

**ST. PAUL THE APOSTLE
EPISCOPAL CHURCH**

MANAGEMENT LETTER

DECEMBER 31, 2023

FEBRUARY 5, 2024

**To the Vestry and Wardens
St. Paul the Apostle Episcopal Church**

In planning and performing our audit of the financial statements of St. Paul the Apostle Episcopal Church for the years ended December 31, 2023 and 2022, we considered the Church's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that we feel should be communicated to management. This letter does not affect our report dated February 5, 2024, on the financial statements of St. Paul the Apostle Episcopal Church.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with various organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in any way.

Cancel Paid Invoices

We believe that controls over cash disbursements could be improved by properly cancelling invoices by indicating the date paid, check number, etc. on the invoice. This can be facilitated by the use of a "PAID" stamp, which can be easily purchased from office suppliers.

Improve Segregation of Duties

Currently, the bookkeeper is the only person who has online access to the bank account. The bookkeeper is also solely responsible for preparing vendor checks and recording disbursements in the accounting records. No volunteer or staff member reviews the bank statement.

If the segregation of duties is inadequate, there is an increased risk of intentional fraud or unintentional errors. Therefore, we recommend that the Treasurer review all bank statements each month, and specifically cancelled checks and debits should be reviewed for unusual items.

Improve Accounting for Note Payments

The Church currently has two outstanding installment notes payable. The Church is paying monthly payments consisting of principal and interest on these two notes. We noted during our audit that the entire payments are being charged to an expense account titled "Debt Service" in the accounting records. This has resulted in the overstatement of the notes payable balances and the overstatement of expenses.

Although the Church has amortization schedules for both notes, the bookkeeper is not utilizing the schedules to record the note payments.

We have made journal entries to correct the note balances and interest expense through December 31, 2023. Going forward, we recommend that the bookkeeper record all note payments in accordance with the amortization schedule. The "Debt service" expense account should be replaced with an account titled "Interest Expense". The principal portion of each payment should be charged against the note payable liability account, and the interest portion should be charged to "Interest Expense".

Record all Investment Account Activity

The Church maintains the following investment accounts at Raymond James & Associates, Inc. brokerage firm:

- Special Fund
- Liquid Fund
- Development Fund
- Sabbatical Fund
- Endowment Fund

The assets of the Special Fund and Endowment Fund are invested in assets whose value can fluctuate with the market, and all five funds earn investment income, such as interest and dividends. We noted during our audit that neither realized investment earnings or unrealized gains and losses were being recorded in the accounting records. This has resulted in the misstatement of the asset values and the realized and unrealized gains and losses.

The Church receives monthly detailed statements from the brokerage firm that provides excellent details about the monthly activity in the funds. We recommend that the bookkeeper utilize these statements and record the monthly investment income and unrealized gains and losses into the accounting records.

Require Proper Authorization for Withdrawals from Sabbatical Funds

In 2023, we noted a \$20,000 withdrawal from the Sabbatical Fund at Raymond James. This withdrawal was not recorded in the accounting records and could not be identified by the Church staff. Based on our inquiries, no staff member or member of governance had given authorization for this withdrawal.

We recommend that procedures be established that require written authorization from the appropriate persons be required for any future withdrawals from the Sabbatical Fund and all other investment accounts.

Invest Donor Restricted Funds in Low-Risk Investments

The Special Funds account at Raymond James includes funds donated for specific purposes by donors. These funds include the Dorchester Fund, Capital Fund, Food Pantry, and Back Pack Buddies. These funds were invested in assets that fluctuate with the market and suffered substantial losses in 2022.

We recommend that donor restricted funds be removed from these types of investments and placed in investments that are not as susceptible to loss in value. Because a donor's restriction requires resources to be used in a particular manner, the Church must maintain sufficient resources to meet those responsibilities to its donors.

Eliminate "Permanently Restricted Net Assets" title for Endowment Account

The term "Permanently Restricted Net Assets" is an outdated term and is a misleading description of the Endowment Account. The original donor to the Endowment Fund, formerly known as "The Howard Fund", did not impose any designations, restrictions, or parameters for use. As a result, the endowment is actually a quasi-endowment fund that allows for the expenditure of principal as well as income. Therefore, quasi-endowments are not permanent funds, but are considered to be long-term investments.

Eliminate "Temporarily Restricted Net Asset" descriptions in various general ledger account titles

The term "Temporarily Restricted Net Assets" is also an outdated term and should no longer be used. Contributions and net assets should now be classified as either "Without Donor Restrictions" or "With Donor Restrictions".

Improve Accounting for Donor Restricted Funds

The Church's general ledger contained nineteen accounts in the equity section and shown on the Balance Sheet as temporarily restricted net assets. As mentioned above, temporarily restricted net assets is an outdated term that no longer should be used.

After reviewing these nineteen fund accounts with members of the staff, it was determined that only five of these accounts were truly donor restricted. We have removed the fourteen accounts that were not donor restricted funds from the temporarily restricted section of the balance sheet. Going forward, only the five accounts determined to be donor restricted should be shown in the balance sheet in a newly named Donor Restricted section.

In addition, contributions to these donor restricted funds and expenses paid out of these funds should not be posted directly to these equity accounts. Contributions should be posted to restricted revenue accounts and expenses should be posted to expense accounts. The restricted revenue and expense accounts will then be closed to the equity accounts at each year-end.

Consider adopting a “Simultaneous Release” policy for donor restricted contributions

In many cases, donor restricted contributions will be spent on the restricted purpose in the same year the contribution was received.

Accounting standards allow the Church to adopt an accounting policy of reporting contributions whose restrictions are met in the same accounting period as unrestricted revenues. This is known as a “Simultaneous Release” policy and would remove the burden of tracking and reclassifying net assets through the donor restriction reporting process. This policy would be useful if the Church regularly receives many small donor restricted funds that will be spent in the same year as the contribution.

This report is intended solely for the information and use of the Vestry and Wardens, management, and others within the Church and is not intended to be and should not be used by anyone other than these specified parties.

Canady, Lichtberg : Associates, LLP
By: Michael A. Canady

February 5, 2024

**ST. PAUL THE APOSTLE
EPISCOPAL CHURCH
SAVANNAH, GEORGIA**

**Financial Statements
(Modified Cash Basis)
December 31, 2023 and 2022**

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Audit Report

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February 5, 2024

**ST. PAUL THE APOSTLE
EPISCOPAL CHURCH
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To the Vestry and Wardens
St. Paul the Apostle Episcopal Church
Savannah, Georgia

Opinion

We have audited the accompanying financial statements of St. Paul the Apostle Episcopal Church (a not-for-profit organization), which comprise the statement of assets, liabilities, and net assets-modified cash basis as of December 31, 2023 and 2022, and the related statement of support, revenue, and expenses-modified cash basis for the years then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of St. Paul the Apostle Episcopal Church as of December 31, 2023 and 2022, and its support, revenue, and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence about the historical cost of property and equipment owned by the Church. Consequently, we were unable to determine if the costs, accumulated depreciation, and current depreciation expense shown in the financial statements are accurately presented.

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 St. Paul the Apostle Episcopal Church 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.

Basis of Accounting

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 2, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the

financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 St. Paul the Apostle Episcopal 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 St. Paul the Apostle Episcopal 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 finding, and certain internal control related matters that we identified during the audit.

Canady, Richbourg ; Associates, LLP

February 5, 2024

ST. PAUL THE APOSTLE EPISCOPAL CHURCH
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - CASH BASIS
DECEMBER 31, 2023 AND 2022

	2023	2022
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	38,508	57,058
Investments, operating	125,036	151,481
Total current assets	163,544	208,539
Property and equipment		
Land	234,150	234,150
Buildings and improvements	1,468,770	1,468,770
Construction in progress	14,675	-
	1,717,595	1,702,920
Other assets		
Investments, endowment	430,045	406,660
Total assets	2,311,184	2,318,119
 <u>LIABILITIES</u>		
Current liabilities		
Payroll liabilities	200	4,440
Current portion - long-term debt	7,750	7,373
Total current liabilities	7,950	11,813
Long term liabilities		
Long-term debt	90,582	98,332
 <u>NET ASSETS</u>		
Net assets without donor restrictions		
Current	1,683,479	1,699,998
Designated for endowment	430,045	406,660
Net assets with donor restrictions	99,128	101,316
Total net assets	2,212,652	2,207,974
Total liabilities and net assets	2,311,184	2,318,119

The accompanying notes are an integral part of these financial statements

ST. PAUL THE APOSTLE EPISCOPAL CHURCH
STATEMENT OF REVENUES COLLECTED, EXPENSES PAID, AND CHANGES
IN NET ASSETS - CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>			<u>2022</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Revenues Collected						
Pledges/Stewardship Giving	453,009	-	453,009	469,629	-	469,629
Restricted contributions	-	35,421	35,421	-	12,517	12,517
Net assets released from restrictions	37,609	(37,609)	-	10,267	(10,267)	-
Total revenues collected	<u>490,618</u>	<u>(2,188)</u>	<u>488,430</u>	<u>479,896</u>	<u>2,250</u>	<u>482,146</u>
Expenses Paid						
Salaries and wages	261,303	-	261,303	285,255	-	285,255
Employee benefits	8,492	-	8,492	8,416	-	8,416
Altar Guild	7,200	-	7,200	3,354	-	3,354
Bank service charges	5,832	-	5,832	2,882	-	2,882
Building and grounds maintenance	42,053	-	42,053	19,069	-	19,069
Contribution to Diocese	40,053	-	40,053	48,274	-	48,274
Evangelism and special events	-	-	-	7,633	-	7,633
Flowers	5,788	-	5,788	5,288	-	5,288
Insurance	29,612	-	29,612	25,776	-	25,776
Interest expense	5,121	-	5,121	5,480	-	5,480
Meetings and conferences	1,867	-	1,867	170	-	170
Miscellaneous expenses	3,274	-	3,274	1,100	-	1,100
Music expenses	14,584	-	14,584	6,460	-	6,460
Office supplies and printing	11,646	-	11,646	10,363	-	10,363
Sabbatical fund disbursements	20,000	-	20,000	-	-	-
Special collections expended	28,797	-	28,797	33,668	-	33,668
Supplies - clergy	2,587	-	2,587	350	-	350
Utilities	29,379	-	29,379	30,038	-	30,038
Total expenses paid	<u>517,588</u>	<u>-</u>	<u>517,588</u>	<u>493,576</u>	<u>-</u>	<u>493,576</u>
Increase (decrease) in net assets from operations	<u>(26,970)</u>	<u>(2,188)</u>	<u>(29,158)</u>	<u>(13,680)</u>	<u>2,250</u>	<u>(11,430)</u>
Other revenue (losses):						
Investment income	16,247	-	16,247	13,362	-	13,362
Unrealized gains (losses) on investments	17,589	-	17,589	(65,689)	-	(65,689)
Total other revenues (losses)	<u>33,836</u>	<u>0</u>	<u>33,836</u>	<u>(52,327)</u>	<u>0</u>	<u>(52,327)</u>
Increase (decrease) in net assets	6,866	(2,188)	4,678	(66,007)	2,250	(63,757)
Beginning net assets	<u>2,106,658</u>	<u>101,316</u>	<u>2,207,974</u>	<u>2,172,665</u>	<u>99,066</u>	<u>2,271,731</u>
Ending net assets	<u>2,113,524</u>	<u>99,128</u>	<u>2,212,652</u>	<u>2,106,658</u>	<u>101,316</u>	<u>2,207,974</u>

The accompanying notes are an integral part of these financial statements

ST. PAUL THE APOSTLE EPISCOPAL CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 1 – Nature of Activities

St. Paul the Apostle Episcopal Church (The Church) is a Georgia not-for-profit organization and was admitted into the Diocese of Georgia as St Paul's Church in 1892. The mission of the Church is to proclaim the Gospel of Jesus Christ in its part of the Vineyard, and to pursue God's desire to bring the whole of creation into unity with God. The Church's revenue comes from congregation contributions.

Note 2 – Summary of Significant Accounting Policies

Accounting Method – The financial statements of the Church have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Revenue is recorded when received rather than when earned, and expenses are recorded when paid rather than when the obligation is incurred. The cash method is modified to include the capitalization of real property owned by the Church. The Church does not record depreciation.

Basis of Presentation – The Church reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Church. These net assets may be used at the discretion of the Church's management and the board of administration.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Donor restrictions are temporary in nature; those restrictions will be met by actions of the Church or by the passage of time.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash in interest and non-interest bearing depository accounts. The Church considers investments with original maturities of three months or less when purchased to be cash equivalents.

Property and equipment – Acquisitions of real property and improvements are recorded at cost, or a fair value if donated. Property and improvements are carried at cost. Repairs and maintenance are expensed as incurred. Only real property purchased has been recorded as capital assets. All purchases of personal property, such as furnishings and equipment, have been expensed as incurred.

Contributions – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

ST. PAUL THE APOSTLE EPISCOPAL CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 2 – Summary of Significant Accounting Policies (Cont'd)

Contributed Services – The Church receives significant amounts of services donated by its members and other volunteers in carrying out the Church’s ministry. No amounts have been reflected in the financial statements for these donated services because they do not meet the criteria for recognition.

Income Taxes – The Church is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Note 3 – Financial Assets and Liquidity Resources

As of December 31, 2023 and 2022 financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, were as follows:

	<u>2023</u>	<u>2022</u>
Financial assets		
Cash and cash equivalents	38,508	57,058
Investments	<u>125,036</u>	<u>151,481</u>
Total financial assets	163,544	208,539
Less: restricted assets	<u>(89,128)</u>	<u>(101,316)</u>
 Financial assets available to meet cash needs within one year	 <u>74,416</u>	 <u>107,223</u>

Note 4 – Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification 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). The three levels of the fair value hierarchy under this topic are described below:

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.

**ST. PAUL THE APOSTLE EPISCOPAL CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

Note 4 – Fair Value Measurements (Cont'd)

Level 2: Inputs to the valuation methodology include:

- a. Quoted prices for similar assets or liabilities in active markets,
- b. Quoted prices for identical or similar assets or liabilities in inactive markets.
- c. Inputs other than quoted prices that are observable for the asset or liability,
- d. 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.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The following represents the Church's investments measured at fair value as of December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	154,639	-0-	-0-	154,639
Stocks and ETF's	194,573	-0-	-0-	194,573
Mutual funds	<u>205,869</u>	<u>-0-</u>	<u>-0-</u>	<u>205,869</u>
	<u>555,081</u>	<u>-0-</u>	<u>-0-</u>	<u>555,081</u>

The following represents the Church's investments measured at fair value as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep balances	182,810	-0-	-0-	182,810
Stocks and ETF's	198,413	-0-	-0-	198,413
Mutual funds	<u>176,918</u>	<u>-0-</u>	<u>-0-</u>	<u>176,918</u>
	<u>558,141</u>	<u>-0-</u>	<u>-0-</u>	<u>558,141</u>

ST. PAUL THE APOSTLE EPISCOPAL CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 5 – Long-term Debt

Long-term debt consists of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Unsecured note payable, to James Robert Carter, Jr. Revocable Trust, with a fixed interest rate of 5%, payable in 300 monthly installments of \$ 585, with the final payment due November 1, 2033	54,761	58,924
Note payable, to Mary S. Jensen Trust, secured by real property, with a fixed interest rate of 5%, payable in 360 monthly installments of \$456, with the final payment due February 1, 2034	<u>43,571</u>	<u>46,781</u>
Less current maturities	<u>7,750</u>	<u>7,373</u>
Long-term portion	<u>90,582</u>	<u>98,332</u>

Aggregate maturities of notes payable at December 31, 2023 are as follows:

Years Ending December 31	
2024	7,750
2025	8,146
2026	8,564
2027	9,002
2028	9,462
Thereafter	<u>55,408</u>
	<u>98,332</u>

Note 6 – Net Assets with Donor Restrictions

The Church had the following net assets with donor restrictions at December 31, 2023:

Dorchester Fund	\$ 10,000
Memorial Fund	5,000
Capital Fund	35,485
Food Pantry	33,691
Back Pack Buddies	4,952
Restricted for audit fee payment	<u>10,000</u>
Total	<u>99,128</u>

ST. PAUL THE APOSTLE EPISCOPAL CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Note 7 – Commitments

In March 2023, the Church entered into a contract with Go Solar Power to perform a turnkey installation of a Commercial Solar System. The total contract amount is \$ 58,700. As of December 31, 2023, one payment of \$ 14,675 has been made on this contract. The work was halted early in the process because it was determined the roof needed significant repairs before the solar panels could be installed. The Church is working to rectify this issue, but the solar project remains halted as of the date of this report.

Note 8 – Related Party Transactions

As a parish of the Diocese of Georgia, the Church pays annual assessments to the Diocese. These payments totaled \$ 40,053 in 2023, and \$ 48,274 in 2022.

Note 9 – Retirement Plan

The Church sponsors a 403(b) retirement plan for the benefit of employees who elect to participate. Contributions to the plan of \$ 1,336 and \$ 1,353 were made by the Church for the years ended December 31, 2023 and 2022, respectively.

Note 10 – Subsequent Events

The Church's management has evaluated subsequent events through February 5, 2024, the date the financial statements were available to be issued.