

VAN NUYS FOURSQUARE CHURCH
a subordinate organization of the
International Church of the Foursquare Gospel
dba The Church On The Way

FINANCIAL STATEMENTS WITH
INDEPENDENT ACCOUNTANTS' REVIEW REPORT

December 31, 2018 and 2017

VAN NUYS FOURSQUARE CHURCH
a subordinate organization of the
International Church of the Foursquare Gospel
dba The Church On The Way

December 31, 2018 and 2017

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To the Church Council
Van Nuys Foursquare Church
a subordinate organization of the
International Church of the Foursquare Gospel
dba The Church On The Way
Van Nuys, California

We have reviewed the accompanying financial statements of Van Nuys Foursquare Church (the Church), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Church's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Van Nuys Foursquare Church for the year ended December 31, 2017, were reviewed by another accountant who were not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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March 6, 2019

VAN NUYS FOURSQUARE CHURCH
a subordinate organization of the International Church of the Foursquare Gospel
dba The Church On The Way

STATEMENTS OF FINANCIAL POSITION
For the Years Ended December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,856,162	\$ 3,412,295
Cash and cash equivalents - restricted	<u>23,178</u>	<u>28,676</u>
Total cash and cash equivalents	2,879,340	3,440,971
General accounts receivable	9,589	5,661
Due from affiliated ministry	17,529	38,271
Other receivable	173,351	-
Prepaid expenses	<u>65,425</u>	<u>54,590</u>
Total current assets	<u>3,145,234</u>	<u>3,539,493</u>
Noncurrent assets:		
Assets held for benefit of trustee	66,887	77,235
Insurance proceeds receivable	1,538,537	1,538,537
Property and equipment, net	<u>21,113,868</u>	<u>17,674,402</u>
Total noncurrent assets	<u>22,719,292</u>	<u>19,290,174</u>
Total assets	<u>\$ 25,864,526</u>	<u>\$ 22,829,667</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 190,366	\$ 165,170
Accrued liabilities	7,594	119,475
Due to affiliated ministry	<u>59,210</u>	<u>56,200</u>
Total current liabilities	<u>257,170</u>	<u>340,845</u>
Noncurrent liabilities:		
Annuity and trust obligations	<u>82,802</u>	<u>92,178</u>
Total noncurrent liabilities	<u>82,802</u>	<u>92,178</u>
Total liabilities	<u>339,972</u>	<u>433,023</u>
Net assets:		
Without donor restrictions	25,501,376	22,367,968
With donor restrictions	<u>23,178</u>	<u>28,676</u>
Total net assets	<u>25,524,554</u>	<u>22,396,644</u>
Total liabilities and net assets	<u>\$ 25,864,526</u>	<u>\$ 22,829,667</u>

See independent accountants' review report and accompanying notes

VAN NUYS FOURSQUARE CHURCH
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STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>			<u>2017</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenues:						
Contributions	\$ 4,721,251	\$ 219,377	\$ 4,940,628	\$ 4,634,968	\$ 253,489	\$ 4,888,457
Rental income	411,700	-	411,700	395,745	-	395,745
Interest income	32,645	-	32,645	25,966	-	25,966
Event income	34,912	-	34,912	38,446	-	38,446
Realized and unrealized gains (losses) on investments	(5,256)	-	(5,256)	9,717	-	9,717
Other income	100,870	789	101,659	96,160	-	96,160
Net assets released from restrictions	<u>225,664</u>	<u>(225,664)</u>	<u>-</u>	<u>255,425</u>	<u>(255,425)</u>	<u>-</u>
Total support and revenues	<u>5,521,786</u>	<u>(5,498)</u>	<u>5,516,288</u>	<u>5,456,427</u>	<u>(1,936)</u>	<u>5,454,491</u>
Expenses:						
Program activities:						
Church ministry	3,123,795	-	3,123,795	4,110,143	-	4,110,143
Missions	198,085	-	198,085	228,402	-	228,402
Total program activities	<u>3,321,880</u>	<u>-</u>	<u>3,321,880</u>	<u>4,338,545</u>	<u>-</u>	<u>4,338,545</u>
Supporting activities:						
General and administrative	2,546,498	-	2,546,498	1,309,513	-	1,309,513
Fundraising	-	-	-	-	-	-
Total supporting activities	<u>2,546,498</u>	<u>-</u>	<u>2,546,498</u>	<u>1,309,513</u>	<u>-</u>	<u>1,309,513</u>
Total expenses	<u>5,868,378</u>	<u>-</u>	<u>5,868,378</u>	<u>5,648,058</u>	<u>-</u>	<u>5,648,058</u>
Other income and expenses:						
Non-cash contribution of real property	3,480,000	-	3,480,000	-	-	-
Real property insurance claim	-	-	-	1,538,537	-	1,538,537
Gain on sale of property	-	-	-	717,266	-	717,266
Total other income and expenses	<u>3,480,000</u>	<u>-</u>	<u>3,480,000</u>	<u>2,255,803</u>	<u>-</u>	<u>2,255,803</u>
Change in net assets	<u>3,133,408</u>	<u>(5,498)</u>	<u>3,127,910</u>	<u>2,064,172</u>	<u>(1,936)</u>	<u>2,062,236</u>
Net assets, beginning of year	<u>22,367,968</u>	<u>28,676</u>	<u>22,396,644</u>	<u>20,303,796</u>	<u>30,612</u>	<u>20,334,408</u>
Net assets, end of year	<u>\$ 25,501,376</u>	<u>\$ 23,178</u>	<u>\$ 25,524,554</u>	<u>\$ 22,367,968</u>	<u>\$ 28,676</u>	<u>\$ 22,396,644</u>

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VAN NUYS FOURSQUARE CHURCH
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STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

With summarized information for the year ended December 31, 2017

	Program activities		Supporting activities		2018 Total	2017 Total
	Church ministry	Missions	General and administrative	Fundraising		
Expenses:						
Advertising	\$ 19,135	\$ -	\$ -	\$ -	\$ 19,135	\$ 1,898
Automobile care	-	-	8,559	-	8,559	6,675
Bank charges	-	-	50,858	-	50,858	44,371
Benevolence	-	45,111	-	-	45,111	29,623
Building maintenance	-	-	76,657	-	76,657	103,127
Contract services	60,919	-	231,855	-	292,774	248,530
Depreciation	-	-	644,837	-	644,837	694,388
Equipment lease	-	-	89,151	-	89,151	86,562
Event expenses	224,802	-	-	-	224,802	283,186
Insurance	-	-	80,805	-	80,805	80,575
Landscaping	-	-	37,056	-	37,056	33,733
Membership and dues	5,128	-	2,312	-	7,440	7,935
Miscellaneous	8,931	6,621	-	-	15,552	15,608
Missions	-	146,353	-	-	146,353	196,842
Office supplies	26,704	-	24,241	-	50,945	59,863
Payroll fees	-	-	4,915	-	4,915	4,212
Payroll taxes	64,770	-	36,288	-	101,058	85,469
Professional development	56,661	-	22,042	-	78,703	55,860
Professional services and honoraria	74,056	-	15,356	-	89,412	94,375
Property taxes	-	-	20,131	-	20,131	25,037
Salaries and benefits	1,923,508	-	880,939	-	2,804,447	2,455,659
Social and fellowship	94,956	-	9,368	-	104,324	79,986
Supplies	78,153	-	35,603	-	113,756	153,715
Tithe to ICFG	472,810	-	-	-	472,810	455,300
Travel	4,363	-	100	-	4,463	12,574
Utilities	8,899	-	275,425	-	284,324	332,955
Total expenses	<u>\$ 3,123,795</u>	<u>\$ 198,085</u>	<u>\$ 2,546,498</u>	<u>\$ -</u>	<u>\$ 5,868,378</u>	<u>\$ 5,648,058</u>

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STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 3,127,910	\$ 2,062,236
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation expense	644,837	694,388
Gain on disposal of property	-	(717,266)
Non-cash contribution of property	(3,480,000)	-
Estimated insurance recovery from fire loss	-	(1,538,537)
Realized and unrealized loss/(gain) on investments	5,256	(9,717)
Actuarial change gift annuity	(9,376)	(5,159)
Change in value of trusts	10,348	(3,768)
Payments to beneficiaries of gift annuities	5,700	5,700
Changes in:		
General accounts receivable	(3,928)	-
Due from affiliated ministry	20,742	5,840
Other receivable	(173,351)	-
Prepaid expenses	(10,835)	(19,971)
Accounts payable	25,196	(43,693)
Accrued liabilities	(111,881)	10,549
Due to affiliated ministry	<u>3,010</u>	<u>12,501</u>
Net change from operating activities	<u>53,628</u>	<u>453,103</u>
Cash flows from investing activities		
Proceeds from sale of trust assets	2,155	5,949
Proceeds from sale of property	-	1,171,952
Acquisition of property and equipment	<u>(604,303)</u>	<u>(1,099,057)</u>
Net change from investing activities	<u>(602,148)</u>	<u>78,844</u>
Cash flows from financing activities		
Payments to beneficiaries of trust and gift annuities	(10,334)	(10,828)
Realized and unrealized gains and losses trust assets	<u>(2,777)</u>	<u>8,896</u>
Net change from financing activities	<u>(13,111)</u>	<u>(1,932)</u>
Net change in cash and cash equivalents	(561,631)	530,015
Total cash and cash equivalents, beginning of year	<u>3,440,971</u>	<u>2,910,956</u>
Total cash and cash equivalents, end of year	<u>\$ 2,879,340</u>	<u>\$ 3,440,971</u>

See independent accountants' review report and accompanying notes

VAN NUYS FOURSQUARE CHURCH
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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

Note 1 – Summary of significant accounting policies

The following significant accounting policies are presented to assist the reader in understanding these financial statements. The financial statements and notes are representations of management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of activities

Van Nuys Foursquare Church, commonly referred to as The Church On The Way, (the Church), is a member church of the International Church of the Foursquare Gospel (ICFG), a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state law(s). However, the organization is subject to federal income tax on any unrelated business taxable income. In addition the organization is not classified as a private foundation within the meaning of Section 509(c) of the IRC. ICFG consists of the corporate office, districts and member churches under one corporate umbrella.

These financial statements only report the assets, liabilities, revenue and expenses of the Church. Title to all real estate is held in the name of ICFG for the benefit of member churches.

The Church's primary sources of income are contributions from members and regular attendees.

Basis of accounting

The financial statements of the Church have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP) and accordingly reflect all significant receivables, payables, and other liabilities.

Comparative financial information

The accompanying financial statements include certain 2017 summarized comparative information. With respect to the accompanying statements of functional expenses, information for 2017 is presented in aggregate and not displayed by category. Accordingly, such information should be read in conjunction with the Church's 2017 financial statements from which summarized information was derived.

Concentrations of credit risk

The Church maintains its cash deposit accounts at commercial banks and credit unions located in California. Cash accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) up to \$250,000. The balances in these accounts may, at times, exceed federally insured limits. The Church has not experienced any losses in such accounts and does not believe it is exposed to significant credit risk in connection with cash and cash equivalents.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

Note 1 – Summary of significant accounting policies (continued)

Cash and cash equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Cash and cash equivalents – restricted

The Church routinely receives contributions that are subject to donor-imposed restrictions. Restricted cash consists of those amounts set aside to comply with such restrictions. These accounts may, at times, exceed federally insured limits. The Church has not experienced any losses on such accounts.

Due from affiliated ministry

Due from affiliated ministry consists of expense reimbursements due from an affiliated ministry La Iglesia En El Camino (LIEEC). The Church expects to collect the full amount in less than one year. Related party transactions with LIEEC are summarized in Note 10.

Other receivable

Other receivable as of December 31, 2018 consisted of amounts due from the Church's payroll company. The transfer of funds for year end payroll was incorrectly deducted twice by the payroll company. The Church was immediately reimbursed on January 3, 2019.

Assets held for benefit of trusts

Assets held for benefit of trusts consist primarily of shares of exchange traded funds (ETF's) and closed-end funds (CEF). The securities are carried at fair value, which is based upon quoted market prices. When market prices are not available, fair values are based on quoted prices of comparable instruments. Realized and unrealized gains and losses are reported as unrestricted investment income in the statement of activities unless restricted by the donor. Donated securities are recorded at market value on the date of the gift and thereafter carried in accordance with the above provisions.

Fair value measurements

The fair value of the Church's investments in assets held for the benefit of trusts is measured based on levels of observable and reliable assumptions as follows:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

Note 1 – Summary of significant accounting policies (continued)

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer, or broker traded transactions. These valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The Church's investments in assets held for the benefit of trusts are measured and reported at fair value on a recurring basis.

Property and equipment

Capital expenditures over \$10,000 for property and equipment and capital expenditures over \$10,000 for maintenance and repairs are capitalized, and presented at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from five to thirty years. Maintenance, repairs, and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expenses as incurred. Donated assets are capitalized at their approximate fair market value at the date of the gift. Depreciation expense for the years ended December 31, 2018 and 2017, was \$644,837 and \$694,389, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2018 and 2017, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

Due to affiliated ministry

Due to affiliated ministry consists of extension tithe due ICFG. Related party transactions with ICFG are summarized in Note 10.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

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NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1 – Summary of significant accounting policies (continued)

Net assets

The Church reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as net assets with donor restrictions, depending on the nature of restrictions. When a restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. At December 31, 2018 and 2017, net assets with donor restrictions consisted of \$23,178 and \$28,676, respectively.

Revenue recognition

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a benefit interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Revenue is recognized when earned.

Contributed goods and services

Volunteers contribute amounts of time to the program activities, administration, and fundraising and development activities carried out by the Church. However, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by accounting principles generally accepted in the United States. Donated professional services are recorded at their respective fair values. No significant contributions of such services were received during the years ended December 31, 2018 and 2017.

Contributed goods are recorded at fair value at the date of the donation. The Church received donated stocks during the years ended December 31, 2018 and 2017 valued at \$9,274 and \$11,712, respectively. These amounts are reflected on the statements of activities as contributions revenue. The Church also received donated real property during the year ended December 31, 2018 valued at \$3,480,000. This amount is reflected on the statements of activities as non-cash contribution of real property.

Functional allocation of expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, certain expenses require allocation on a reasonable basis that is consistently applied. Expenses are allocated based on specific identification of costs related to each function.

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NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 1 – Summary of significant accounting policies (continued)

Advertising costs

The Church expenses all advertising costs as they are incurred. Advertising costs for the year ended December 31, 2018 and 2017 was \$19,135 and \$1,898, respectively.

Income taxes

The Church is exempt from Federal and California income tax under Internal Revenue Code Section 501(c)(3) as a member of ICFG. The Church is subject, however, to Federal and California income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended December 31, 2018 and 2017, the Church had no activities unrelated to its exempt purpose, and therefore did not incur tax liability due to unrelated business income. The Church does not believe its financial statements include (or reflect) any uncertain tax positions.

Note 2 – Liquidity and availability

As part of liquidity management, the Church has put a policy in place to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Financial assets available for general expenditure within one year consisted of the following at December 31, 2018:

Total cash and cash equivalents	\$ 2,879,340
General accounts receivable	9,589
Due from affiliated ministry	17,529
Other receivable	<u>173,351</u>
 Total financial assets	 3,079,809
 Contractual or donor-imposed restrictions:	
Donor contributions with specific purpose restrictions	23,178
Board designated for property	<u>895,804</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u><u>\$ 2,160,827</u></u>

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NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 3 – Assets held for the benefit of trusts

Assets held for benefit of trusts consisted of the following:

	2018	2017
Cash	\$ 1,351	\$ 4,078
Exchange traded funds and closed-end funds	<u>65,536</u>	<u>73,157</u>
 Total assets held for benefit of trusts	 <u>\$ 66,887</u>	 <u>\$ 77,235</u>

Fair values for the Church’s investments in assets held for the benefit of trusts is as follows at December 31:

	2018			
	Level 1	Level 2	Level 3	Total
Exchange traded funds and closed-end funds	\$ 65,536	\$ -	\$ -	\$ 65,536
 Total	 <u>\$ 65,536</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 65,536</u>
	2017			
	Level 1	Level 2	Level 3	Total
Exchange traded funds and closed-end funds	\$ 73,157	\$ -	\$ -	\$ 73,157
 Total	 <u>\$ 73,157</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 73,157</u>

There were no transfers between levels during the years ended December 31, 2018 and 2017.

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NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 4 – Property and equipment

Property and equipment consisted of the following at December 31:

	2018	2017
Land	\$ 14,450,145	\$ 13,169,505
Building and improvements	21,580,121	19,203,574
Furniture, fixtures and equipment	3,490,548	3,063,432
Automobiles	<u>123,837</u>	<u>123,837</u>
 Total property and equipment	 39,644,651	 35,560,348
 Less: accumulated depreciation	 <u>(18,530,783)</u>	 <u>(17,885,946)</u>
 Total property and equipment, net	 <u><u>\$ 21,113,868</u></u>	 <u><u>\$ 17,674,402</u></u>

Land, building and improvements are not encumbered.

Note 5 – Insurance proceeds receivable

On November 6, 2017, a fire destroyed the prayer chapel. As a result of the fire, in the year ended December 31, 2017, the Church wrote off the identifiable property and equipment destroyed in the fire. The cost basis of this property was \$1,286,215 and had been fully depreciated as of the year then ended. The Church is currently in the process of rebuilding the property and expects insurance proceeds to cover the entire cost of the building. Based on the estimated actual cash value, a receivable of \$1,538,537 was recorded on the statement of financial position at December 31, 2017. No funds were received from the receivable in the year ended December 31, 2018. Instead of receiving the funds directly, the Church has elected to have the insurance company pay all bills for the costs of rebuilding. As the insurance company pays the bills, the receivable will be reduced accordingly.

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NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

Note 6 – Annuity and trust obligations

Gift annuities

The Church has established a gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed dollar annual return during their lifetimes. This transaction provides for a portion of the transfer to be considered a charitable contribution for income tax purposes.

The difference between the amount contributed for the gift annuity and the liability of future payments, determined on an actuarial basis, is recognized as contributions without donor restrictions at the date of the gift. The difference between the assets and the liabilities is reported on the statements of financial position as net assets without donor restrictions. The present value of the expected payments to the annuitants over their life expectancy is reported on the statement of financial position as a liability under Annuity and trust obligations as a liability and is revalued annually based upon actuarially computed present values to comply with state legal reserve requirements.

Irrevocable agreement

As trustees, the Church administers a charitable remainder trust. This trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Church's use. The difference between the amount contributed and the liability for future payments, determined on an actuarial basis, is recognized as contributions with donor restrictions at the date of the gift. The obligation for trust and annuities exceeded the assets by \$15,915 and \$14,943 for the years ended December 31, 2018 and 2017, respectively.

The present value of the expected payments to the trustor over the life expectancy is reported on the statements of financial position as a liability under Annuity and trust obligations. The discount rate used in calculating the present value approximates the interest rate on a 30-year Treasury security at the time the trust agreement was created.

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NOTES TO FINANCIAL STATEMENTS
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Note 6 – Annuity and trust obligations (continued)

Annuity and trust obligations consisted of the following:

	2018	2017
Gift annuities	\$ 51,625	\$ 55,337
Irrevocable trusts	<u>31,177</u>	<u>36,841</u>
 Total annuity and trust obligations	 <u>\$ 82,802</u>	 <u>\$ 92,178</u>

Change in value of split interest agreements consisted of the following:

	2018	2017
Investment and other income	\$ 4,693	\$ 8,896
Change in actuarial value	(3,735)	(3,227)
Payments to trustors and annuitants and related expenses	<u>(10,334)</u>	<u>(10,828)</u>
 Total change in value of split interest agreements	 <u>\$ (9,376)</u>	 <u>\$ (5,159)</u>

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Note 7 – Net assets with donor restrictions

Net assets with donor restrictions consisted of the following at December 31:

	2018	2017
Net assets without donor restrictions:		
Undesignated	\$ 24,605,572	\$ 21,185,574
Board designated for property	<u>895,804</u>	<u>1,182,394</u>
Total net assets without donor restrictions	25,501,376	22,367,968
Net assets with donor restrictions:		
Historic cross monument	<u>23,178</u>	<u>28,676</u>
Total net assets with donor restrictions	<u>23,178</u>	<u>28,676</u>
Total net assets	<u><u>\$ 25,524,554</u></u>	<u><u>\$ 22,396,644</u></u>

Note 8 – Retirement plan

The Church participates in the ICFG 403(b) retirement plan. The plan covers licensed ministers and full-time employees and provides matching contributions for employee salary deferrals. Retirement expense was \$94,433 and \$75,073 for the years ended December 31, 2018 and 2017, respectively, which is included in salaries and benefits on the statements of functional expenses.

Note 9 – Operating leases

The Church leases its office copiers under an operating lease. The lease expires in September 2021. Lease expense for the years ended December 31, 2018 and 2017, was \$61,101 and \$60,677, respectively.

Future minimum lease payments consist of the following for the years ended December 31:

2019	\$	19,764
2020		19,764
2021		13,176
2022		-
2023		-

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Note 10 – Related party transactions

ICFG

The Church pays an extension tithes to ICFG equal to 10% of contributions received. ICFG returns 20% of this tithes to the Church to be used for missions. The gross amount paid by the Church for the years ended December 31, 2018 and 2017 was \$472,810 and \$455,300, respectively. As of December 31, 2018 and 2017, the Church owed ICFG \$59,210 and \$56,200, respectively.

ICFG gave a non-cash gift of property to the Church in 2018. The value of the property was \$3,480,000 and is recorded as non-cash contribution of real property in the statement of activities.

LIEEC

LIEEC rents a portion of the Church's campus. For the years ended December 31, 2018 and 2017, rent payments to the Church totaled \$360,000 each year, which is included in rental income on the statements of activities. Various utility and shared service payments are paid by the Church and reimbursed by LIEEC. For the years ended December 31, 2018 and 2017, the reimbursements totaled \$231,454 and \$337,857, respectively. For the years ended December 31, 2018 and 2017, LIEEC owed the Church reimbursements totaling \$17,529 and \$38,271, respectively.

Pastor Emeritus

The Church established a retirement agreement with the Pastor Emeritus whereby he will be allowed to live in a parsonage property rent-free for the rest of his life.

Rental income

The Church owns several residential rental properties, two of which are rented to employees, generally on a month-to-month basis. The total rental income received from related parties for the years ended December 31, 2018 and 2017, was \$34,800 and \$27,600, respectively.

Note 11 – Supplemental disclosures to the statement of cash flows

There were no amounts paid for interest or income taxes for the years ended December 31, 2018 and 2017.

There were no non-cash financing or investing activities for the years ended December 31, 2018 and 2017.

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Note 12 – New accounting standards adopted

The Church has elected to early adopt Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires significant changes in the following areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. There was no material impact on the presentation of the financial statements due to this implementation.

The Church also elected to adopt the FASB issued Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issue Task Force). The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash or restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 is required for the Church for the year ending which addresses the presentation of certain cash flows with the objective of reducing the existing diversity in practice. The new standard is effective for the year ending December 31, 2019. There was no material impact on the Church's financial statements upon adoption of the new standard.

Note 13 – Subsequent events

Management has evaluated subsequent events through March 6, 2019, the date on which the financial statements were available to be issued.