# Evangelical Presbyterian Church and Affiliates

## Combined Financial Statements

## For The Years Ended June 30, 2019 and 2018

Batts Morrison Wales & Lee
Certified Public Accountants

**REPORT OF INDEPENDENT AUDITOR**

The Boards of Directors
Evangelical Presbyterian Church and Affiliates
Orlando, Florida

We have audited the accompanying combined financial statements of Evangelical Presbyterian Church and Affiliates (collectively referred to herein as "EPC"), which consist of the combined statements of financial position as of June 30, 2019 and 2018, the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

***Management's Responsibility for the Combined Financial Statements***
Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to EPC's preparation and fair presentation of the combined 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 EPC'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Evangelical Presbyterian Church and Affiliates as of June 30, 2019 and 2018, the combined changes in its net assets, and its combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
April 20, 2020

**EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES**

COMBINED STATEMENTS OF FINANCIAL POSITION

**ASSETS**

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 2,582,506 | $ 2,478,393 |
| Investments | 10,352,830 | 9,334,566 |
| Investments designated for long-term purposes | 50,000 | 50,000 |
| Receivables, net | 452,207 | 500,923 |
| Other assets | 825,467 | 857,413 |
| **Total assets** | **$ 14,263,010** | **$ 13,221,295** |

**LIABILITIES AND NET ASSETS**

| | 2019 | 2018 |
|---|---|---|
| **LIABILITIES** | | |
| Accounts payable and accrued expenses | $ 644,582 | $ 590,124 |
| Claims payable | 1,216,000 | 1,661,000 |
| Postretirement benefit obligations | 289,996 | 289,996 |
| **Total liabilities** | **2,150,578** | **2,541,120** |
| **NET ASSETS** | | |
| Without donor restrictions | | |
| Undesignated | 881,435 | 482,541 |
| Designated | 7,983,049 | 7,073,822 |
| Total without donor restrictions | 8,864,484 | 7,556,363 |
| With donor restrictions | 3,247,948 | 3,123,812 |
| **Total net assets** | **12,112,432** | **10,680,175** |
| **Total liabilities and net assets** | **$ 14,263,010** | **$ 13,221,295** |

## EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES

COMBINED STATEMENTS OF ACTIVITIES

| | For The Year Ended June 30, 2019 | | | For The Year Ended |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total | June 30, 2018 |
| **PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS** | | | | |
| Premiums from participating churches | $ 18,224,411 | $ — | $ 18,224,411 | $ 16,919,568 |
| Contributions with donor restrictions | — | 5,059,543 | 5,059,543 | 5,408,267 |
| Contributions without donor restrictions | 2,695,972 | — | 2,695,972 | 2,893,019 |
| Investment income | 755,832 | — | 755,832 | 338,584 |
| Other revenue | 212,794 | — | 212,794 | 224,375 |
| Actuarial gain on self-funded health insurance liability | 445,000 | — | 445,000 | 154,055 |
| Net assets released from restrictions | 4,935,407 | (4,935,407) | — | — |
| **Total public support and revenue and net assets released from restrictions** | **27,269,416** | **124,136** | **27,393,552** | **25,937,868** |
| **EXPENSES** | | | | |
| Program activities | | | | |
| Premiums and medical claims | 16,691,265 | — | 16,691,265 | 17,548,492 |
| Church program expenses | 6,687,245 | — | 6,687,245 | 7,007,495 |
| Total program activities | 23,378,510 | — | 23,378,510 | 24,555,987 |
| Supporting activities | | | | |
| General and administrative | 2,258,920 | — | 2,258,920 | 2,388,884 |
| Fundraising | 323,865 | — | 323,865 | 295,223 |
| Total supporting activities | 2,582,785 | — | 2,582,785 | 2,684,107 |
| **Total expenses** | **25,961,295** | **—** | **25,961,295** | **27,240,094** |
| **Change in net assets without donor restrictions** | **1,308,121** | **—** | **1,308,121** | **(1,825,975)** |
| **Change in net assets with donor restrictions** | **—** | **124,136** | **124,136** | **523,749** |
| **CHANGE IN NET ASSETS** | **1,308,121** | **124,136** | **1,432,257** | **(1,302,226)** |
| **NET ASSETS - Beginning of year** | **7,556,363** | **3,123,812** | **10,680,175** | **11,982,401** |
| **NET ASSETS - End of year** | **$ 8,864,484** | **$ 3,247,948** | **$ 12,112,432** | **$ 10,680,175** |

# EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS

| | For The Years Ended June 30, 2019 | For The Years Ended June 30, 2018 |
|---|---|---|
| **OPERATING CASH FLOWS** | | |
| Cash received from participating churches | $ 18,273,127 | $ 16,882,634 |
| Cash received from contributors | 7,755,515 | 8,301,286 |
| Cash received from other sources | 212,794 | 224,375 |
| Investment income | 265,864 | 283,266 |
| Cash paid for operating activities and costs | (25,874,891) | (27,303,165) |
| **Net operating cash flows** | **632,409** | **(1,611,604)** |
| **INVESTING CASH FLOWS** | | |
| Net (purchases) sales of investments | (528,296) | 1,348,854 |
| **Net investing cash flows** | **(528,296)** | **1,348,854** |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **104,113** | **(262,750)** |
| **CASH AND CASH EQUIVALENTS - Beginning of year** | **2,478,393** | **2,741,143** |
| **CASH AND CASH EQUIVALENTS - End of year** | **$ 2,582,506** | **$ 2,478,393** |
| **RECONCILIATION OF CHANGE IN NET ASSETS TO OPERATING CASH FLOWS** | | |
| Change in net assets | $ 1,432,257 | $ (1,302,226) |
| Adjustments to reconcile change in net assets to net operating cash flows | | |
| Net investment gain | (489,968) | (55,318) |
| Change in receivables, net | 48,716 | (36,934) |
| Change in other assets | 31,946 | 60,137 |
| Change in accounts payable and accrued expenses | 54,458 | (123,208) |
| Change in claims payable | (445,000) | 116,334 |
| Pension liability adjustment | — | (270,389) |
| **Net operating cash flows** | **$ 632,409** | **$ (1,611,604)** |

The Accompanying Notes are an Integral
Part of These Combined Financial Statements

## NOTE A – NATURE OF ACTIVITIES

Evangelical Presbyterian Church ("the Church") is a not-for-profit Michigan corporation established in 1980. The purpose of the Church is to carry out the Great Commission of Jesus as a denomination of Presbyterian, Reformed, Evangelical, and Missional congregations. To the glory of God, the Church aspires to embody and proclaim Jesus' love as a global movement of congregations engaged together in God's mission through transformation, multiplication, and effective biblical leadership. The Church also conducts a world missions program with a priority on sending missionaries to unreached people groups. The Church consists of more than 600 member churches with nearly 143,000 members. As part of its support of the member churches, the Church administers designated funds, provides a medical insurance program that is available to employees of member churches and their families, and provides a retirement plan that is available to any employees of member churches. The ongoing work of the Church is carried out by the Office of General Assembly ("the General Assembly") and staff of each ministry. The General Assembly appoints the board of directors of the Church.

In conformity with accounting principles generally accepted in the United States of America ("GAAP"), the combined financial statements of the Church include the accounts of the following organizations, which are separate legal entities. All significant inter-organization accounts and transactions have been eliminated in combination.

- EPC Benefit Resources, Inc. ("BRI") is a not-for-profit Michigan corporation established in 2016. The purpose of BRI is to support the mission and operations of the Church and its associated churches and organizations, by providing benefit plans exclusively for eligible individuals and employees (and their dependents). BRI is the plan administrator and trustee of the Evangelical Presbyterian Church Benefits Plan ("the Plan"), as well as the plan administrator of the Evangelical Presbyterian Church 403(b) Defined Contribution Retirement Plan ("the Retirement Plan"). The General Assembly appoints the board of directors of BRI.

- EPC is the sole member of a certain LLC ("the LLC"). This separate legal entity was established in 2015 to carry on specific work in various countries where the use of a separate entity provides practical or legal advantages. For security purposes, the name of this entity is not specifically disclosed in these notes. The General Assembly appoints the board of directors of the LLC.

- Evangelical Presbyterian Church Foundation ("the Foundation") is a not-for-profit Michigan corporation whose purpose is to support the mission and operations of EPC. The General Assembly appoints the board of directors of the Foundation. During the year ended June 30, 2018, the Foundation was dissolved.

References to "EPC" in these footnotes include each of the organizations described above.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Revenue recognition

EPC recognizes cash contributions as revenue when the contributions are received by EPC. Contributions received are recorded as support with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statements of activities as "net assets released from restrictions."

All contributions are received as donations to EPC and not to specific individuals. Contributions which donors request to be used to support the ministry activities of specific missionaries are under the full control of EPC. In order to conservatively account for such contributions, EPC recognizes them as with donor restrictions until they are expended for appropriate ministry purposes.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and cash equivalents

Investments purchased or donated with original maturities of three months or less are considered to be cash equivalents. As of June 30, 2019 and 2018, cash and cash equivalents includes approximately $886,000 held as trustee for the Evangelical Presbyterian Church Benefits Plan.

### Investments

Investments consist of marketable securities and are carried at estimated fair value.

### Investments designated for long-term purposes

Investments designated for long-term purposes consist of a Board designated endowment, the earnings from which are for the financial needs of ministers, missionaries, and other full-time Christian workers.

### Allowance for doubtful accounts

Receivables are stated net of an allowance for doubtful accounts, if any. EPC estimates the allowance for doubtful accounts based on an analysis of specific accounts, taking into consideration the age of the past due account and assessment of ability to pay. Accounts are considered past due when payments are not made in accordance with specified terms. Accounts are written off upon management's determination that the accounts are uncollectible.

### Net assets

Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes. From time to time, the Board of Directors may designate a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion. The Board of Directors has designated a portion of net assets without donor restrictions for various purposes as described in Note J. Net assets with donor restrictions consist of amounts with uses limited by donor-imposed time and/or purpose restrictions.

### Income taxes

The Church and BRI are exempt from federal income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to state law and are further classified as public charities and not private foundations for federal tax purposes. The LLC is considered a disregarded entity for income tax purposes. None of the organizations have incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying combined financial statements.

### Use of estimates

Management uses estimates and assumptions in preparing combined financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these combined financial statements include those used in estimating the fair value of investments, the claims payable, and the postretirement benefit obligations. Actual results could differ from the estimates.

### New accounting pronouncement

Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities is effective for EPC's combined financial statements for the year ended June 30, 2019. The ASU requires various changes to the presentation of financial statements of not-for-profit entities, the most significant of which relate to the classifications of net assets, a requirement to report expenses by natural classification as well as by functional classification, and new required disclosures related to an entity's liquidity and availability of resources. The adoption of the ASU had no effect on EPC's combined net assets as of July 1, 2017 or the combined change in net assets for the year ended June 30, 2018. As allowed by applicable guidance, EPC has chosen not to retrospectively apply certain provisions not required to be applied to the June 30, 2018 combined financial statements.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Reclassifications

Certain amounts included in the June 30, 2018 combined financial statements have been reclassified to conform to classifications adopted during the year ended June 30, 2019. The reclassifications had no material effect on the accompanying combined financial statements.

## NOTE C – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available within one year of the date of the combined statement of financial position as of June 30, 2019 available for general expenditure are as follows:

| | |
|---|---|
| Cash and cash equivalents | $ 2,582,506 |
| Investments | 10,352,830 |
| Investments designated for long-term purposes | 50,000 |
| Receivables, net | 452,207 |
| Total financial assets available within one year | 13,437,543 |
| Less amounts unavailable for general expenditure within one year due to amounts held for: | |
| Medical insurance fund | (6,841,979) |
| Board designations | (1,379,604) |
| Donor restrictions | (1,243,710) |
| Net financial assets available within one year | $ 3,972,250 |

EPC is primarily supported by premiums from participating churches and contributions. As part of EPC's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Boards of Directors have designated certain amounts for various purposes of EPC as described in Note J. Because of the nature of the designations, certain of these amounts are not available for general expenditure within the next year; however, the Boards of Directors could make them available, if necessary. EPC has certain assets limited to use by donors. Because a donor's restriction requires resources to be used in a specific manner or in a future period, EPC must maintain sufficient resources to meet its responsibilities to its donors. Thus, those financial assets are not available for general expenditures within one year of June 30, 2019 and are excluded from net financial assets available to meet general expenditures within one year. EPC also has certain donor-restricted net assets that are available for general expenditures within one year of June 30, 2019, because the restrictions on the net assets are expected to be met by conducting the normal activities of EPC's programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year. Management believes EPC has sufficient liquid assets for general operations that may be drawn upon in the event of an unanticipated financial distress or an immediate liquidity need.

## NOTE D – CONCENTRATION OF CREDIT RISK

EPC maintains its cash and cash equivalents in deposit accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. EPC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

## NOTE E – INVESTMENTS AND INVESTMENTS DESIGNATED FOR LONG-TERM PURPOSES

EPC holds investments of various types both as trustee or custodian and as owner. Investments are carried at estimated fair value. Investments were held for the following purposes or activities:

| | June 30, | |
|---|---|---|
| Category | 2019 | 2018 |
| Held as trustee for the Evangelical Presbyterian Church Benefits Plan | $ 5,956,025 | $ 5,302,115 |
| Held for donor restricted purposes (EPC missionaries) | 2,230,276 | 2,061,497 |
| Held for general operations | 1,769,534 | 1,560,517 |
| Held for board designated medical benevolence fund | 386,474 | 378,744 |
| Held for board designated endowment | 60,521 | 57,514 |
| Held for church loan fund | — | 24,179 |
| Total investments | $ 10,402,830 | $ 9,384,566 |

Investments consisted of the following:

| | June 30, | |
|---|---|---|
| Category | 2019 | 2018 |
| Money market and similar funds | $ 2,172,203 | $ 1,037,034 |
| Common and preferred stock | 3,528,978 | 3,507,074 |
| Mutual funds | 2,097,628 | 916,479 |
| Corporate bonds | 1,797,659 | 1,893,610 |
| Government securities | 806,362 | 2,030,369 |
| Total investments | $ 10,402,830 | $ 9,384,566 |

## NOTE F – FAIR VALUE MEASUREMENTS

GAAP defines fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of "inputs" an organization may use in determining or estimating fair value. The inputs are categorized into "levels" that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical items (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

Following is a description of each of the three levels of input within the fair value hierarchy:

Level 1 – Unadjusted quoted market prices in active markets for identical items

Level 2 – Other significant observable inputs, such as quoted prices for similar items.

Level 3 – Significant unobservable inputs

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**NOTE F – FAIR VALUE MEASUREMENTS (Continued)**

The estimated fair value of certain assets measured on a recurring basis at June 30, 2019 are as follows:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Common and preferred stock | $ 3,528,978 | $ 3,528,978 | $ — | $ — |
| Mutual funds | 2,097,628 | 2,097,628 | — | — |
| Corporate bonds | 1,797,659 | 1,797,659 | — | — |
| Government securities | 806,362 | 806,362 | — | — |
| Total | $ 8,230,627 | $ 8,230,627 | $ — | $ — |

The estimated fair value of certain assets measured on a recurring basis at June 30, 2018 are as follows:

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Common and preferred stock | $ 3,507,074 | $ 3,507,074 | $ — | $ — |
| Government securities | 2,030,369 | 2,030,369 | — | — |
| Corporate bonds | 1,893,610 | 1,893,610 | — | — |
| Mutual funds | 916,479 | 916,479 | — | — |
| Total | $ 8,347,532 | $ 8,347,532 | $ — | $ — |

**NOTE G – OTHER ASSETS**

Other assets consisted of the following:

| | June 30, | |
|---|---|---|
| Category | 2019 | 2018 |
| Notes receivable from churches | $ 386,488 | $ 369,147 |
| Depository account for medical claims | 160,818 | 160,818 |
| Furniture, fixtures, and equipment, net | 118,627 | 160,265 |
| Prepaid expenses | 65,733 | 61,546 |
| Copyrights and other amortized assets, net | 62,955 | 73,149 |
| Inventory | 30,846 | 32,488 |
| Total other assets | $ 825,467 | $ 857,413 |

**NOTE H – SELF-FUNDED HEALTH INSURANCE**

BRI provides a self-funded medical program of health and prescription drug benefits for eligible employees of member churches and their families, as well as clergy and their families. BRI has contracted with a third party administrator to process claims. During 2019, BRI had stop-loss insurance coverage for claims incurred which exceed $500,000 per covered participant (and $750,000 related to a specific participant with a separate deductible amount). During 2018, BRI had stop-loss insurance coverage for claims incurred which exceed $325,000 per covered participant. As of June 30, 2019 and 2018, BRI has recorded an actuarially-calculated estimated liability of $1,216,000 and $1,661,000, respectively, related to the self-funded medical program for estimated claims. This amount is included as “claims payable” on the accompanying combined statements of financial position.

## NOTE H – SELF-FUNDED HEALTH INSURANCE (Continued)

Following is a summary of transactions for the self-funded medical program for the year ended June 30, 2019:

| | |
|---|---|
| Premiums billed | $ 17,277,398 |
| Claims and premiums expense | (15,606,928) |
| Administrative expense | (679,230) |
| Excess of revenue over expenses | $ 991,240 |

Following is a summary of transactions for the self-funded medical program for the year ended June 30, 2018:

| | |
|---|---|
| Premiums billed | $ 16,100,618 |
| Claims and premiums expense | (16,468,326) |
| Administrative expense | (857,335) |
| Excess of expenses over revenue | $ (1,225,043) |

## NOTE I – POSTRETIREMENT BENEFIT OBLIGATIONS

The actuarial present value of postretirement benefit obligations represents the present value of future benefits, which are attributable under the Plan's provisions to the service employees have rendered, reduced by the actuarial present value of premium contributions expected to be received in the future from current Plan participants. Postretirement benefits include benefits expected to be paid to retired or terminated employees or their beneficiaries and dependents and active employees and their beneficiaries and dependents after retirement from service with EPC. The costs of the postretirement benefits are shared by EPC and the retirees. Retirees are expected to contribute approximately 70% of estimated costs of providing postretirement benefits. The postretirement benefit obligations represent the amount that is to be funded by contributions from EPC and from plan assets.

Management used census data as of June 30, 2018 to measure the postretirement benefit obligations and to determine the related footnote disclosures as of June 30, 2019 since there were no material changes in the underlying census data during the period from July 1, 2018 to June 30, 2019. Management determined that the census data as of June 30, 2019 would not result in a materially different liability or footnote disclosures.

The postretirement benefits as described above were terminated effective January 1, 2020.

The actuarial present value of the postretirement benefit obligations is determined by the Plan's actuary. It results from applying actuarial assumptions to historical claims-cost data to estimate future annual incurred claims costs per participant and to adjust such estimates to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, withdrawal, or retirement) between the valuation date and the expected date of payment.

For measurement purposes, the assumed annual rate of increase in the per capita cost of covered health care benefits was 5.30% of the year ended June 30, 2018. The rate decreases to 4.70% in the year 2084 and beyond. The following were other significant assumptions used in the valuation as of June 30, 2018:

| | |
|---|---|
| Life expectancy of participants | RP-2014 Healthy Mortality Table with Generational Projection per modified scale MP-2018 |

**NOTE I – POSTRETIREMENT BENEFIT OBLIGATIONS (Continued)**

| | | |
|---|---|---|
| Retirement age assumptions | Ages 59-61: | 10.00% |
| | Ages 62-63: | 15.00% |
| | Age 64: | 10.00% |
| | Age 65: | 50.00% |
| | Ages 66-69: | 40.00% |
| | Age 70: | 100.00% |
| Discount rate | 4.00% | |
| Turnover | 65% of modified Vaughn Turnover Table (ultimate rates) | |
| | Age 20: | 12.09% |
| | Age 30: | 6.57% |
| | Age 40: | 4.23% |
| | Age 50: | 2.93% |
| | Age 60: | 0.00% |

The valuation excludes current post-65 actives and retirees who are paying 100% of the premium. The independent actuary assumed that there is no implicit rate subsidy associated with these benefits.

The liability for postretirement benefits depends heavily on actuarial assumptions. The impact of changes to the actuarial assumptions would result in benefit obligations increase by approximately $28,000 as of June 30, 2018, with a 1% increase in the annual health care cost trend assumptions.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of postretirement benefit obligations.

**NOTE J – BOARD DESIGNATED NET ASSETS**

Net assets were board designated for the following purposes:

| Category | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Medical insurance fund | $ 5,721,714 | $ 4,633,949 |
| Church loan fund | 821,210 | 813,199 |
| World outreach activities | 619,487 | 869,243 |
| Medical benevolence fund | 386,474 | 378,744 |
| Other purposes | 373,643 | 321,173 |
| Endowment for the financial needs of ministers, missionaries, and other full-time Christian workers | 60,521 | 57,514 |
| Total board designated net assets | $ 7,983,049 | $ 7,073,822 |

## NOTE K – NET ASSETS WITH DONOR RESTRICTIONS

Net assets were donor restricted for the following purposes during the year ended June 30, 2019:

| | Balance July 1, 2018 | Contributions | Releases | Balance June 30, 2019 |
|---|---|---|---|---|
| International missions | $ 2,061,497 | $ 4,401,842 | $ (4,459,101) | $ 2,004,238 |
| Various ministry efforts | 624,439 | 372,318 | (315,927) | 680,830 |
| Emergency relief | 437,876 | 285,383 | (160,379) | 562,880 |
| Total | $ 3,123,812 | $ 5,059,543 | $ (4,935,407) | $ 3,247,948 |

Net assets were donor restricted for the following purposes during the year ended June 30, 2018:

| | Balance July 1, 2017 | Contributions | Releases | Balance June 30, 2018 |
|---|---|---|---|---|
| International missions | $ 1,849,075 | $ 4,078,664 | $ (3,866,242) | $ 2,061,497 |
| Various ministry efforts | 599,036 | 153,707 | (128,304) | 624,439 |
| Emergency relief | 151,952 | 1,175,896 | (889,972) | 437,876 |
| Total | $ 2,600,063 | $ 5,408,267 | $ (4,884,518) | $ 3,123,812 |

## NOTE L – FUNCTIONAL EXPENSE ALLOCATION

Functional and natural expenses for EPC for the year ended June 30, 2019 were as follows:

| | Program | General and administrative | Fundraising | Total expenses |
|---|---|---|---|---|
| Premium and medical claims | $ 16,591,602 | $ — | $ — | $ 16,591,602 |
| Salaries and benefits | 4,445,708 | 656,893 | 299,504 | 5,402,105 |
| Special projects | 1,089,735 | — | 842 | 1,090,577 |
| General administration | 99,301 | 913,567 | — | 1,012,868 |
| General | 81,032 | 367,889 | — | 448,921 |
| Travel | 420,294 | 22,246 | 4,360 | 446,900 |
| Professional services | 237,497 | 109,850 | — | 347,347 |
| Staff development | 259,452 | 6,279 | 19,159 | 284,890 |
| Health savings accounts transfers | 99,663 | — | — | 99,663 |
| Insurance | 48,064 | 45,391 | — | 93,455 |
| Information technology | 6,162 | 84,174 | — | 90,336 |
| Depreciation | — | 52,631 | — | 52,631 |
| **Total expenses** | **$ 23,378,510** | **$ 2,258,920** | **$ 323,865** | **$ 25,961,295** |

The above schedule of functional expenses presents expenses by functional and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Indirect costs that benefit multiple functional areas are allocated among the various functional areas based primarily on employee time and space utilization.

## NOTE M – RETIREMENT PLAN

BRI maintains a 403(b) defined contribution retirement plan ("the Retirement Plan"). Employees are eligible to participate upon meeting the eligibility requirements described in the Retirement Plan document. Eligible employees may make tax-deferred contributions to the Retirement Plan. Employer contributions to the Retirement Plan are discretionary. During the years ended June 30, 2019 and 2018, EPC made contributions to the Retirement Plan totaling approximately $82,000 and $81,000, respectively.

## NOTE N – OPERATING LEASE

EPC leases office space under an operating lease agreement. Rent expense (including common area maintenance and other charges) related to this lease was approximately $223,000 and $195,000 during the years ended June 30, 2019 and 2018.

Future minimum rental payments under the noncancellable operating lease are approximately as follows:

| Year Ending June 30 | |
|---|---|
| 2020 | $ 220,000 |
| 2021 | 226,000 |
| 2022 | 233,000 |
| 2023 | 240,000 |
| 2024 | 247,000 |
| Thereafter | 629,000 |
| Total | $ 1,795,000 |

## NOTE O – SUBSEQUENT EVENTS

In January 2020, the World Health Organization ("WHO") announced a global health emergency related to the outbreak of a virus originating in China. In March 2020, WHO elevated the classification of the outbreak to a pandemic ("the pandemic"). Management is closely monitoring the potential impact of the pandemic on EPC's financial condition and has implemented measures to mitigate against its impact. Such measures include reducing expenses and decreasing overall operations. Because of the unknown impact on global commerce, management is not able to estimate the effects of the pandemic on its operating results, financial condition, or liquidity for the year ending June 30, 2020.

EPC has evaluated for possible financial reporting and disclosure subsequent events through April 20, 2020, the date as of which the combined financial statements were available to be issued.