Evangelical Presbyterian Church and Affiliates

Combined Financial Statements

For The Year Ended June 30, 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 statement of financial position as of June 30, 2018, and the related combined statements of activities and cash flows for the year 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 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 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, 2018, the combined changes in its net assets, and its combined cash flows for the year 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
May 10, 2019

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES

COMBINED STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS

Cash and cash equivalents	$	2,478,393
Investments		9,334,566
Investments designated for long-term purposes		50,000
Receivables, net		500,923
Other assets		857,413
Total assets	**$**	**13,221,295**

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	$	590,124
Claims payable		1,661,000
Postretirement benefit obligations		289,996
Total liabilities		**2,541,120**
NET ASSETS		
Unrestricted		
Undesignated		482,541
Designated		7,073,822
Total unrestricted		7,556,363
Temporarily restricted		3,123,812
Total net assets		**10,680,175**
Total liabilities and net assets	**$**	**13,221,295**

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES

COMBINED STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS			
Premiums from participating churches	$ 16,919,568	$ —	$ 16,919,568
Contributions	2,893,019	5,408,267	8,301,286
Investment income	338,584	—	338,584
Other revenue	224,375	—	224,375
Net assets released from restrictions	4,884,518	(4,884,518)	—
Total public support and revenue and net assets released from restrictions	**25,260,064**	**523,749**	**25,783,813**
EXPENSES			
Program activities			
Premiums and medical clams	17,548,492	—	17,548,492
Church program expenses	7,007,495	—	7,007,495
Total program activities	24,555,987	—	24,555,987
Supporting activities			
General and administrative	2,234,829	—	2,234,829
Fundraising	295,223	—	295,223
Total supporting activities	2,530,052	—	2,530,052
Total expenses	**27,086,039**	**—**	**27,086,039**
CHANGE IN NET ASSETS	**(1,825,975)**	**523,749**	**(1,302,226)**
NET ASSETS - Beginning of year	**9,382,338**	**2,600,063**	**11,982,401**
NET ASSETS - End of year	**$ 7,556,363**	**$ 3,123,812**	**$ 10,680,175**

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

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES

COMBINED STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2018

OPERATING CASH FLOWS		
Cash received from participating churches	$	16,882,634
Cash received from contributors		8,301,286
Cash received from other sources		224,375
Investment income		283,266
Cash paid for operating activities and costs		(27,303,165)
Net operating cash flows		**(1,611,604)**
INVESTING CASH FLOWS		
Net sales of investments		1,348,854
Net investing cash flows		**1,348,854**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(262,750)**
CASH AND CASH EQUIVALENTS - Beginning of year		**2,741,143**
CASH AND CASH EQUIVALENTS - End of year	**$**	**2,478,393**
RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS		
Change in net assets	$	(1,302,226)
Adjustments to reconcile change in net assets to net operating cash flows		
Net investment gain		(55,318)
Change in receivables, net		(36,934)
Change in other assets		60,137
Change in accounts payable and accrued expenses		(123,208)
Change in claims payable		116,334
Pension liability adjustment		(270,389)
Net operating cash flows	**$**	**(1,611,604)**

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 145,000 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

Restricted and unrestricted revenue and support

EPC recognizes cash contributions as revenue when the contributions are received by EPC. Contributions are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions or time restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as "net assets released from restrictions."

Temporarily restricted net assets

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 temporarily restricted 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. 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.

Income taxes

EPC 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 a 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.

Subsequent events

EPC has evaluated for possible financial reporting and disclosure subsequent events through May 10, 2019, the date as of which the combined financial statements were available to be issued.

NOTE C – 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 D – INVESTMENTS AND INVESTMENTS DESIGNATED FOR LONG-TERM PURPOSES

EPC hold 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:

Investments held as trustee for the Evangelical Presbyterian Church Benefits Plan	$ 5,302,115
Investments held for temporarily restricted purposes (EPC missionaries)	2,061,497
Investments held for general operations	1,560,517
Investments held for board designated medical benevolence fund	378,744
Investments held for board designated endowment	57,514
Investments held for church loan fund	24,179
Total investments	$ 9,384,566

Investments consisted of the following:

Category	
Money market and similar funds	$ 1,037,034
Common and preferred stock	3,507,074
Government securities	2,030,369
Corporate bonds	1,893,610
Mutual funds	916,479
Total investments	$ 9,384,566

NOTE E – 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 E – FAIR VALUE MEASUREMENTS (Continued)

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 F – OTHER ASSETS

Other assets consisted of the following:

Category	
Notes receivable from churches	$ 369,147
Depository account for medical claims	160,818
Furniture, fixtures, and equipment, net	160,265
Copyrights and other amortized assets, net	73,149
Prepaid expenses	61,546
Inventory	32,488
Total other assets	$ 857,413

NOTE G – 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. BRI has stop-loss insurance coverage for claims incurred which exceed $325,000 per individual. As of June 30, 2018, BRI has recorded an actuarially-calculated estimated liability of $1,661,000, related to the self-funded medical program for estimated claims. This amount is included as “claims payable” on the accompanying combined statement of financial position.

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 H – 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.

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	
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 I – BOARD DESIGNATED NET ASSETS

Net assets were board designated for the following purposes at June 30, 2018:

Category	
Medical insurance fund	$ 4,633,949
Church loan fund	813,199
World outreach activities	869,243
Medical benevolence fund	378,744
Other purposes	321,173
Endowment for the financial needs of ministers, missionaries, and other full-time Christian workers	57,514
Total board designated net assets	$ 7,073,822

NOTE J – TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily 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

During the year ended June 30, 2018, management of EPC determined that certain amounts previously treated as temporarily restricted net assets should have been treated as unrestricted net assets. Accordingly, $1,319,278 of net assets have been reclassified from temporarily restricted net assets to unrestricted net assets as of July 1, 2017, with no effect on total net assets.

During the year ended June 30, 2018, management of EPC determined that certain amounts previously treated as permanently restricted net assets should have been treated as unrestricted net assets. Accordingly, $50,000 of net assets have been reclassified from permanently restricted net assets to unrestricted net assets as of July 1, 2017, with no effect on total net assets.

NOTE K – 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 year ended June 30, 2018, EPC made contributions to the Retirement Plan totaling approximately $81,000.

NOTE L – 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 $195,000 during the year ended June 30, 2018.

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

Year Ending June 30	
2019	$ 213,000
2020	220,000
2021	226,000
2022	233,000
2023	240,000
Thereafter	876,000
Total	$ 2,008,000