

IRVINE PRESBYTERIAN CHURCH INCORPORATED

FINANCIAL STATEMENTS

December 31, 2020

With Comparative Information for 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, 2020, 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 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, 2020 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.

Report on the Summarized Comparative Information

We have previously audited the Church's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 8, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Long Beach, California
November 17, 2021

IRVINE PRESBYTERIAN CHURCH INCORPORATED

STATEMENT OF FINANCIAL POSITION

ASSETS

	December 31,	
	2020	2019
ASSETS		
Cash and cash equivalents	\$ 396,288	\$ 723,097
Prepaid and other assets	-	16,620
Land, building, and equipment, net	<u>4,275,309</u>	<u>4,247,378</u>
TOTAL ASSETS	<u><u>\$ 4,671,597</u></u>	<u><u>\$ 4,987,095</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 178,152	\$ 99,399
Accrued expenses	108,350	117,156
Agency funds held for others	156,006	156,006
Deferred revenue	54,527	69,211
Notes payable	<u>1,832,505</u>	<u>1,992,120</u>
	<u>2,329,540</u>	<u>2,433,892</u>
NET ASSETS		
Without donor restrictions	2,251,929	2,352,473
With donor restrictions	<u>90,128</u>	<u>200,730</u>
	<u>2,342,057</u>	<u>2,553,203</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,671,597</u></u>	<u><u>\$ 4,987,095</u></u>

See 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, 2020
WITH COMPARATIVE TOTALS FOR 2019**

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>	
			<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT				
Pledges and contributions	\$ 1,825,887	\$ 255,994	\$ 2,081,881	\$ 1,469,751
Tuition	1,062,716	-	1,062,716	1,584,639
Rental income	864,948	-	864,948	808,644
Other income	398,176	-	398,176	36,161
Net assets released from restrictions	<u>366,596</u>	<u>(366,596)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>4,518,323</u>	<u>(110,602)</u>	<u>4,407,721</u>	<u>3,899,195</u>
EXPENSES				
Program services	2,986,808	-	2,986,808	2,742,350
General and administrative	572,934	-	572,934	391,249
Facilities	<u>1,059,125</u>	<u>-</u>	<u>1,059,125</u>	<u>1,176,106</u>
Total Expenses	<u>4,618,867</u>	<u>-</u>	<u>4,618,867</u>	<u>4,309,705</u>
CHANGE IN NET ASSETS	(100,544)	(110,602)	(211,146)	(410,510)
NET ASSETS AT BEGINNING OF YEAR	<u>2,352,473</u>	<u>200,730</u>	<u>2,553,203</u>	<u>2,335,842</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,251,929</u>	<u>\$ 90,128</u>	<u>\$ 2,342,057</u>	<u>\$ 2,553,203</u>

See 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, 2020
WITH COMPARATIVE TOTALS FOR 2019**

	<u>Program Services</u>					<u>Totals</u>	
	<u>Jenny Hart</u>		<u>Total</u>	<u>General and</u>	<u>Facilities</u>	<u>2020</u>	<u>2019</u>
	<u>Early</u>	<u>Ministry</u>					
	<u>Education</u>	<u>Programs</u>	<u>Services</u>	<u>Administrative</u>	<u>Facilities</u>	<u>2020</u>	<u>2019</u>
PERSONNEL EXPENSES							
Salaries and wages	\$ 867,683	\$ 635,748	\$ 1,503,431	\$ 361,708	\$ 66,863	\$ 1,932,002	\$ 1,916,406
Payroll taxes	45,645	12,410	58,055	23,970	4,932	86,957	106,262
Health insurance	108,602	82,896	191,498	17,361	6,905	215,764	193,055
Benefits	6,273	31,702	37,975	-	-	37,975	45,267
Total personnel expenses	<u>1,028,203</u>	<u>762,756</u>	<u>1,790,959</u>	<u>403,039</u>	<u>78,700</u>	<u>2,272,698</u>	<u>2,260,989</u>
OPERATIONAL EXPENSES							
Curriculum	8,098	1,343	9,441	-	-	9,441	2,794
Depreciation and amortization	23,248	123,632	146,880	2,558	291,286	440,724	382,573
Equipment	8,139	-	8,139	7,451	-	15,590	23,560
Events	2,213	31,355	33,568	1,788	-	35,356	72,021
Fees and dues	-	69,714	69,714	44,949	771	115,434	84,325
Insurance	-	-	-	500	58,749	59,249	76,980
Interest	-	-	-	-	89,426	89,426	85,193
Missions	-	366,596	366,596	-	-	366,596	151,898
Postage	-	-	-	831	-	831	1,228
Printing	1,410	14,739	16,149	-	-	16,149	13,785
Professional services - Music	-	331,519	331,519	-	-	331,519	301,047
Professional services - Operations	64,154	73,732	137,886	32,390	13,990	184,266	67,525
Repairs and maintenance	374	-	374	46,151	68,771	115,296	133,791
Rent	-	-	-	-	300,600	300,600	336,935
Scholarships	7,463	3,200	10,663	-	-	10,663	15,054
Storage	-	-	-	1,193	16,475	17,668	15,588
Supplies	16,085	46,274	62,359	11,965	45,966	120,290	151,641
Travel	-	2,561	2,561	330	-	2,891	25,090
Utilities	-	-	-	19,789	94,391	114,180	107,689
Total operational expenses	<u>131,184</u>	<u>1,064,665</u>	<u>1,195,849</u>	<u>169,895</u>	<u>980,425</u>	<u>2,346,169</u>	<u>2,048,716</u>
	<u>\$ 1,159,387</u>	<u>\$ 1,827,421</u>	<u>\$ 2,986,808</u>	<u>\$ 572,934</u>	<u>\$ 1,059,125</u>	<u>\$ 4,618,867</u>	<u>\$ 4,309,705</u>

See Independent Auditors' Report

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

IRVINE PRESBYTERIAN CHURCH INCORPORATED

STATEMENT OF CASH FLOWS

	For the Year Ended	
	December 31,	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (211,146)	\$ (410,510)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	440,724	382,573
Other income recognized on Paycheck Protection Program loan	(316,112)	-
Changes in operating assets and liabilities:		
Prepaid and other assets	16,620	(8,192)
Accounts payable	78,753	75,725
Accrued expenses	(8,806)	91,326
Deferred revenue	(14,684)	7,536
Deposits	-	(50,100)
Net Cash Used In Operating Activities	<u>(14,651)</u>	<u>88,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Crystal Cathedral endowment funds received	-	61,817
Purchase of property and equipment	<u>(468,655)</u>	<u>(194,636)</u>
Net Cash Used In Investing Activities	<u>(468,655)</u>	<u>(132,819)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	458,825
Principal repayments on notes payable	(159,615)	(10,314)
Proceeds from Paycheck Protection Program loan	<u>316,112</u>	<u>-</u>
Net Cash Provided By Financing Activities	<u>156,497</u>	<u>448,511</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(326,809)	404,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>723,097</u>	<u>319,047</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 396,288</u></u>	<u><u>\$ 723,097</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest expense	<u>\$ 89,426</u>	<u>\$ 85,193</u>

See Independent Auditors' Report

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

IRVINE PRESBYTERIAN CHURCH INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2020

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 does business with the public as Shepherd's Grove Presbyterian Church. 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 Shepard's Grove (TCC). Under the terms of the merger, the assets of TCC were combined with those of the Church, TCC ceased as an operating entity, and the Church became the surviving entity. The assets transferred in the merger included cash, certain accrued expenses, and equipment of approximately \$628,000.

The assets of Crystal Cathedral Ministries (CCM) were not included in the merger. CCM was affiliated with TCC through control by a common board of directors until the merger with the Church became effective. Subsequent to the merger, CCM entered into an agreement with the Church 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.

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, 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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. Net assets and revenues are classified based on the existence or absence of donor-imposed 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.

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.

Prior-Period Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

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.

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.

The Church maintains its cash in financial institutions which, at times, may exceed federally insured limits. Historically, the Church has not experienced any losses in such accounts.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Land, Building, and Equipment

Land, building, 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.

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, 2020, management did not identify any material impairment of the Church's long-lived assets.

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.

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.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

In preparing these financial statements, the Church’s management has evaluated subsequent events and transactions for potential recognition or disclosure through November 17, 2021, 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	\$ 396,288
Less amounts unavailable for general expenditure within one year due to:	
Agency funds held for others	(156,006)
Restricted by donor for purpose	<u>(90,128)</u>
	<u>\$ 150,154</u>

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

NOTE 4 – Land, Building, and Equipment

Land, building, and equipment consists of the following at December 31, 2020:

Land	\$ 178,000
Furniture and equipment	1,850,273
Buildings and fixtures	<u>9,728,057</u>
	11,756,330
Accumulated depreciation	<u>(7,481,021)</u>
	<u>\$ 4,275,309</u>

Depreciation expense was \$440,724 for the year ended December 31, 2020.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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 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 agreements contain certain covenants and conditions. As of December 31, 2020, 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>	
2021	\$ 171,502
2022	<u>1,661,003</u>
	<u>\$ 1,832,505</u>

NOTE 6 – Paycheck Protection Program Loan

In March 2020, Congress passed the Paycheck Protection Program (PPP), 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. On April 13, 2020, the Church received a Small Business Association (SBA) loan in the amount of \$316,112 through the PPP. Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met. Income is recognized when there is reasonable assurance that the Church will comply with all conditions attached to the loan. Additionally, income is recognized over the periods in which the Company recognizes the expenses the loans are intended to cover. On March 2, 2021, the Church received notification from the SBA that their loan under the Paycheck Protection Program was forgiven in full. For the year ended December 31, 2020, the Church recognized income totaling \$316,112 and is included in “Other income” in the accompanying statement of activities.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7 – 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 \$29,417 during the year ended December 31, 2020. 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 8 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31, 2020:

<u>Donor Designation</u>	
Missions	\$ 21,051
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>\$ 90,128</u>

NOTE 9 – 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.

IRVINE PRESBYTERIAN CHURCH INCORPORATED

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 10 – 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>	
2021	\$ 650,569
2022	670,086
2023	<u>225,552</u>
	<u>\$ 1,546,207</u>

Rental income for the facility and reimbursement of utilities totaled \$854,948 for the year ended December 31, 2020.