

IRVINE PRESBYTERIAN CHURCH INCORPORATED

FINANCIAL STATEMENTS

December 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Session of
Irvine Presbyterian Church Incorporated
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of Irvine Presbyterian Church Inc. (the Church), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Church's preparation and fair presentation of the 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 Church'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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Church as of December 31, 2019 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 of the notes to the financial statements, during the year ended December 31, 2019, Irvine Presbyterian Church Inc. adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*.

Winder, Inc.

Long Beach, California
September 2, 2020

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019**

ASSETS

ASSETS

Cash and cash equivalents	\$ 723,097
Prepaid and other assets	16,620
Land, building, and equipment, net	<u>4,247,378</u>

TOTAL ASSETS \$ 4,987,095

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 99,399
Accrued expenses	117,156
Agency funds held for others	156,006
Deferred revenue	69,211
Notes payable	<u>1,992,120</u>
	<u>2,433,892</u>

NET ASSETS

Without donor restrictions	2,352,473
With donor restrictions	<u>200,730</u>
	<u>2,553,203</u>

TOTAL LIABILITIES AND NET ASSETS \$ 4,987,095

See the Independent Auditors' Report.
The accompanying notes are an integral part of these financial statements.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Pledges and contributions	\$ 1,279,855	\$ 189,896	\$ 1,469,751
Tuition	1,584,639	-	1,584,639
Rental income	808,644	-	808,644
Other income	36,161	-	36,161
Net assets released from restrictions	252,571	(252,571)	-
Total Revenue and Support	3,961,870	(62,675)	3,899,195
EXPENSES			
Program services	2,742,350	-	2,742,350
General and administrative	391,249	-	391,249
Facilities	1,176,106	-	1,176,106
Total Expenses	4,309,705	-	4,309,705
CHANGE IN NET ASSETS	(347,835)	(62,675)	(410,510)
TRANSFER OF AGENCY FUNDS	121,340	(121,340)	-
NET ASSETS CONTRIBUTED FROM TCC	506,300	121,571	627,871
NET ASSETS AT BEGINNING OF YEAR	2,072,668	263,174	2,335,842
NET ASSETS AT END OF YEAR	\$ 2,352,473	\$ 200,730	\$ 2,553,203

See the Independent Auditors' Report.
The accompanying notes are an integral part of these financial statements.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Services					Totals 2019
	Jenny Hart		Total		General and Administrative	
	Early Education Center	Ministry Programs	Program Services	Facilities		
PERSONNEL EXPENSES						
Salaries and wages	\$ 1,016,506	\$ 608,472	\$ 1,624,979	\$ 163,991	\$ 127,436	\$ 1,916,406
Payroll taxes	70,793	15,405	86,199	12,278	7,785	106,262
Health insurance	92,012	73,620	165,631	15,712	11,712	193,055
Benefits	<u>20,657</u>	<u>19,302</u>	<u>39,959</u>	<u>5,254</u>	<u>54</u>	<u>45,267</u>
Total personnel expenses	<u>1,199,969</u>	<u>716,799</u>	<u>1,916,768</u>	<u>197,234</u>	<u>146,987</u>	<u>2,260,989</u>
OPERATIONAL EXPENSES						
Curriculum	681	2,112	2,794	-	-	2,794
Depreciation and amortization	17,865	93,293	111,157	2,295	269,120	382,573
Equipment	6,343	-	6,343	17,217	-	23,560
Events	8,723	61,271	69,994	2,027	-	72,021
Fees and dues	10,648	319	10,967	70,119	3,240	84,325
Insurance	6,020	-	6,020	-	70,960	76,980
Interest	-	-	-	-	85,193	85,193
Missions	-	151,898	151,898	-	-	151,898
Postage	-	647	647	580	-	1,228
Printing	5,882	2,941	8,822	4,963	-	13,785
Professional services - Music	-	301,047	301,047	-	-	301,047
Professional services - Operations	9,660	22,283	31,943	35,582	-	67,525
Repairs and maintenance	530	4,800	5,330	-	128,461	133,791
Rent	-	-	-	-	336,935	336,935
Scholarships	15,054	-	15,054	-	-	15,054
Storage	-	-	-	4,698	10,890	15,588
Supplies	66,554	33,216	99,770	25,569	26,302	151,641
Travel	-	3,134	3,134	21,956	-	25,090
Utilities	<u>-</u>	<u>663</u>	<u>663</u>	<u>9,009</u>	<u>98,017</u>	<u>107,689</u>
Total operational expenses	<u>147,958</u>	<u>677,624</u>	<u>825,582</u>	<u>194,014</u>	<u>1,029,119</u>	<u>2,048,716</u>
	<u>\$ 1,347,927</u>	<u>\$ 1,394,423</u>	<u>\$ 2,742,350</u>	<u>\$ 391,249</u>	<u>\$ 1,176,106</u>	<u>\$ 4,309,705</u>

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (410,510)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	382,573
Changes in operating assets and liabilities:	
Prepaid and other assets	(8,192)
Accounts payable	75,725
Accrued expenses	91,326
Deferred revenue	7,536
Deposits	<u>(50,100)</u>
Net Cash Provided By Operating Activities	<u>88,358</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Crystal Cathedral endowment funds received	61,817
Purchase of property and equipment	<u>(194,636)</u>
Net Cash Used In Investing Activities	<u>(132,819)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from notes payable	458,825
Repayment of notes payable	<u>(10,314)</u>
Net Cash Provided By Financing Activities	<u>448,511</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 404,050

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 319,047

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 723,097

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:	
Interest expense	<u>\$ 85,193</u>
Income taxes	<u>\$ -</u>

IRVINE PRESBYTERIAN CHURCH INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019

NOTE 1 – Nature of Organization

Irvine Presbyterian Church Incorporated (the Church), an affiliate of the Presbyterian Church (USA) located in Irvine, California, is a non-profit corporation organized in California. The Church also operates a preschool and kindergarten under the name Jenny Hart Early Education Center (the JHEEC).

On February 28, 2019, the Church entered into a merger agreement with The Crystal Cathedral DBA Shepherd's Grove (TCC). Under the terms of the merger, the assets of TCC were combined with those of the Church, TCC ceases operations, and the Church is the surviving entity. The net assets transferred in the merger included cash, accrued liabilities, and equipment totaling approximately \$628,000.

The assets of Crystal Cathedral Ministries were not included in the merger. Crystal Cathedral Ministries was affiliated with TCC through control by a common board of directors until the merger with the Church became effective. Subsequent to the merger, Crystal Cathedral Ministries entered into an agreement with Irvine Presbyterian Church Incorporated to provide for reimbursement of certain shared services, rent and to license certain intellectual property.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Church have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The following significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Standards

Beginning January 1, 2019, the Church adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2016-09) and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), and has applied them prospectively. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2018-08 provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional and unconditional contributions. No significant reclassifications to prior-year amounts were necessary in order to adopt the new standards.

Financial Statement Presentation

The Church reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that may be temporary in nature to be met by the actions of the Church or the passage of time; or perpetual in nature, where the donor stipulates that the corpus be maintained intact in perpetuity. As the restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

Contributions

All contributions are considered to be available for use without restriction unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a donor's stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restrictions.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

Contributions, including endowment gifts and pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Contributions are included in donations and collections in the accompanying statement of activities.

Contributed Services

A substantial number of volunteers make significant contributions of their time in the furtherance of the Church's purpose. The value of this contributed time is not reflected in the accompanying financial statements, as it does not meet the recognition criteria under generally accepted accounting principles for contributed services.

Tuition Revenue

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

Cash and Cash Equivalents

Cash consists of cash on hand, in banks, and in money market accounts. The Church considers all highly liquid investments with maturities of 90 days or less to be cash equivalents. The Church maintains its cash accounts at various financial institutions.

Deposits of up to \$250,000 at FDIC-insured institutions are covered by FDIC insurance. At times, deposits may be in excess of the FDIC insurance limit; however, management does not believe the Church is exposed to any significant related credit risk.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost, with the exception of donated equipment, which is recorded at fair market value on the date received. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. Building improvements are amortized over the remaining term of the building lease where the improvements are made. Expenditures for repairs and maintenance are expensed as incurred. Amortization of equipment under the capital lease is computed based on the shorter of the lease terms or the life of the asset and is included in depreciation expense.

Allocation of Expenses

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management based on time and effort.

Impairment of Long-Lived Assets

The Church's long-lived assets include land, building, and equipment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flows from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. As of December 31, 2019, management did not identify any material impairment of the Church's long-lived assets.

Recently Issued Accounting Standard

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Church's fiscal years beginning after December 15, 2021 (fiscal year ending December 31, 2022 for the Church), with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Income Tax Status

The Church is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

The Church recognizes the financial statement benefit of tax positions, such as its position of being tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Church is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and state purposes is generally three and four years, respectively.

Subsequent Events

In preparing these financial statements, the Church's management has evaluated subsequent events and transactions for potential recognition or disclosure through September 2, 2020, the date the financial statements were available to be issued.

NOTE 3 – Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets:	
Cash and cash equivalents	\$ 723,097
Less amounts unavailable for general expenditure	
Within one year due to:	
Agency funds held for others	(156,006)
Restricted by donor for purpose	<u>(200,730)</u>
	<u>\$ 366,361</u>

The Church maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 4 – Land, Building, and Equipment

Land, building, and equipment consisted of the following at December 31, 2019:

Land	\$ 178,000
Furniture and equipment	1,733,580
Buildings and fixtures	<u>9,378,653</u>
	11,290,233
Less accumulated depreciation	<u>(7,042,855)</u>
	<u><u>\$ 4,247,378</u></u>

NOTE 5 – Notes Payable

The Church entered into a \$2,000,000 term loan agreement, dated October 31, 2012, with Farmers & Merchants Bank (the Bank). The loan is payable in 120 monthly principal and interest payments of \$12,181, bears interest at 4.0%, is secured by a deed of trust, and matures on November 1, 2022. The Church also entered into a new term loan for \$585,000 on March 7, 2019, with the Bank. The loan is payable in 43 monthly principal and interest payments of \$8,390, bears interest at 5.25%, is secured by the property in Orange County, California, and matures on November 1, 2022. The loan is intended for refurbishment and improvement of the facility. The loan agreements contain certain covenants and conditions. As of December 31, 2019, the Church was in compliance with the covenants and conditions.

Principal maturities on the note payable are as follows for the years ending December 31:

<u>Year Ending December 31,</u>	
2020	\$ 163,856
2021	171,502
2022	<u>1,656,762</u>
	<u><u>\$ 1,992,120</u></u>

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 6 – Retirement Plan

The Church is a member of the Benefits Plan of the Presbyterian Church (USA). Current dues paid by the Church to provide benefits under the Pension Plan are 11% of a member's Pension Participation Basis, which includes the salaries and housing allowances paid to ordained personnel. The Church made total pension fund payments of \$17,059 during the year ended December 31, 2019. All ordained persons who are normally scheduled to work twenty hours or more a week in active service are eligible. Ordained personnel are automatically vested upon enrollment in the plan.

NOTE 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31, 2019:

<u>Donor Designation</u>	
Missions	\$ 69,837
Endowment	61,816
Debt financing	19,074
Deacons	16,176
Donations	14,779
Worship programs	13,734
Education	2,752
Stained glass memorial	<u>2,562</u>
	<u>\$ 200,730</u>

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 8 – Presbyterian Church (USA)

In accordance with the deed of trust on the real property recorded May 25, 1982, the Church's property will automatically revert to Presbytery of Los Ranchos (PLR) if the property ceases to be used as part of the Presbyterian Church (USA), unless the church negotiates acceptable dismissal terms from the denomination relating to the property.

NOTE 9 – Rental Income

The Church entered a lease with Crystal Cathedral Ministries for a term of five years beginning May 2019, with monthly rental payments of approximately \$50,100 that escalate by the lesser of 3% or the percentage increase in the Consumer Price Index for All Urban Consumers U.S. city average for the most recently reported 12-month period over the term.

The future minimum lease income expected under the noncancelable lease is as follows:

<u>Year Ending December 31,</u>	
2020	\$ 631,621
2021	650,569
2022	670,086
2023	<u>225,552</u>
	<u>\$ 2,177,828</u>

Rental income for the facility and reimbursement of utilities totaled \$808,644 for the year ended December 31, 2019.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 10 – Subsequent Events

In March 2020, Congress passed the Paycheck Protection Program under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act, authorizing loans to small businesses for use in paying employees that they continue to employ throughout the COVID-19 pandemic and for rent, utilities and interest on mortgages. Loans obtained through the program are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met. On April 13, 2020, the Church received a loan in the amount of \$316,112 through the Paycheck Protection Program. Management expects that the entire loan will be used for payroll, utilities, rent, and interest; therefore, management anticipates that the loan will be substantially forgiven. To the extent it is not forgiven, the Church would be required to repay that portion at an interest rate of 1% with a final installment in April 13, 2022.

Because of the severity and global nature of the COVID-19 pandemic, it is reasonably possible that the estimates in the financial statements will change in the near term and the effect of such change could be material. The impact on the Church's business could be significant and have a material impact on its financial position and operating results. Management is in the process of evaluating the potential future impact on the Church's and the financial statements.