised of amounts that may be temporary in nature, which are subject to donor-imposed stipulations that may or will be met either by actions of the Organization or passage of time and net assets that are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization had no net assets with donor restrictions at December 31, 2022, 2021 or 2020.

#### ***Marketable Securities***

Investments in marketable securities with readily determinable fair values, certificates and all debt securities are reported at fair value based upon quoted market prices. Realized and unrealized gains and losses are reported in the statements of activities as a component of investment income.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash in various bank accounts. For financial reporting purposes, highly liquid investments with an original maturity of three months or less are reported as cash equivalents. These accounts may, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### ***Offering Costs***

Offering costs are stated net of accumulated amortization, which is calculated on a straight-line basis over the expected life of fifteen years.



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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

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### *Church Loans Receivable*

Church loans receivable are stated at the principal amount outstanding net of a loan loss reserve. Interest is computed daily on the amount outstanding. All church loans receivable relate to loans made to Baptist churches in the State of North Carolina. The Organization performs ongoing credit evaluations of its customers' financial condition and typically requires a first or second mortgage as collateral on each loan receivable. The Organization's policy is to fully reserve loans determined to be in default and to place those loans on nonaccrual status. There were no such loans as of December 31, 2022, 2021 and 2020.

### *Equipment*

Items capitalized as equipment are recorded at cost or, if donated, at fair market value on the date of the gift. Purchases and donations of equipment in excess of \$2,500 are capitalized if the expected useful life exceeds one year. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets ranging from three to seven years.

### *Software*

Items capitalized as software are recorded at cost or, if donated, at fair market value on the date of the gift. Purchases and donations of equipment in excess of \$2,500 are capitalized if the expected useful life exceeds one year. Amortization is calculated on a straight-line basis over the expected life of fifteen years.

### *Uncertain Tax Positions*

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of December 31, 2022, 2021 and 2020, the Organization had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

### *Use of Estimates*

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

## **NOTE 3 - INVESTMENTS**

Investments of the Organization consist of marketable securities and certificates. Investments in marketable securities are recorded at fair value based on market quotations. Certificates are carried at costs which approximates fair value. Investments at December 31, 2022, consist of corporate fixed income certificates. Changes in the market value of securities are reflected as unrealized investment gains or losses in the accompanying statement of cash flows. Investments purchases and sales of securities are reflected on a trade date basis. Interest and dividend income is recorded as earned or declared on an accrual basis.

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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

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The Organization has multiple certificates with varying maturity dates occurring between 2023 and 2025 and bears interest at rates between 1.89 and 2.67 percent.

### *Fair Value of Financial Instruments*

GAAP requires fair value of financial instruments to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It establishes a three-level valuation hierarchy based upon observable and unobservable inputs. The fair values for Level 1 assets are based on quoted prices in active markets for identical assets or liabilities. The fair values for Level 2 assets are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The fair values for Level 3 assets are based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization 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. The certificates held by the Organization are classified as Level 2 assets. The notes receivables (see Note 4) held by the Organization during the three-year period are all classified as Level 2 assets.

### *Risk and Uncertainties*

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statements of financial position.

## **NOTE 4 - CHURCH LOANS RECEIVABLE**

Church loans receivable consist of the following at December 31:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Church loans receivable	\$ 43,936,828	\$ 44,818,769	\$ 45,581,667
Less - loss reserve	659,053	672,282	683,725
<b><i>CHURCH LOANS, NET</i></b>	<b><i>\$ 43,277,775</i></b>	<b><i>\$ 44,146,487</i></b>	<b><i>\$ 44,897,942</i></b>

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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

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Church loans receivable mature as follows:

Current – 2023		\$	1,213,993	
Long-Term:				
2024		\$	1,380,573	
2025			1,477,391	
2026			1,551,454	
2027			1,612,341	
Thereafter			36,701,076	42,722,835
<b><i>TOTAL</i></b>				<b><i>\$ 43,936,828</i></b>

The Organization had 92 mortgage loans at December 31, 2021, bearing interest at rates from 3.25% to 5.75%. Although the Organization has no geographic restrictions on where the loans are made other than where member churches are located, all loans are to churches located in the State of North Carolina.

Loans receivable are distributed by the size of the loan as follows:

<u>Balance</u>	<u>Number</u>	<u>Average Balance</u>	<u>Total Balance</u>	<u>Percentage of Portfolio</u>
Greater than \$1,000,000	14	\$ 1,626,132	\$ 22,765,847	51.82%
\$500,000 - 999,999	15	707,426	10,611,383	24.15%
\$250,000 - 499,999	14	389,003	5,446,042	12.40%
\$100,000 - 249,999	24	173,622	4,166,938	9.48%
Less than \$100,000	25	37,865	946,618	2.15%
<b><i>TOTAL</i></b>	<b><i>92</i></b>		<b><i>\$ 43,936,828</i></b>	<b><i>100.00%</i></b>

### **NOTE 5 - CREDIT QUALITY OF FINANCING RECEIVABLES**

The Organization's financing receivables consist of loans issued to finance capital improvements by North Carolina Baptist churches. These receivables are classified as church loans receivable on the statements of financial position.

The loan loss reserve is maintained at a level which, in management's judgment, is adequate to absorb any losses in the loan portfolio. The Organization has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risk and losses inherent in the Organization's portfolio. The Organization's policy for the year ended December 31, 2022, 2021 and 2020 was to maintain approximately 1.5% of all outstanding church loans receivable as a loan loss reserve. For any impaired or potentially impaired loans, the Organization reserves the full value of the potential impairment in the loan loss reserve. During the years 2020 to 2022, the Organization had no impaired loans.

# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

Changes in allowance for estimated losses on financing receivables in aggregate are presented as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Loan loss reserve:			
Beginning balance	\$ 672,282	\$ 683,725	\$ 644,495
Charge-offs	-	-	-
Recoveries	-	-	-
Changes to provision	(13,229 )	(11,443 )	39,230
<b>Ending Balance</b>	<b>\$ 659,053</b>	<b>\$ 672,282</b>	<b>\$ 683,725</b>
Ending Balance: individually evaluated for impairment	\$ -	\$ -	\$ -
Ending Balance: collectively evaluated for impairment	\$ 659,053	\$ 672,282	\$ 683,725

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Financing receivables:			
Ending Balance	\$ 43,936,828	\$ 44,818,769	\$ 45,581,667
Ending Balance: individually evaluated for impairment	-	-	-
Ending Balance: collectively evaluated for impairment	\$ 43,936,828	\$ 44,818,769	\$ 45,581,667

## **NOTE 6 – EQUIPMENT AND SOFTWARE**

Equipment consists of the following as of December 31:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Vehicles	\$ 55,766	\$ 55,766	\$ 55,766
Furniture and equipment	4,691	4,691	4,691
Total Equipment	60,457	60,457	60,457
Less - accumulated depreciation	56,399	48,610	37,033
<b><i>EQUIPMENT, NET</i></b>	<b>\$ 4,058</b>	<b>\$ 11,847</b>	<b>\$ 23,424</b>

Software costs at December 31, 2022 was \$70,952, net of \$5,884 of amortization. Software costs at December 31, 2021 and 2020 was \$9,500 and was fully amortized.

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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

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### **NOTE 7 - CERTIFICATES OF PARTICIPATION**

The Organization issues certificates of participation. Funds received are used to originate church loans to North Carolina Baptist churches. The church loans are generally secured by first or second mortgages on the church properties. Original maturities range from three to twenty-five years with maturity dates through 2049. Interest rates are adjustable and range from 3.25% to 5.75%. The loans are serviced by The North Carolina Baptist Foundation on behalf of North Carolina Baptist Financial Services.

Certificates of participation are unsecured and are not insured. Investors are required to bear the financial risks of their investments.

The Organization is only permitted to issue certificates of participation to people residing in the State of North Carolina, who are members of a North Carolina Baptist church or affiliated with a North Carolina Baptist organization.

As of December 31, 2022, 2021 and 2020, certificates of participation issued and outstanding totaled \$82,491,987, \$78,402,632 and \$66,514,007, respectively. The Organization's Board of Directors currently determines rates on the certificates of participation using the 10-year Treasury rate as a guide. Rates on demand certificates may be adjusted monthly; timed certificate rates remain fixed for the duration of the certificate. Average rates of return paid to certificate holders were 2.26%, 2.38%, and 2.59%, for the years ended December 31, 2022, 2021 and 2020, respectively. Earnings are credited monthly to certificate holders' accounts and are automatically reinvested in the certificates of participation. Reinvested earnings are included in depositor funds on the accompanying statements of financial position. Certificates of participation may be redeemed by investors by written or verbal notification to North Carolina Baptist Financial Services. Redemptions during the years ended December 31, 2022, 2021 and 2020 totaled \$9,953,395, \$3,311,972, and \$4,089,290, respectively.

Certificates of participation mature as follows:

Current – 2023, including on-demand		\$ 63,360,043
Long-Term:		
2024	\$ 8,661,496	
2025	7,362,416	
2026	1,168,200	
2027	1,939,832	19,131,944
<b><i>TOTAL</i></b>		<b><i>\$ 82,491,987</i></b>

#### *Offering Circular*

The Organization is currently authorized by the North Carolina Securities Division to issue certificates of participation up to a limit of \$100,000,000.

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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

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### **NOTE 8 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization has \$36,660,934 of financial assets, which are neither designated nor restricted, that are available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$6,427,608, investments of \$28,845,925, current portion of notes receivables of \$1,213,993, which are expected to be collected during the year and interest receivable of \$173,408, which is expected to be collected within thirty days. The Organization also has access to a line of credit of \$2.25 million available through the North Carolina Baptist Foundation.

### **NOTE 9 - FUNCTIONAL EXPENSES**

The Organization's activities are focused in three functional areas. Program services represent the primary focus of the Organization's activities. Supporting services are fundraising activities and general and administrative activities. The costs of providing the various programs and other activities are summarized on a functional basis below. Personnel expenses are allocated on management's estimate of time spent on the functional areas. All other expenses are allocated based on management's estimate of the various expenses that comprise those costs. Management determined that no expenses occurred related to fundraising activities during the years ended December 31, 2022, 2021 and 2020.

Functional allocation for the year ended December 31, 2022:

	<u>TOTAL</u>	<u>Program</u>	<u>Management and General</u>
Interest expense	\$ 1,922,233	\$ 1,922,233	\$ -
Compensation:			
Salaries	532,466	452,596	79,870
Employee benefits and taxes	194,881	165,650	29,231
Loan loss provision	(13,229 )	(13,229 )	-
Other expenses:			
Professional services	11,500	-	11,500
Auto and travel	17,161	15,445	1,716
Bank fees	5,229	2,615	2,614
Depreciation and amortization	19,028	18,138	890
Miscellaneous	29,590	250	29,340
Office supplies	46,825	42,142	4,683
Printing and promotional	333	333	-
Utilities	8,916	6,666	2,250
Operations	36,134	30,713	5,421
<b>TOTAL</b>	<b>\$ 2,811,067</b>	<b>\$ 2,643,552</b>	<b>\$ 167,515</b>

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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

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Functional allocation for the year ended December 31, 2021:

	<u>TOTAL</u>	<u>Program</u>	<u>Management and General</u>
Interest expense	\$ 1,865,644	\$ 1,865,644	\$ -
Compensation:			
Salaries	505,709	429,853	75,856
Employee benefits and taxes	187,960	159,766	28,194
Loan loss provision	(11,443 )	(11,443 )	-
Other expenses:			
Professional services	14,911	-	14,911
Auto and travel	14,021	12,619	1,402
Bank fees	10,450	5,225	5,225
Depreciation and amortization	16,931	15,663	1,268
Miscellaneous	20,271	250	20,021
Office supplies	39,231	35,308	3,923
Printing and promotional	296	296	-
Utilities	8,474	6,146	2,328
Operations	30,708	26,102	4,606
<b>TOTAL</b>	<b>\$ 2,703,163</b>	<b>\$ 2,545,429</b>	<b>\$ 157,734</b>

Functional allocation for the year ended December 31, 2020:

	<u>TOTAL</u>	<u>Program</u>	<u>Management and General</u>
Interest expense	\$ 1,550,072	\$ 1,550,072	\$ -
Compensation:			
Salaries	475,358	404,054	71,304
Employee benefits and taxes	184,317	156,670	27,647
Loan loss provision	39,230	39,230	-
Other expenses:			
Professional services	19,074	-	19,074
Auto and travel	5,678	5,110	568
Bank fees	9,739	4,870	4,869
Depreciation and amortization	21,741	19,963	1,778
Miscellaneous	21,863	250	21,613
Office supplies	32,609	29,348	3,261
Printing and promotional	870	870	-
Utilities	8,897	6,649	2,248
Operations	21,173	17,997	3,176
<b>TOTAL</b>	<b>\$ 2,390,621</b>	<b>\$ 2,235,083</b>	<b>\$ 155,538</b>

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# ***NORTH CAROLINA BAPTIST FINANCIAL SERVICES***

## **Notes to Financial Statements**

**December 31, 2022, 2021 and 2020**

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### **NOTE 10 - RELATED PARTY TRANSACTIONS**

The Organization's payroll processing and all of its operating cost processing are administered by the North Carolina Baptist Foundation. These amounts comprise the accounts payable of \$12,689, \$4,673, and \$21,492 as of December 31, 2022, 2021 and 2020, respectively, all of which is due to the Foundation.

Board and staff members of the Organization and the Foundation, as well as their relatives, have invested in the certificates of participation of the Organization. Their holdings total approximately \$2,114,990, \$2,170,939 and \$2,548,262, as of December 31, 2022, 2021 and 2020, respectively. Additionally, the Baptist State Convention, of whom both the Organization and the Foundation are affiliates, holds approximately \$8,637,339, \$7,520,530 and \$4,166,630, of the debt securities as of December 31, 2022, 2021 and 2020 respectively.

The Organization contributes to a multi-employer retirement plan for its eligible employees through the Foundation. Employees may choose from two fund families: Guidestone Financial Resources or the American Funds. After one year of employment, the Foundation contributes 10% per year of employees' compensation to the retirement plan. After three years of employment, employees can contribute 1% of compensation to the plan, with a full match by the Foundation. Every three years thereafter, employees can contribute an additional 1% of compensation to the plan, with the Foundation matching contributions up to 5%. Employees are fully vested in all contributions made to the plan on their behalf. Contributions to the plan were made by the Organization for \$75,072.

During the years presented, the Foundation maintained a line of credit on behalf of the Organization. There was no balance due on this line of credit as of December 31, 2022, 2021 and 2020.

### **NOTE 11 – COMMITMENTS**

In the normal course of business, the Organization makes commitments to extend mortgage loans to meet the financing needs of member churches. Outstanding commitments are letters that outline the terms and conditions of the loan to be granted. The commitments represent expected disbursements based on estimated construction costs and may vary based on actual costs of construction. The Organization's exposure to credit loss, in the event of nonperformance by the churches to which it has extended commitments, is limited to the amount of the commitment. The Organization controls the credit risk of its commitments through credit approvals, limits and monitoring procedures. At December 31, 2022, the Organization had extended loan commitments of \$19,042,351.

### **NOTE 12 – SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events from the date of the statement of financial position through the date of the audit report, which is the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.