

**LIVING CHURCH OF GOD (INTERNATIONAL), INC.
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

As of and for the Years Ended December 31, 2019 and 2018

And Report of Independent Auditor

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Report of Independent Auditor

To the Board of Directors
Living Church of God (International), Inc. and Affiliates
Charlotte, North Carolina

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Living Church of God (International), Inc. and Affiliates (the "Church"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Church as of December 31, 2019 and 2018, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information contained in the consolidating statements of financial position and activities is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information in the supplemental schedules has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in the supplemental schedules is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Cherry Bekaert LLP

Charlotte, North Carolina
October 22, 2020

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,970,700	\$ 2,685,778
Investments	235,568	273,522
Receivables, net	5,515,033	3,865,771
Contributions receivable for use of real estate	55,870	55,870
Inventory	127,180	225,510
Prepaid expenses	473,398	237,769
Deposits	13,295	10,395
Total Current Assets	<u>10,391,044</u>	<u>7,354,615</u>
Contributions receivable for use of real estate	27,935	83,805
Property and equipment, net	3,103,863	3,322,876
Total Assets	<u><u>\$ 13,522,842</u></u>	<u><u>\$ 10,761,296</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 494,106	\$ 376,386
Accrued wages and other liabilities	415,585	376,524
Notes payable	-	310,203
Capital lease obligations	13,165	12,303
Total Current Liabilities	<u>922,856</u>	<u>1,075,416</u>
Noncurrent Liabilities:		
Notes payable	-	1,172,365
Capital lease obligations	25,187	-
Total Noncurrent Liabilities	<u>25,187</u>	<u>1,172,365</u>
Total Liabilities	<u>948,043</u>	<u>2,247,781</u>
Net Assets:		
Without Donor Restrictions:		
Undesignated	12,216,492	8,090,815
Total Without Donor Restrictions	<u>12,216,492</u>	<u>8,090,815</u>
With Donor Restrictions:		
Subject to purpose restrictions	274,502	283,025
Subject to time restrictions	83,805	139,675
Total With Donor Restrictions	<u>358,307</u>	<u>422,700</u>
Total Net Assets	<u>12,574,799</u>	<u>8,513,515</u>
Total Liabilities and Net Assets	<u><u>\$ 13,522,842</u></u>	<u><u>\$ 10,761,296</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue and Support:						
Tithes and contributions	\$ 14,468,541	\$ -	\$ 14,468,541	\$ 14,379,664	\$ 169,570	\$ 14,549,234
Holy Day offerings	3,589,393	-	3,589,393	3,396,297	-	3,396,297
Net investment return	103,827	-	103,827	21,771	-	21,771
Estate gifts	410,241	-	410,241	1,255,500	-	1,255,500
Camp revenue	100,524	-	100,524	99,088	-	99,088
Other revenue	4,095,174	-	4,095,174	2,615,998	-	2,615,998
Special project contributions	-	126,706	126,706	-	92,704	92,704
Tuition and fees, net	-	-	-	38,862	-	38,862
	<u>22,767,700</u>	<u>126,706</u>	<u>22,894,406</u>	<u>21,807,180</u>	<u>262,274</u>	<u>22,069,454</u>
Net assets released from restrictions	<u>191,099</u>	<u>(191,099)</u>	<u>-</u>	<u>376,168</u>	<u>(376,168)</u>	<u>-</u>
Total Revenue and Support	<u>22,958,799</u>	<u>(64,393)</u>	<u>22,894,406</u>	<u>22,183,348</u>	<u>(113,894)</u>	<u>22,069,454</u>
Expenses:						
Program Services:						
Feeding the Flock	10,141,342	-	10,141,342	10,617,316	-	10,617,316
Preaching the Gospel	7,215,826	-	7,215,826	6,227,147	-	6,227,147
Supporting Services:						
Management and General	<u>1,475,954</u>	<u>-</u>	<u>1,475,954</u>	<u>1,349,745</u>	<u>-</u>	<u>1,349,745</u>
Total Expenses	<u>18,833,122</u>	<u>-</u>	<u>18,833,122</u>	<u>18,194,208</u>	<u>-</u>	<u>18,194,208</u>
Change in net assets	4,125,677	(64,393)	4,061,284	3,989,140	(113,894)	3,875,246
Net assets, beginning of year	<u>8,090,815</u>	<u>422,700</u>	<u>8,513,515</u>	<u>4,101,675</u>	<u>536,594</u>	<u>4,638,269</u>
Net assets, end of year	<u>\$ 12,216,492</u>	<u>\$ 358,307</u>	<u>\$ 12,574,799</u>	<u>\$ 8,090,815</u>	<u>\$ 422,700</u>	<u>\$ 8,513,515</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2019

	Program Services			Supporting Services	Totals
	Feeding the Flock	Preaching the Gospel	Total Program Expense	Management and General	
Salaries, wages, taxes, and benefits	\$ 4,720,315	\$ 1,963,463	\$ 6,683,778	\$ 868,908	\$ 7,552,686
Assistance to others	1,487,599	-	1,487,599	56,932	1,544,531
Depreciation and amortization	331,412	237,881	569,293	29,040	598,333
Facility expense	129,442	267,245	396,687	18,280	414,967
Hall and equipment rental	1,173,326	21,583	1,194,909	663	1,195,572
Insurance	1,159,924	522,728	1,682,652	167,771	1,850,423
Miscellaneous	95,895	165,952	261,847	16,001	277,848
Office expense	102,896	60,705	163,601	138,947	302,548
Magazines, periodicals, and booklets	15	338,335	338,350	-	338,350
Internet advertising and internet services	75,424	705,121	780,545	1,958	782,503
Postage and freight	95,839	984,573	1,080,412	10,690	1,091,102
Professional, legal, and contract services	123,043	276,622	399,665	151,745	551,410
Television broadcasting	-	1,570,954	1,570,954	-	1,570,954
Travel, meals, and professional development	646,212	100,664	746,876	15,019	761,895
Total Expenses	\$ 10,141,342	\$ 7,215,826	\$ 17,357,168	\$ 1,475,954	\$ 18,833,122

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services			Supporting Services	Totals
	Feeding the Flock	Preaching the Gospel	Total Program Expense	Management and General	
Salaries, wages, taxes, and benefits	\$ 4,746,153	\$ 1,828,381	\$ 6,574,534	\$ 751,184	\$ 7,325,718
Assistance to others	1,759,933	-	1,759,933	28,965	1,788,898
Depreciation and amortization	357,106	235,920	593,026	33,185	626,211
Facility expense	130,271	269,569	399,840	21,207	421,047
Hall and equipment rental	1,238,498	11,798	1,250,296	-	1,250,296
Insurance	1,191,857	506,821	1,698,678	151,765	1,850,443
Miscellaneous	99,537	45,377	144,914	-	144,914
Office expense	134,892	80,090	214,982	134,043	349,025
Magazines, periodicals, and booklets	80,455	453,525	533,980	5,788	539,768
Internet advertising and internet services	-	289,670	289,670	-	289,670
Postage and freight	85,148	933,506	1,018,654	10,137	1,028,791
Professional, legal, and contract services	93,618	199,622	293,240	200,669	493,909
Television broadcasting	-	1,263,020	1,263,020	-	1,263,020
Travel, meals, and professional development	699,848	109,848	809,696	12,802	822,498
Total Expenses	\$ 10,617,316	\$ 6,227,147	\$ 16,844,463	\$ 1,349,745	\$ 18,194,208

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,061,284	\$ 3,875,246
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	598,333	626,211
Noncash lease expense	55,870	55,540
Net unrealized/realized (gain) loss on investments	(57,256)	3,793
Gain on disposal of property and equipment	(14,615)	(2,907)
Donated investments	(4,086)	(1,371)
Noncash donation of use of real estate	-	(112,400)
Change in operating assets and liabilities:		
Receivables	(1,649,262)	(3,419,037)
Inventory	98,330	80,066
Prepaid expenses	(235,629)	50,341
Deposits	(2,900)	15,170
Accounts payable	117,720	31,541
Accrued wages and other liabilities	39,061	3,044
Net cash flows from operating activities	<u>3,006,850</u>	<u>1,205,237</u>
Cash flows from investing activities:		
Purchases of property and equipment	(361,964)	(349,190)
Proceeds from sale of property and equipment	38,661	23,838
Proceeds from sale of investments	99,296	102,875
Purchases of investments	-	(92,460)
Net cash flows from investing activities	<u>(224,007)</u>	<u>(314,937)</u>
Cash flows from financing activities:		
Principal payments on notes payable	(1,482,568)	(344,818)
Principal payments on capital lease obligations	(15,353)	(27,256)
Net cash flows from financing activities	<u>(1,497,921)</u>	<u>(372,074)</u>
Change in cash and cash equivalents	1,284,922	518,226
Cash and cash equivalents, beginning of year	2,685,778	2,167,552
Cash and cash equivalents, end of year	<u>\$ 3,970,700</u>	<u>\$ 2,685,778</u>
Supplemental disclosure of cash flow information:		
Interest paid during the year	<u>\$ 2,534</u>	<u>\$ 59,258</u>
Supplemental disclosure of noncash investing activities:		
Acquisition of property and equipment through debt	<u>\$ -</u>	<u>\$ 65,473</u>
Acquisition of property and equipment through capital leases	<u>\$ 41,402</u>	<u>\$ -</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Organization and summary of significant accounting policies

Organization and Nature of Activities – Living Church of God (International), Inc. and Affiliates (the “Church”), a North Carolina nonprofit religious corporation, is involved in preaching the Gospel of the Kingdom of God and providing for the spiritual and material needs of its members. The Church is primarily funded by tithes and offerings without donor restrictions. It is headquartered in Charlotte, North Carolina.

Consideration of Reporting Entity – The Living Church of God is comprised of various legal entities in the United States. Entities affiliated with the Living Church of God have been included in the consolidated financial statements. These entities include Living Church of God, Inc.; El Mundo De Mañana, LLC; Heads Up, LLC; Le Monde de Demain, LLC; Tomorrow’s World, Inc.; and Tomorrow’s World, LLC. Pursuant to an analysis regarding indirect control and economic dependence, Living Youth Programs, LLC is consolidated with the Living Church of God’s financial statements.

Living Youth Programs LLC (“LYP”) was established in 2013 as a youth-serving ministry to organize, promote, and manage activities and events that are primarily, but not exclusively, youth-oriented and built on a religious foundation, in compliance with the not-for-profit religious aims of the Principal Sponsor, the Church, which is the sole and managing member of LYP. The Church’s Board of Directors appoints the officers and managers of LYP and all LYP activities and operations are subject to its approval. As a unique legal entity, LYP has its own bank accounts and vendor relationships. Each year, LYP organizes, promotes, and manages Teen, Pre-Teen, and Adventure youth summer camps at various locations in the United States of America, provides online camp registration and payment services, as well as live and archived youth-focused Bible Studies over the internet.

The operations of foreign affiliates are not included in the accompanying consolidated financial statements as they are independent entities in which the Church does not hold a controlling interest.

All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation – The accompanying consolidated financial statements 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”). The Financial Accounting Standards Board (“FASB”) has established the Accounting Standards Codification as the source of authoritative accounting principles to be applied in the preparation of consolidated financial statements in accordance with U.S. GAAP. Resources are classified into two net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Church and changes therein are classified and reported as follows:

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 objective of the Church. These net assets may be used at the discretion of the Church’s management and board of directors. The Church has chosen to provide further classification information about net assets without donor restrictions. The sub classifications are as follows:

Board Designated – Comprised of funds set aside by the Board of Directors to be used for specific activities within general guidelines established by the Church. There were no board-designated amounts for the years ended December 31, 2019 and 2018.

Undesignated – Represents the cumulative net assets without donor restrictions excluding those net assets that are board designated.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Organization and summary of significant accounting policies (continued)

Net Assets With Donor Restriction – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Church or by the passage of time. Contributions whose restrictions are satisfied in the same reporting period in which the contribution was received are reported as without donor restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. There were no funds held in perpetuity for the years ended December 31, 2019 and 2018.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

Contribution Revenue – Tithes and offerings are recorded as revenue in the year the contribution is paid. Members of the Church practice tithing, the donation of 10% of one's income for the Church's undesignated use. These tithes (known as first tithe), plus undesignated offerings given at each of seven annual Holy Days, comprise the majority of Church support and revenue.

In addition to first tithe and offerings, members save a second tithe for personal use to be able to attend the annual Holy Days. Those who are able, give 10% of this personal second tithe and/or excess second tithe to the Church. The Church uses these funds to help pay for expenses incurred by the Church to conduct the Holy Days and assist the needy members to be able to attend the Church festivals.

Members, who are financially able, also contribute an additional tithe in the third and sixth years of every seven-year cycle. These contributions are used first to assist widows, orphans, and the poor; and secondly, for retirees and missionary support.

Donor restricted contributions are received primarily for disaster relief and assistance to foreign affiliates in need and are recorded as special project contributions in the accompanying consolidated statements of activities.

Cash and Cash Equivalents – The Church considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments – Investments consisted of equities (including precious metal equities), precious metal coins, preferred stock, and mutual funds stated at fair value. During 2019, the Church liquidated all investments other than precious metal coins. Realized and unrealized gains and losses are reported as net investment return in the consolidated statements of activities.

Receivables – Receivables consist of contributions receivable, royalties receivable, estate gifts receivable, amounts due from foreign affiliates, note receivable, employees receivable, the state of North Carolina for sales tax paid, and vendor receivables. Management's determination of the allowance for doubtful accounts is based on an evaluation of the receivable, past experience, current economic conditions, and other risks. Receivables are written off when, in the opinion of management, such receivables are deemed to be uncollectible.

Inventories – Inventories consist of various books and publications and are stated at the lower of cost (first-in, first-out method) or net realizable value. A physical inventory of the publications is taken semi-annually (mid-year and year-end).

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Organization and summary of significant accounting policies (continued)

Prepaid Expenses and Deposits – Prepaid expenses consist of television time, publications, Church meeting hall rentals, insurance, and other, which includes postage paid in advance. Deposits include funds to secure hall rentals, youth camps, and festival sites.

Programming costs of television time are paid in advance of the scheduled air date. The expense is recognized in the month that the program is aired.

Prepaid church meeting hall rentals are expensed in the month the meeting is held. The majority of the church hall rentals are on a month-to-month basis.

Property and Equipment – Property and equipment is stated at cost. Depreciation of property is computed on the straight-line method over the estimated useful lives of 30 years for buildings, 10 years for building improvements, and 3 to 5 years for office furniture and equipment. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the life of the respective properties, are expensed when incurred. The cost and accumulated depreciation of property are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the consolidated statements of activities.

Accrued Wages and Other Liabilities – Accrued liabilities primarily pertain to amounts accrued for compensated absences, salaries, and wages.

Income Taxes – The Church is exempt from income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (“IRC”) and applicable state statutes. The Church’s controlled entities are non-profit organizations with no taxable activity. The Church is liable for federal and state taxes on any unrelated business income, as defined in the IRC. The Church’s policy is to record a liability for any tax position taken that is beneficial to the Church, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination.

Donated Services – No amounts have been reflected in the consolidated financial statements for donated services. The Church pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that include assisting the Church with specific programs and service on various assigned crews. Such donated services have not been quantified and do not meet the criteria for recognition in the consolidated financial statements.

Functional Expenses – The costs of providing programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The statement 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. Such allocations are determined by management on an equitable basis. The primary expenses that are allocated include salaries, wages, taxes and benefits, depreciation and amortization, facility expense, insurance, office expense, postage and freight which are allocated on a square footage basis and estimates of time and effort.

Advertising Expense – Advertising costs are expensed as incurred. Total advertising expense for the years ended December 31, 2019 and 2018, was \$321,694 and \$274,840, respectively.

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 of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 1—Organization and summary of significant accounting policies (continued)

Programs and Support Services – The Church sponsors a number of programs and support services. Those programs and services consist of the following:

Support of Local Congregations – Represents the cost incurred and paid by the Church at the local congregation level to provide for the spiritual needs of its members. Included are pastoral expenses such as salaries, health care, vehicles, and other travel related costs; as well as weekly meeting hall rentals, mailing of DVD sermons, expenses to conduct the annual Holy Days, youth programs, the direct support of foreign affiliates, and other support.

Assistance to the Needy – Provides for the material needs of Church members primarily as assistance for widows, orphans, and the poor; including assistance to enable some members to attend the annual Holy Days. Assistance to foreign affiliates in need is also included.

Living Youth Programs, LLC – Includes direct financial support, allocated facility costs, and Church employee personnel costs associated with operating Living Youth Programs, LLC.

Television and Radio – Primarily represents the cost of purchasing air time for the Church's weekly television program, *Tomorrow's World*. Also included are the production costs associated with creating the program and costs for video tape and answering service.

Publishing and Editorial – Includes editorial and publishing costs of the Church's bi-monthly magazine, *Tomorrow's World*, and an array of booklets, primarily intended for non-members. Also included are costs of printing all other Church materials.

Mail Processing and Distribution – Represents the costs of fulfilling literature, audiotape, and compact disk requests generated by preaching the Gospel of the Kingdom of God through television, radio, and publishing. Computer support of mailing lists is also included.

Support Services and Other – Includes administrative expenses not directly attributable to specific programs. This includes the full cost of all finance, accounting, purchasing, human resources, and legal support. It also includes general insurance and other miscellaneous expenses.

New Pronouncement – FASB has issued Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This ASU is effective for annual periods beginning after June 15, 2018 and has been fully implemented in the current year. There was no material impact to the consolidated financial statements and underlying accounting as a result of this implementation.

Future Pronouncements – Leases – In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classifications affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact the pending adoption will have on the Church's consolidated financial statements.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 2—Liquidity and availability

The table below represents financial assets available for general expenditures within one year at December 31:

	<u>2019</u>	<u>2018</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 3,970,700	\$ 2,685,778
Investments	235,568	273,522
Receivables, net	5,515,033	3,865,771
Contributions receivable for use of real estate	<u>83,805</u>	<u>139,675</u>
Total financial assets	9,805,106	6,964,746
Less amounts not available to be used for general expenditures within one year:		
Long-term portion of contributions receivable for use of real estate	<u>27,935</u>	<u>83,805</u>
Financial assets available to meet general expenditures within one year	<u>\$ 9,777,171</u>	<u>\$ 6,880,941</u>

The Church has donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above for financial assets to meet general expenditures within one year. The Church has other assets limited to use based on the passage of time. The long-term portion of these assets limited to use, which are more fully described in Note 11 are not available for general expenditure within the next year.

As part of the Church's liquidity management plan, it structures its financial assets to be available as its obligations come due. The Church considers general expenditures to include program expenses, supporting services, and any commitments or liabilities to be paid in the subsequent year.

Cash is held in interest bearing bank accounts. Additionally, the Church maintains a \$300,000 line of credit, as discussed in more detail in Note 10. As of December 31, 2019 and 2018, \$300,000 remained available on the Church's line of credit.

Note 3—Investments

The fair value of investments at December 31 is summarized below:

	<u>2019</u>	<u>2018</u>
Gold shares	\$ -	\$ 42,919
Precious metal coins	235,568	193,449
Silver shares	-	30,272
Other	-	6,882
Total investments	<u>\$ 235,568</u>	<u>\$ 273,522</u>

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 3—Investments (continued)

Net investment return on the accompanying consolidated statements of activities consists of the following at December 31:

	2019	2018
Interest and dividends	\$ 46,571	\$ 25,564
Unrealized and realized gains (losses)	57,256	(3,793)
Net investment return	<u>\$ 103,827</u>	<u>\$ 21,771</u>

Note 4—Receivables

Receivables at December 31 are as follows:

	2019	2018
Gross estate receivables	\$ 763,984	\$ 1,232,374
Less estate liabilities	-	(125,000)
Net estate receivables	763,984	1,107,374
Contributions receivable	786,909	367,668
Royalties receivable	3,818,084	2,217,393
Due from affiliated entities	28,764	50,143
Note receivable	89,685	91,789
Other receivables	41,607	45,404
	<u>5,529,033</u>	<u>3,879,771</u>
Less allowance for uncollectible receivables	(14,000)	(14,000)
Total receivables	<u>\$ 5,515,033</u>	<u>\$ 3,865,771</u>

Note 5—Contributions receivable for use of real estate

The Church entered into two below fair value operating leases with a church congregation member in July 2018. The operating leases are for two houses that are being used for student housing. The initial term of the leases is 36 months following the commencement date at an annual cost of \$2,065 each. The Church estimated the fair value of the leases at approximately \$167,610 based on comparable market rates. In accordance with U.S. GAAP, the Church recorded the use of the real estate as an unconditional promise to give and as donor restricted support at its fair value. In the initial and future years, the receivable will be reduced and lease expense will be recorded in an amount equal to the estimated annual lease value of the property. At December 31, 2019 and 2018, contributions receivable for the use of real estate is \$83,805 and \$139,675, respectively.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 6—Prepaid expenses

Prepaid expenses at December 31 consist of the following:

	2019	2018
Television	\$ 187,016	\$ 69,531
Church hall rent	99,493	94,174
Postage	19,552	15,403
Insurance	57,786	46,415
Other	109,551	12,246
Total prepaid expenses	<u>\$ 473,398</u>	<u>\$ 237,769</u>

Note 7—Property and equipment

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

	2019	2018
Land	\$ 517,100	\$ 517,100
Land improvements	10,670	10,670
Building and improvements	3,533,016	3,521,286
Leasehold improvements	80,959	80,959
Equipment, furniture, and software	2,992,271	3,083,976
Vehicles	1,366,449	1,255,377
Construction in progress	15,000	42,780
	<u>8,515,465</u>	<u>8,512,148</u>
Less accumulated depreciation	<u>(5,411,602)</u>	<u>(5,189,272)</u>
Property and equipment, net	<u>\$ 3,103,863</u>	<u>\$ 3,322,876</u>

Depreciation expense, including amortization on equipment and vehicles under capital lease, was \$598,333 and \$626,211 for the years ended December 31, 2019 and 2018, respectively.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 8—Capital lease obligations

The Church leases certain equipment under agreements that are classified as capital leases. These obligations require monthly payments varying from \$346 to \$479 and extend through August 2022. At December 31, 2019 and 2018, capital lease obligations were \$38,352 and \$12,303, respectively. The cost of equipment under capital leases is included as property and equipment and is summarized at December 31, as follows:

	<u>2019</u>	<u>2018</u>
Office equipment	\$ 41,402	\$ 83,510
Less accumulated amortization	(4,600)	(70,852)
	<u>\$ 36,802</u>	<u>\$ 12,658</u>

The future minimum payments under these leases are as follows:

2020	\$ 13,165
2021	14,078
2022	<u>11,109</u>
	38,352
Less current maturity	<u>(13,165)</u>
	<u>\$ 25,187</u>

Note 9—Notes payable

The Church had notes payable at December 31 as summarized below:

	<u>2019</u>	<u>2018</u>
Mortgage payable to a bank; variable interest rate based on 0.875% below the bank's prime rate. First year was an interest only loan with a payment of \$6,521. Starting in April of 2013, escalating fixed principal and accrued interest is payable in monthly installments through February 2023 with the final payment of the balance plus accrued interest, if any, due April 2023. As of December 31, 2018, the loan had an interest rate of 4.625%. The mortgage was collateralized by the Church's headquarters and studio located in Charlotte, North Carolina.	\$ -	\$ 1,110,289
Vehicle loans payable to a finance company due in monthly installments ranging from \$498 to \$3,420, bearing interest rates ranging from 3.61% to 5.22%, maturing between July 2019 and March 2023, collateralized by vehicles with a total net book value of \$354,755 at December 31, 2018.	-	<u>372,279</u>
	-	1,482,568
Less current portion	-	<u>(310,203)</u>
	<u>\$ -</u>	<u>\$ 1,172,365</u>

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 9—Notes payable (continued)

In 2012, the Church entered into an interest rate swap on the bank mortgage. The economic substance of the swap agreement was to effectively convert the variable interest rate on this debt to a fixed rate of 3.03%. The notional amount outstanding under the swap agreement equals the scheduled principal amount outstanding under the debt, through the expiration of the swap agreement. Any payments made or received under the swap agreement are recognized when due as an increase or decrease in the related interest expense. At December 31, 2018, the fair value of the interest rate swap was considered immaterial to the consolidated financial statements and has therefore not been reflected in these consolidated financial statements.

Total interest expense for the years ended December 31, 2019 and 2018 was \$2,534 and \$59,258, respectively.

During the year ended December 31, 2019, the Church paid off all notes payable and terminated the interest rate swap agreement.

Note 10—Line of credit

The Church has a \$300,000 line of credit with a bank. The line of credit bears interest at Prime plus 0.25% but never to be less than 4%. The line is secured by substantially all assets of the Church and expires in June 2021. There were no borrowings under the line of credit at December 31, 2019 and 2018.

Note 11—Net assets with donor restriction

Donor restricted net assets are available for the following purposes as of December 31:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specific purpose:		
Disaster relief	\$ 197,625	\$ 175,992
Other	76,877	107,033
	<u>274,502</u>	<u>283,025</u>
Subject to the passage of time:		
Contributions receivable for the use of real estate	83,805	139,675
	<u>\$ 358,307</u>	<u>\$ 422,700</u>

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 12—Net assets released from restrictions

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2019</u>	<u>2018</u>
Disaster relief	\$ -	\$ 187,108
Contribution receivable for the use of real estate	55,870	82,815
Scholarships	-	41,833
Other	135,229	64,412
	<u>\$ 191,099</u>	<u>\$ 376,168</u>

During the year ended December 31, 2018, management determined that a disaster relief project was unable to be completed. Donor restricted funds of approximately \$186,000 included above as net assets released from restrictions, were returned to the donors.

Note 13—Benefit plan

The Church has a 403(b) Tax Deferred Annuity Plan for all eligible employees. Eligible employees may elect to defer up to the maximum contribution permitted by the IRC. The Church can elect to match a discretionary amount each year. For the year ended December 31, 2019 and 2018, the Church matched 1% of eligible employee's contributions and expensed \$58,761 and \$26,736, respectively.

The Church provides discretionary post-employment retirement payments and healthcare benefits to select ministers' widows and retired employees that meet certain objective and subjective criteria. Although one of the criteria includes an employee's years of service (with the Church and its predecessors), an accrual for these future benefits has not been recorded due to the Church's ability to deny payments at its sole discretion. For the years ended December 31, 2019 and 2018, the Church expensed payments for this purpose totaling approximately \$308,000 and \$356,000, respectively.

Note 14—Concentration of credit risk

The Church places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Church from time to time may have amounts on deposit in excess of the insured limits.

A significant portion of the Church's support has historically been attributed to tithes and offerings from the members of the Church. The members are located throughout the United States and abroad. The amount of these contributions is influenced by economic conditions in the geographical area in which these members reside, as well as the number of active members in the Church.

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

Note 15—Related party

The Church has affiliated entities throughout the world that are related by some common board members but are not included in the consolidated financial statements. For the years ended December 31, 2019 and 2018, the Church expended \$710,539 and \$779,830, respectively, related to these affiliates. The Church also had accounts receivables of \$28,764 and \$50,143 due from affiliated entities at December 31, 2019 and 2018, as well as accounts payable due to affiliated entities of \$261,620 and \$120,065 at December 31, 2019 and 2018, respectively, included in the accompanying consolidated statements of financial position.

In addition, the Church is leasing two houses from a congregation member (see Note 5).

Note 16—Fair value measurements of assets and liabilities

The Church utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Under the fair value guidance, the Church groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Financial instruments with unadjusted, quoted prices listed on active market exchanges. All investments owned by the Church other than the precious metal coins and shown in Note 3 are considered Level 1 assets.

Level 2 – Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. The precious metal coins owned by the Church and shown in Note 3 are considered Level 2 assets.

Level 3 – Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value. The Church has no assets or liabilities subject to Level 3 valuations at December 31, 2019 or 2018.

Note 17—Subsequent events

The Church has evaluated subsequent events through October 22, 2020, in connection with the preparation of these consolidated financial statements which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL SCHEDULES

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

	<u>Living Church of God</u>	<u>Living Youth Program</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 3,936,510	\$ 34,190	\$ -	\$ 3,970,700
Investments	397,457	-	(161,889)	235,568
Receivables, net	5,505,410	9,623	-	5,515,033
Contributions receivable for use of real estate	55,870	-	-	55,870
Inventory	127,180	-	-	127,180
Prepaid expenses	473,398	-	-	473,398
Deposits	13,295	-	-	13,295
Total Current Assets	10,509,120	43,813	(161,889)	10,391,044
Contributions receivable for use of real estate	27,935	-	-	27,935
Property and equipment, net	2,975,854	128,009	-	3,103,863
Total Assets	\$ 13,512,909	\$ 171,822	\$ (161,889)	\$ 13,522,842
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 491,970	\$ 2,136	\$ -	\$ 494,106
Accrued wages and other liabilities	407,788	7,797	-	415,585
Capital lease obligations	13,165	-	-	13,165
Total Current Liabilities	912,923	9,933	-	922,856
Capital lease obligations	25,187	-	-	25,187
Total Liabilities	938,110	9,933	-	948,043
Net Assets:				
Without Donor Restrictions:				
Undesignated	12,216,492	161,889	(161,889)	12,216,492
Total Without Donor Restrictions	12,216,492	161,889	(161,889)	12,216,492
With Donor Restrictions:				
Subject to purpose restrictions	274,502	-	-	274,502
Subject to time restrictions	83,805	-	-	83,805
Total With Donor Restrictions	358,307	-	-	358,307
Total Net Assets	12,574,799	161,889	(161,889)	12,574,799
Total Liabilities and Net Assets	\$ 13,512,909	\$ 171,822	\$ (161,889)	\$ 13,522,842

LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2019

	Living Church of God			Living Youth Program		Consolidated		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	Eliminations	Without Donor Restrictions	With Donor Restrictions	Totals
Revenue and Support:								
Tithes and contributions	\$ 14,468,221	\$ -	\$ 14,468,221	\$ 320	\$ -	\$ 14,468,541	\$ -	\$ 14,468,541
Holy Day offerings	3,589,393	-	3,589,393	-	-	3,589,393	-	3,589,393
LCG Subsidy	-	-	-	151,522	(151,522)	-	-	-
Net investment return	103,827	-	103,827	-	-	103,827	-	103,827
Estate gifts	410,241	-	410,241	-	-	410,241	-	410,241
Camp revenue	-	-	-	100,524	-	100,524	-	100,524
Other revenue	4,091,930	-	4,091,930	-	3,244	4,095,174	-	4,095,174
Special project contributions	-	126,706	126,706	-	-	-	126,706	126,706
	22,663,612	126,706	22,790,318	252,366	(148,278)	22,767,700	126,706	22,894,406
Net assets released from restrictions	191,099	(191,099)	-	-	-	191,099	(191,099)	-
Total Revenue and Support	22,854,711	(64,393)	22,790,318	252,366	(148,278)	22,958,799	(64,393)	22,894,406
Expenses:								
Program Services:								
Feeding the Flock	10,037,254	-	10,037,254	255,610	(151,522)	10,141,342	-	10,141,342
Preaching the Gospel	7,215,826	-	7,215,826	-	-	7,215,826	-	7,215,826
Supporting Services:								
Management and General	1,475,954	-	1,475,954	-	-	1,475,954	-	1,475,954
Total Expenses	18,729,034	-	18,729,034	255,610	(151,522)	18,833,122	-	18,833,122
Change in net assets	4,125,677	(64,393)	4,061,284	(3,244)	3,244	4,125,677	(64,393)	4,061,284
Net assets, beginning of year	8,090,815	422,700	8,513,515	165,133	(165,133)	8,090,815	422,700	8,513,515
Net assets, end of year	\$ 12,216,492	\$ 358,307	\$ 12,574,799	\$ 161,889	\$ (161,889)	\$ 12,216,492	\$ 358,307	\$ 12,574,799