



EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES

COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019





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, 2020 and 2019, 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, 2020 and 2019, 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.

Battis Morrison Wales & Lee, P.A.

BATTIS MORRISON WALES & LEE, P.A.

Orlando, Florida
June 1, 2021

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EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2020	2019
Cash and cash equivalents	\$ 4,186,672	\$ 2,582,506
Investments	10,917,308	10,352,830
Investments designated for long-term purposes	50,000	50,000
Receivables, net	447,019	452,207
Other assets	777,738	825,467
Total assets	\$ 16,378,737	\$ 14,263,010

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 681,656	\$ 644,582
Claims payable	925,000	1,216,000
Postretirement benefit obligations	—	289,996
Total liabilities	1,606,656	2,150,578

NET ASSETS

Without donor restrictions		
Undesignated	1,838,876	881,435
Designated	9,170,659	7,983,049
Total without donor restrictions	11,009,535	8,864,484
With donor restrictions	3,762,546	3,247,948
Total net assets	14,772,081	12,112,432
Total liabilities and net assets	\$ 16,378,737	\$ 14,263,010

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

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES

	For The Year Ended June 30, 2020			For The Year Ended June 30, 2019
	Without Donor Restrictions	With Donor Restrictions	Total	
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS				
Premiums from participating churches	\$ 18,262,527	\$ —	\$ 18,262,527	\$ 18,224,411
Contributions with donor restrictions	—	7,005,686	7,005,686	5,059,543
Contributions without donor restrictions	1,443,929	—	1,443,929	2,695,972
Grant revenue	511,228	—	511,228	—
Investment income	403,769	—	403,769	755,832
Other revenue	59,494	—	59,494	212,794
Actuarial gain on self-funded health insurance liability and termination of postretirement benefit	580,996	—	580,996	445,000
Net assets released from restrictions	<u>6,491,088</u>	<u>(6,491,088)</u>	<u>—</u>	<u>—</u>
Total public support and revenue and net assets released from restrictions	<u>27,753,031</u>	<u>514,598</u>	<u>28,267,629</u>	<u>27,393,552</u>
EXPENSES				
Program activities				
Premiums and medical claims	16,229,701	—	16,229,701	16,691,265
Church program expenses	<u>6,593,008</u>	<u>—</u>	<u>6,593,008</u>	<u>6,687,245</u>
Total program activities	<u>22,822,709</u>	<u>—</u>	<u>22,822,709</u>	<u>23,378,510</u>
Supporting activities				
General and administrative	2,432,315	—	2,432,315	2,258,920
Fundraising	<u>352,956</u>	<u>—</u>	<u>352,956</u>	<u>323,865</u>
Total supporting activities	<u>2,785,271</u>	<u>—</u>	<u>2,785,271</u>	<u>2,582,785</u>
Total expenses	<u>25,607,980</u>	<u>—</u>	<u>25,607,980</u>	<u>25,961,295</u>
Change in net assets without donor restrictions	2,145,051	—	2,145,051	1,308,121
Change in net assets with donor restrictions	<u>—</u>	<u>514,598</u>	<u>514,598</u>	<u>124,136</u>
CHANGE IN NET ASSETS	2,145,051	514,598	2,659,649	1,432,257
NET ASSETS - Beginning of year	<u>8,864,484</u>	<u>3,247,948</u>	<u>12,112,432</u>	<u>10,680,175</u>
NET ASSETS - End of year	<u>\$ 11,009,535</u>	<u>\$ 3,762,546</u>	<u>\$ 14,772,081</u>	<u>\$ 12,112,432</u>

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

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS

	For The Years Ended	
	June 30,	
	2020	2019
OPERATING CASH FLOWS		
Cash received from participating churches	\$ 18,267,715	\$ 18,273,127
Cash received from contributors	8,449,615	7,755,515
Cash received from other sources	59,494	212,794
Investment income	281,664	265,864
Cash paid for operating activities and costs	<u>(25,523,177)</u>	<u>(25,874,891)</u>
Net operating cash flows	<u>1,535,311</u>	<u>632,409</u>
INVESTING CASH FLOWS		
Net purchases of investments	<u>(442,373)</u>	<u>(528,296)</u>
Net investing cash flows	<u>(442,373)</u>	<u>(528,296)</u>
FINANCING CASH FLOWS		
Borrowings	<u>511,228</u>	<u>—</u>
Net financing cash flows	<u>511,228</u>	<u>—</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,604,166	104,113
CASH AND CASH EQUIVALENTS - Beginning of year	<u>2,582,506</u>	<u>2,478,393</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 4,186,672</u>	<u>\$ 2,582,506</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO		
OPERATING CASH FLOWS		
Change in net assets	\$ 2,659,649	\$ 1,432,257
Adjustments to reconcile change in net assets to net operating cash flows		
Conversion of notes payable to grant revenue	(511,228)	—
Net investment gain	(122,105)	(489,968)
Change in receivables, net	5,188	48,716
Change in other assets	47,729	31,946
Change in accounts payable and accrued expenses	37,074	54,458
Change in claims payable	(291,000)	(445,000)
Termination of postretirement benefit	<u>(289,996)</u>	<u>—</u>
Net operating cash flows	<u>\$ 1,535,311</u>	<u>\$ 632,409</u>

SUPPLEMENTAL DISCLOSURE

During the year ended June 30, 2020, \$511,228 of principal reductions of certain notes payable are included in "grant revenue" in the accompanying combined statement of activities. See Note H.

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES

NOTES TO 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.

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.

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, 2020 and 2019, cash and cash equivalents includes approximately \$1,494,000 and \$886,000, respectively, held as trustee for the Evangelical Presbyterian Church Benefits Plan.

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 K. 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.

Economic uncertainties

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 taken actions to mitigate its impact. Such actions include availing EPC of relief measures available under federal law and reducing the overall scope and cost of 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.

Subsequent events

EPC has evaluated for possible financial statement reporting and disclosure subsequent events through June 1, 2021, the date as of which the combined financial statements were available to be issued.

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE C – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure within one year of the date of the combined statements of financial position are as follows:

	June 30.	
	2020	2019
Financial assets available:		
Cash and cash equivalents	\$ 4,186,672	\$ 2,582,506
Investments	10,917,308	10,352,830
Investments designated for long-term purposes	50,000	50,000
Receivables, net	447,019	452,207
Total financial assets available within one year	15,600,999	13,437,543
Less amounts unavailable for general expenditure within one year due to amounts held for:		
Medical insurance fund	(7,849,722)	(6,841,979)
Board designations	(1,411,018)	(1,379,604)
Donor restrictions	(1,271,860)	(1,243,710)
Net financial assets available within one year	\$ 5,068,399	\$ 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 K. 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 expenditure within one year of the combined statements of financial position 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 the combined statements of financial position, 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.

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
 NOTES TO COMBINED FINANCIAL STATEMENTS

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:

<u>Category</u>	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Held as trustee for the Evangelical Presbyterian Church Benefits Plan	\$ 6,355,312	\$ 5,956,025
Held for donor restricted purposes (EPC missionaries)	2,307,268	2,230,276
Held for general operations	1,820,159	1,769,534
Held for board designated medical benevolence fund	418,735	386,474
Held for board designated endowment	<u>65,834</u>	<u>60,521</u>
Total investments	<u>\$ 10,967,308</u>	<u>\$ 10,402,830</u>

Investments consisted of the following:

<u>Category</u>	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Money market and similar funds	\$ 1,279,117	\$ 2,172,203
Common and preferred stock	3,565,242	3,528,978
Mutual funds and exchange-traded funds	2,686,361	2,097,628
Corporate bonds	2,180,068	1,797,659
Government securities and other	<u>1,256,520</u>	<u>806,362</u>
Total investments	<u>\$ 10,967,308</u>	<u>\$ 10,402,830</u>

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.

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE F – FAIR VALUE MEASUREMENTS (Continued)

The estimated fair value of certain assets measured on a recurring basis at June 30, 2020 are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common and preferred stock	\$ 3,565,242	\$ 3,565,242	\$ —	\$ —
Mutual funds and exchange-traded funds	2,686,361	2,686,361	—	—
Corporate bonds	2,180,068	2,180,068	—	—
Government securities and other	<u>1,256,520</u>	<u>1,256,520</u>	—	—
Total	<u>\$ 9,688,191</u>	<u>\$ 9,688,191</u>	<u>\$ —</u>	<u>\$ —</u>

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common and preferred stock	\$ 3,528,978	\$ 3,528,978	\$ —	\$ —
Mutual funds and exchange-traded funds	2,097,628	2,097,628	—	—
Corporate bonds	1,797,659	1,797,659	—	—
Government securities and other	<u>806,362</u>	<u>806,362</u>	—	—
Total	<u>\$ 8,230,627</u>	<u>\$ 8,230,627</u>	<u>\$ —</u>	<u>\$ —</u>

NOTE G – OTHER ASSETS

Other assets consisted of the following:

<u>Category</u>	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Notes receivable from churches	\$ 403,980	\$ 386,488
Depository account for medical claims	175,096	160,818
Copyrights and other amortized assets, net	82,832	62,955
Furniture, fixtures, and equipment, net	44,357	118,627
Prepaid expenses	41,288	65,733
Inventory	<u>30,185</u>	<u>30,846</u>
Total other assets	<u>\$ 777,738</u>	<u>\$ 825,467</u>

NOTE H – PAYCHECK PROTECTION PROGRAM

During the year ended June 30, 2020, EPC obtained two Paycheck Protection Program notes payable (“the PPP loans”) in the aggregate amount of \$511,228. The PPP loans are unsecured and are payable to certain financial institutions at a fixed rate of 1.00% per annum with a deferral of interest and principal payments which ended in January 2021, the date the Small Business Administration issued a decision granting full forgiveness of the loans. During the year ended June 30, 2020, management estimates that EPC incurred or spent \$511,228 of expenditures eligible for forgiveness. Accordingly, this amount has been recognized as a reduction to “notes payable” in the accompanying combined statements of financial position (reducing the balance of the PPP loans to zero as of June 30, 2020) and as “grant revenue” in the accompanying combined statement of activities.

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE I – 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 had stop-loss insurance coverage for claims incurred which exceed \$525,000 (beginning in January 2020) or \$500,000 (until December 2019) per covered participant and \$750,000 related to a specific participant with a separate deductible amount. As of June 30, 2020 and 2019, BRI has recorded an actuarially-calculated estimated liability of \$925,000 and \$1,216,000, respectively, related to the self-funded medical program for estimated claims. This amount is included as “claims payable” in the accompanying combined statements of financial position.

Following is a summary of transactions for the self-funded medical program for the year ended June 30, 2020:

Premiums billed	\$ 17,266,408
Claims and premiums expense	(15,185,666)
Administrative expense	<u>(784,612)</u>
Excess of revenue over expenses	<u>\$ 1,296,130</u>

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	<u>(679,230)</u>
Excess of revenue over expenses	<u>\$ 991,240</u>

NOTE J – 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:

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
 NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE J – POSTRETIREMENT BENEFIT OBLIGATIONS (Continued)

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.

NOTE K – BOARD DESIGNATED NET ASSETS

Net assets were board designated for the following purposes:

Category	June 30,	
	2020	2019
Medical insurance fund	\$ 7,250,867	\$ 5,721,714
World outreach activities	734,971	619,487
Church loan fund	442,940	821,210
Medical benevolence fund	418,736	386,474
Other purposes	257,311	373,643
Endowment for the financial needs of ministers, missionaries, and other full-time Christian workers	65,834	60,521
Total board designated net assets	\$ 9,170,659	\$ 7,983,049

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE L – NET ASSETS WITH DONOR RESTRICTIONS

Net assets were donor restricted for the following purposes during the year ended June 30, 2020:

	Balance July 1, 2019	<u>Contributions</u>	<u>Releases</u>	Balance June 30, 2020
International missions	\$ 2,004,238	\$ 5,665,210	\$ (5,178,762)	\$ 2,490,686
Various ministry efforts	680,830	516,309	(363,835)	833,304
Emergency relief	<u>562,880</u>	<u>824,167</u>	<u>(948,491)</u>	<u>438,556</u>
Total	<u>\$ 3,247,948</u>	<u>\$ 7,005,686</u>	<u>\$ (6,491,088)</u>	<u>\$ 3,762,546</u>

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

	Balance July 1, 2018	<u>Contributions</u>	<u>Releases</u>	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	<u>437,876</u>	<u>285,383</u>	<u>(160,379)</u>	<u>562,880</u>
Total	<u>\$ 3,123,812</u>	<u>\$ 5,059,543</u>	<u>\$ (4,935,407)</u>	<u>\$ 3,247,948</u>

NOTE M – FUNCTIONAL EXPENSE ALLOCATION

Functional and natural expenses for EPC for the year ended June 30, 2020 were as follows:

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
Premium and medical claims	\$ 16,229,701	\$ —	\$ —	\$ 16,229,701
Salaries and benefits	4,641,621	577,255	325,726	5,544,602
General administration	163,810	1,089,213	—	1,253,023
Special projects	999,375	—	489	999,864
General	42,777	399,574	—	442,351
Travel	366,190	11,112	3,008	380,310
Staff development	316,584	2,286	23,733	342,603
Information technology	—	136,715	—	136,715
Professional services	14,696	110,218	—	124,914
Insurance	47,955	64,832	—	112,787
Depreciation	<u>—</u>	<u>41,110</u>	<u>—</u>	<u>41,110</u>
Total expenses	<u>\$ 22,822,709</u>	<u>\$ 2,432,315</u>	<u>\$ 352,956</u>	<u>\$ 25,607,980</u>

EVANGELICAL PRESBYTERIAN CHURCH AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE M – FUNCTIONAL EXPENSE ALLOCATION (Continued)

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

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total expenses</u>
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	<u>\$ 23,378,510</u>	<u>\$ 2,258,920</u>	<u>\$ 323,865</u>	<u>\$ 25,961,295</u>

The above schedules of functional expenses present 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 N – 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, 2020 and 2019, EPC made contributions to the Retirement Plan totaling approximately \$86,000 and \$82,000, respectively.

NOTE O – 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 \$236,000 and \$223,000 during the years ended June 30, 2020 and 2019.

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

Year Ending <u>June 30</u>	
2021	\$ 226,000
2022	233,000
2023	240,000
2024	247,000
2025	255,000
Thereafter	<u>374,000</u>
Total	<u>\$ 1,575,000</u>