

**PRESBYTERY OF SANTA BARBARA**

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

**PRESBYTERY OF SANTA BARBARA**  
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## INDEPENDENT AUDITOR'S REPORT

Council Members of the Presbytery of Santa Barbara

We have audited the accompanying financial statements of Presbytery of Santa Barbara (the "Presbytery") which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Presbytery of Santa Barbara as of December 31, 2016 and 2015, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,  
Turner & Morrisset  
November 13, 2018

**PRESBYTERY OF SANTA BARBARA**  
**Statements of Financial Position**  
December 31, 2016 and 2015

<i>Assets</i>	Unrestricted	Temporarily Restricted	<b>2016</b>	Unrestricted	Temporarily Restricted	<b>2015</b>
<b><i>Current Assets</i></b>						
Cash and cash equivalents	\$ 733,614	\$ 137,141	\$ 870,755	\$ 848,022	\$ 158,269	\$ 1,006,291
Investments	19,223	28,288	47,511	18,793	27,830	46,623
Related party receivable	271,396	-	271,396	210,767	-	210,767
Dismissal receivables	23,203	43,125	66,328	33,804	54,500	88,304
<b><i>Total current assets</i></b>	<b>1,047,436</b>	<b>208,554</b>	<b>1,255,990</b>	<b>1,111,386</b>	<b>240,599</b>	<b>1,351,985</b>
<b><i>Other Assets</i></b>						
Property and buildings, net	4,177,908	-	4,177,908	4,240,482	-	4,240,482
<b><i>Total assets</i></b>	<b>\$ 5,225,344</b>	<b>\$ 208,554</b>	<b>\$ 5,433,898</b>	<b>\$ 5,351,868</b>	<b>\$ 240,599</b>	<b>\$ 5,592,467</b>
<b><i>Liabilities and Net Assets</i></b>						
<b><i>Current Liabilities</i></b>						
Accounts payable	\$ 184,373	\$ -	\$ 184,373	\$ 166,056	\$ -	\$ 166,056
Deferred revenue	25,784	-	25,784	-	9,010	9,010
Pass-through payables	-	46,417	46,417	-	8,954	8,954
Notes payable, current	52,948	-	52,948	50,610	-	50,610
<b><i>Total current liabilities</i></b>	<b>263,105</b>	<b>46,417</b>	<b>309,522</b>	<b>216,666</b>	<b>17,964</b>	<b>234,630</b>
<b><i>Other Liabilities</i></b>						
Notes payable, non-current	2,282,997	-	2,282,997	2,335,997	-	2,335,997
<b><i>Total liabilities</i></b>	<b>\$ 2,546,102</b>	<b>\$ 46,417</b>	<b>\$ 2,592,519</b>	<b>\$ 2,552,663</b>	<b>\$ 17,964</b>	<b>\$ 2,570,627</b>
<b><i>Net Assets</i></b>						
Unrestricted						
Council designated	349,150	-	349,150	455,000	-	455,000
Other unrestricted net assets	2,330,092	-	2,330,092	2,344,205	-	2,344,205
Temporarily restricted	-	162,137	162,137	-	222,635	222,635
<b><i>Total net assets</i></b>	<b>2,679,242</b>	<b>162,137</b>	<b>2,841,379</b>	<b>2,799,205</b>	<b>222,635</b>	<b>3,021,840</b>
	<b>\$ 5,225,344</b>	<b>\$ 208,554</b>	<b>\$ 5,433,898</b>	<b>\$ 5,351,868</b>	<b>\$ 240,599</b>	<b>\$ 5,592,467</b>

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

**PRESBYTERY OF SANTA BARBARA**

**Statements of Activities**

Years Ended December 31, 2016 and 2015

	Unrestricted	Temporarily Restricted	<b>2016</b>	Unrestricted	Temporarily Restricted	<b>2015</b>
<b><i>Revenues, Gains, and Other Support</i></b>						
Ministry Share and contributions	\$ 262,337	\$ -	\$ 262,337	\$ 279,399	\$ -	\$ 279,399
Dismissal revenues	-	-	-	158,919	20,000	178,919
Mission Street Church contributions	-	3,950	3,950	-	104,598	104,598
Front Porch contributions	-	132,894	132,894	-	268,115	268,115
IMPACT income	-	175,442	175,442	-	123,509	123,509
Mission conference registration fees	-	18,847	18,847	-	36,901	36,901
Grant income	35,000	-	35,000	10,000	-	10,000
Interest income	2,171	-	2,171	4,309	-	4,309
Foundation distributions	-	7,394	7,394	-	8,225	8,225
Other income	11,932	-	11,932	2,438	-	2,438
Investment income, net	1,176	-	1,176	-	-	-
Net assets released from restrictions	399,025	(399,025)	-	656,142	(656,142)	-
<b><i>Total revenues, gains, and other support</i></b>	<b>711,641</b>	<b>(60,498)</b>	<b>651,143</b>	<b>1,111,207</b>	<b>(94,794)</b>	<b>1,016,413</b>
<b><i>Expenses</i></b>						
Program services	553,241	-	553,241	952,571	-	690,694
Management and general	278,363	-	278,363	379,139	-	641,016
<b><i>Total expenses</i></b>	<b>831,604</b>	<b>-</b>	<b>831,604</b>	<b>1,331,710</b>	<b>-</b>	<b>1,331,710</b>
<b><i>Decrease in net assets</i></b>	<b>(119,963)</b>	<b>(60,498)</b>	<b>(180,461)</b>	<b>(220,503)</b>	<b>(94,794)</b>	<b>(315,297)</b>
<b><i>Net assets, beginning of year</i></b>	<b>2,799,205</b>	<b>222,635</b>	<b>3,021,840</b>	<b>3,019,708</b>	<b>317,429</b>	<b>3,337,137</b>
<b><i>Net assets, end of year</i></b>	<b>\$ 2,679,242</b>	<b>\$ 162,137</b>	<b>\$ 2,841,379</b>	<b>\$ 2,799,205</b>	<b>\$ 222,635</b>	<b>\$ 3,021,840</b>

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

**PRESBYTERY OF SANTA BARBARA**  
**Statement of Functional Expenses**  
Year Ended December 31, 2016

	Program Services					Supporting Services	<b>Total 2016</b>
	Mission Street Church	Front Porch	IMPACT	Mission Conference	Ecclesiastical Services	Management and General	
Salaries and benefits	\$ -	\$ 93,753	\$ 57,537	\$ -	\$ 38,163	\$ 39,662	\$ 229,115
Payroll taxes	-	2,517	2,384	-	-	2,159	7,060
Total salaries and benefits	-	96,270	59,921	-	38,163	41,821	236,175
Per capita	-	-	-	-	90,434	-	90,434
Interest expense	-	-	-	-	-	115,812	115,812
Travel	-	396	67,114	7,378	8,967	-	83,855
Insurance expense	-	-	-	-	-	10,265	10,265
Professional services	-	1,913	-	-	23,400	10,444	35,757
Supplies	-	42,196	11,505	1,176	-	5,958	60,835
Occupancy	-	15,657	-	4,231	-	15,568	35,456
Depreciation	-	-	-	-	-	62,574	62,574
Committee and meeting expenses	-	-	-	19,442	2,850	15,921	38,213
Other	25,305	-	-	-	10,000	-	35,305
Santa Maria Living Word	-	-	-	-	26,923	-	26,923
	<u>\$ 25,305</u>	<u>\$ 156,432</u>	<u>\$ 138,540</u>	<u>\$ 32,227</u>	<u>\$ 200,737</u>	<u>\$ 278,363</u>	<u>\$ 831,604</u>

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

**PRESBYTERY OF SANTA BARBARA**  
**Statement of Functional Expenses**  
Year Ended December 31, 2015

	Program Services					Supporting Services	<b>Total 2015</b>
	Mission Street Church	Front Porch	IMPACT	Mission Conference	Ecclesiastical Services	Management and General	
Salaries and benefits	\$ 175,437	\$ 128,579	\$ 57,549	\$ -	\$ 138,001	\$ 63,803	\$ 563,369
Payroll taxes	4,148	2,498	3,089	-	-	4,514	14,249
Total salaries and benefits	179,585	131,077	60,638	-	138,001	68,317	577,618
Per capita	-	-	-	-	85,486	-	85,486
Interest expense	-	-	-	-	-	118,324	118,324
Travel	-	5,398	123,349	-	5,805	-	134,552
Insurance expense	1,198	3,637	1,162	-	-	6,314	12,311
Professional services	-	-	-	-	4,786	10,857	15,643
Supplies	21,457	44,136	-	-	-	4,738	70,331
Occupancy	21,781	25,933	-	-	-	17,919	65,633
Depreciation	-	-	-	-	-	63,434	63,434
Marketing	42,563	-	-	-	-	-	42,563
Committee and meeting expenses	-	-	-	-	27,799	18,989	46,788
Other	26,780	-	-	2,000	-	1,566	30,346
Realized loss on asset disposal	-	-	-	-	-	11,181	11,181
Santa Maria Living Word	-	-	-	-	57,500	-	57,500
	<u>\$ 293,364</u>	<u>\$ 210,181</u>	<u>\$ 185,149</u>	<u>\$ 2,000</u>	<u>\$ 319,377</u>	<u>\$ 321,639</u>	<u>\$ 1,331,710</u>

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



**PRESBYTERY OF SANTA BARBARA**  
**Statements of Cash Flows**  
Years Ended December 31, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b><i>Cash flows from operating activities</i></b>		
Decrease in net assets	\$ (180,461)	\$ (324,997)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	62,574	63,434
Net realized loss on disposal of equipment	-	11,277
Unrealized loss (gain) on investments	(888)	2,677
(Increase) decrease in:		
Loan receivable	(60,629)	17,013
Dismissal receivable	21,976	30,101
Increase (decrease) in:		
Accounts payable	18,317	146,234
Pass-through payable	37,463	8,954
Deferred revenue	16,774	(7,074)
	<b>(84,874)</b>	<b>(52,381)</b>
<b><i>Net cash used by operating activities</i></b>		
<b><i>Cash flows from financing activities</i></b>		
Principal payments on notes payable	(50,662)	(48,529)
	<b>(50,662)</b>	<b>(48,529)</b>
<b><i>Net cash used by financing activities</i></b>		
Net decrease in cash and cash equivalents	(135,536)	(100,910)
<b><i>Cash and cash equivalents, beginning of year</i></b>	<b>1,006,291</b>	<b>1,107,201</b>
<b><i>Cash and cash equivalents, end of year</i></b>	<b>\$ 870,755</b>	<b>\$ 1,006,291</b>

**PRESBYTERY OF SANTA BARBARA**  
**Notes to Financial Statements**  
December 31, 2016 and 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Presbytery of Santa Barbara (the “Presbytery”) is presented to assist in understanding the Presbytery’s financial statements. The financial statements and notes are representations of the Presbytery’s Council, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

*Nature of Activities*

On December 1, 1896, the Presbytery of Santa Barbara formally organized. The Presbytery is a non-profit religious organization devoted to supporting their affiliated congregations throughout the greater tri-counties area. The mission of the Presbytery is to make disciples of Christ. Trusting in God’s gracious sovereignty in our changing world, each congregation is called to worship the Triune God, witness to the Gospel, express God’s love, justice and mercy, invite commitment to Jesus as Savior and Lord, nurture spiritual maturity, and prepare persons to participate in God’s continuing good work of redemption. The Presbytery is located in Goleta, California.

*Financial Statement Presentation*

Information regarding the Presbytery’s financial position and activities is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets generally result from unrestricted contributions and investment income less expenses incurred in providing services and fundraising and other administrative expenses.

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period or for a specific purpose. They also include distributions on permanently restricted assets held by the Presbyterian Foundation (the “Foundation”) where the income has not yet been appropriated for expenditure. When a restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restriction.

Permanently restricted net assets consist of assets where the donor has imposed permanent restrictions on use of the principal of assets donated. When assets with permanent restrictions are received, they are transferred to the Foundation where donor funds are held and restrictions are administered as the Presbytery does not hold any permanently restricted net assets.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### *Cash and Cash Equivalents*

For purposes of the statement of cash flows, cash and cash equivalents consists of cash on hand, cash in banks, and cash in money market funds and excludes cash and cash equivalents held for investment. Cash equivalents classified as investments include money market funds.

### *Investments*

Generally, GAAP requires that nonprofit organizations report investments at fair value. In accordance with that guidance, the Presbytery accounts for its marketable equity securities at fair value. Information about the investments is presented in Note 2.

### *Contributions, Dismissal revenues, Registration fees, and Pass-through revenues*

Contributions are recognized when received. Dismissal revenues are accrued upon execution of dismissal agreement between the Presbytery and the dismissed congregation. Registration fees are collected for the Mission Conference and revenues are recognized upon the commencement of the event which held in the first quarter of the calendar year. Pass-through revenues are recognized when received.

### *Fair Value Measurements*

The Presbytery follows Accounting Standard Codification (ASC) No. 820, *Fair Value Measurements and Disclosures*, issued by the Financial Accounting Standards Board (FASB). This standard defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. Pursuant to ASC No. 820, assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC No. 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment, estimation, or other unobservable inputs.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis.

*Cash and cash equivalents:* Valued at face value. (Level 1)

*Mutual funds:* Valued utilizing quoted prices available in active markets for identical investments as of the reporting date. (Level 1)

### *Property and Equipment*

Property and equipment are stated at cost or, if acquired by gift, at the fair market value at the date of donation. Expenditures for building improvements and major renewals in excess of \$2,500 that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Buildings and improvements	15-30
Furniture and equipment	2-5

### *Revenue Recognition*

The Presbytery recognizes contribution, registration fees, and interest. Dismissal revenues are recognized when dismissal agreements are executed.

### *Functional Expenses*

Direct expenses are charged to programs or supporting services in general categories based on specific identification.

### *Tax Exempt Status*

The Presbytery is an exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, and is considered a religious organization.

### *Use of Estimates*

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### *Subsequent Events*

Management has evaluated subsequent events through November 13, 2018, the date that the financial statements were available to be issued.

## 2. INVESTMENTS

As of December 31, 2016 and 2015, unrestricted and temporarily restricted investments consist of the following:

<u>December 31, 2016</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Deficit of Fair Value Over Cost</u>
Mutual funds	\$ 49,299	\$ 47,511	\$ (1,788)

  

<u>December 31, 2015</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Deficit of Fair Value Over Cost</u>
Mutual funds	\$ 49,299	\$ 46,623	\$ (2,676)

Investment income as of December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 2,171	\$ 4,309
Net changes in release gain	288	
Net changes in unrealized gain (loss)	<u>888</u>	<u>-</u>
Total investment income	<u>\$ 3,347</u>	<u>\$ 4,309</u>

## 3. RELATED PARTY RECEIVABLE

On November 11, 2008, the Presbytery obtained a loan to purchase land and building in Paso Robles, California to be occupied by Highlands Church (Note 8). Upon occupancy, Highlands Church agreed to remit periodic payments to the Presbytery in order to service the principal and interest payments of the loan. Highlands Church has not maintained current payments of principal and interest and the balances represent amounts due in arrears. The Presbytery has not provided a reserve for the receivable balance.

Total debt service payments as of December 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Principal and interest payments paid by Presbytery	\$ 902,770	\$ 776,868
Payments received from Highlands Church	<u>(631,374)</u>	<u>(556,101)</u>
Total receivable	<u>\$ 271,396</u>	<u>\$ 210,767</u>

#### 4. DISMISSAL RECEIVABLE

In 2014 and 2015, eight churches were dismissed from the Presbytery. The 218<sup>th</sup> General Assembly of the Presbyterian Church (USA)(2008) adopted Resolution Item 04-28, Book of Order 2001/2013 that the Presbytery develop a process that exercises the responsibility and power “to divide, dismiss, or dissolve churches in consultation with their members. Churches would submit a formal letter to the Presbytery requesting dismissal in accordance with the Gracious Dismissal Guideline policy. Terms of dismissal include payment terms and certain restrictions on the use of portions of the proceeds.

The following are dismissal receivables based on agreed upon payment terms for the years ended December 31:

<u>2016</u>	<u>Presbytery</u>	<u>Front Porch</u>	<u>IMPACT</u>	<u>Total Receivables</u>
Community Presbyterian Church of Cambria	\$ -	\$ 12,000	\$ 3,000	\$ 15,000
Cottonwood Community Fellowship Los Alamos Presbyterian Church	2,200	-	-	2,200
Malibu Presbyterian Church	21,003	6,000	-	27,003
Morrow Bay Presbyterian Church	-	8,000	-	8,000
Orcutt Presbyterian Church	-	14,125	-	14,125
	<u>\$ 23,203</u>	<u>\$ 40,125</u>	<u>\$ 3,000</u>	<u>\$ 66,328</u>

<u>2015</u>	<u>Presbytery</u>	<u>Front Porch</u>	<u>IMPACT</u>	<u>Total Receivables</u>
Community Presbyterian Church of Cambria	\$ -	\$ 12,000	\$ 4,000	\$ 16,000
Cottonwood Community Fellowship Los Alamos Presbyterian Church	2,300	-	-	2,300
Malibu Presbyterian Church	31,504	9,000	-	40,504
Morrow Bay Presbyterian Church	-	12,000	-	12,000
Orcutt Presbyterian Church	-	15,000	2,500	17,500
	<u>\$ 33,804</u>	<u>\$ 48,000</u>	<u>\$ 6,500</u>	<u>\$ 88,304</u>

#### 4. DISMISSAL RECEIVABLE (Cont.)

Payment of dismissal receivables for each of the next five years following December 31, 2016 and thereafter, are estimated to be as follows:

Year ending December 31,		
2017	\$	38,726
2018		21,602
2019		4,100
2020		100
2021		100
Thereafter		<u>1,700</u>
	\$	<u>66,328</u>

#### 5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 are summarized by major classifications as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,164,096	\$ 2,164,096
Buildings and improvements	<u>2,440,474</u>	<u>2,440,474</u>
	4,604,570	4,604,570
Less accumulated depreciation	<u>(426,662)</u>	<u>(364,088)</u>
	<u>\$ 4,177,908</u>	<u>\$ 4,240,482</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was approximately \$62,600 and \$63,400, respectively.

#### 6. ACCOUNTS PAYABLE

The Presbyterian Church Office of General Assembly (“OGA”) and the Synod of Southern California and Hawaii (“Synod”) requests annual per capita payments from the Presbytery. The Book of Order does not mandate the payment of per capita by congregations. However, the Presbytery has the responsibility to remit per capita to OGA and Synod when the congregation does not pay the per capita allocated, as long as funds are available. When a congregation pays their allocation of per capita, the Presbytery is required to remit to OGA and Synod even when the Presbytery lacks sufficient funds to pay its own expenses.

## 6. ACCOUNTS PAYABLE (Cont.)

Per capita dues are calculated based reported total membership multiplied by annual rate determined by each organization. Accounts payable for the years ended December 31 as follows:

	<u>2016</u>	<u>2015</u>
Per Capita: Office of General Assembly Presbyterian Church (USA)	\$ 60,441	\$ 66,626
Per Capita: Synod of Southern California and Hawaii	<u>118,825</u>	<u>99,179</u>
	179,266	165,805
Other accounts payable	<u>5,107</u>	<u>251</u>
	<u>\$ 184,373</u>	<u>\$ 166,056</u>

Any per capita amounts past due for 18 months or greater are forgiven by the OGA and the Synod.

## 7. PASS-THROUGH PAYABLES

The Presbytery receives contributions to be transferred to third party organizations affiliated to the Presbyterian Church and nonprofits. The following amounts were received and distributed pass-through activity for the following years:

<u>2016</u>	January 1 <u>Payables</u>	<u>Receipts</u>	<u>Distributions</u>	December 31 <u>Payables</u>
Outside Mission	\$ -	\$ 24,571	\$ (5,340)	\$ 19,231
God's Hidden Treasures	500	10,950	(3,300)	8,151
Threshold Ministries	300	1,600	(600)	1,300
Lifewater International	250	1,000	(500)	750
Care Corp	325	1,300	(650)	975
Hearts & Hands Campaign	4,157	-	-	4,157
Grow Community	-	2,333	-	2,333
One Great Hour of Sharing	-	7,209	(861)	6,348
Peacemaking Offering	1,744	1,728	(1,050)	2,422
Christmas Offering	928	7,159	(8,087)	-*
Pentecost Offering	<u>750</u>	<u>-</u>	<u>-</u>	<u>750</u>
	<u>\$ 8,954</u>	<u>\$ 57,850</u>	<u>\$ 20,388</u>	<u>\$ 46,417</u>



## 7. PASS-THROUGH PAYABLES (Cont.)

<u>2015</u>	January 1 <u>Payables</u>	<u>Receipts</u>	<u>Distributions</u>	December 31 <u>Payables</u>
Outside Mission	\$ -	\$ 11,600	\$ (18,987)	\$ -*
God's Hidden Treasures	-	15,117	(14,617)	500
Threshold Ministries	-	2,352	(2,052)	300
Lifewater International	-	1,039	(789)	250
Care Corp	-	1,300	(975)	325
Hearts & Hands Campaign	-	5,657	(1,500)	4,157
One Great Hour of Sharing	-	7,793	(8,276)	-*
Peacemaking Offering	-	3,482	(1,738)	1,744
Christmas Offering	-	9,068	(8,140)	928
Pentecost Offering	-	1,379	(629)	750
	<u>\$ -</u>	<u>\$ 58,787</u>	<u>\$ (57,503)</u>	<u>\$ 8,954</u>

\*In instances where disbursements exceed receipts, amounts are considered additional contributions by the Presbytery. The Presbytery does not recognize a receivable for excess payments.

## 8. NOTES PAYABLE

The Presbytery has notes payable related to the land purchase and the subsequent construction of a church located at in Paso Robles, California.

The land purchase loan was issued by the Presbyterian Investment and Loan Program (PILP) in December 2005. This note bears interest at an annual rate of 4.00% with only interest due monthly for the first five years. In December 2010, the interest rate was increased to 6.00% with principal and interest due monthly. The note matures in December 2025. The note is secured by the land.

The construction loan was original issued by SESLOC Federal Credit Union ("FCU") on November 11, 2008 with a principal of \$2,240,000. On August 24, 2012, the note was amended to accommodate a lower payment and extended maturity date. For the first 60 payments, the note carries a fixed annual interest rate of 4.75%. Interest rate of subsequent payments to be adjusted annually based on 11<sup>th</sup> District Cost of Funds ("COFI") index plus a margin of 4.375% with a floor of 4.75% and ceiling of 9.75%. The note matures in January 2021 where a final principal and interest payment of \$1,972,371 will be due. The notes are securitized by the Paso Robles real property occupied by Highlands Church (Note 3). The notes are subject to certain prepayment penalties and certain financial ratios.

**8. NOTES PAYABLE (Cont.)**

	<u>2016</u>	<u>2015</u>
PILP note payable	\$ 265,964	\$ 288,791
SESLOC FCU note payable	<u>2,070,981</u>	<u>2,097,816</u>
	<u>\$ 2,335,945</u>	<u>\$ 2,386,607</u>

Maturities of notes payable for each of the next five years following December 31, 2016 and thereafter, are estimated to be as follows:

Year ending December 31,		
	2017	\$ 52,900
	2018	54,900
	2019	58,000
	2020	61,200
	2021	64,700
	Thereafter	<u>2,044,245</u>
		<u>\$ 2,335,945</u>

Interest expense for loans payable for the years ended December 31, 2016 and 2015 was approximately \$115,800 and \$118,300, respectively.

**9. COUNCIL DESIGNATED NET ASSETS**

In 2012, the First Presbyterian Church of Santa Maria (“FPCSM”) was sold to the Salvation Army. From the proceeds of sale, \$600,000 was designated for further the legacy of FPCSM. In 2014, the Church Development Committee allocated \$340,000 by granting Mission Street Church in Camarillo \$255,000 and \$85,000 to Living Word Santa Maria (“LWSM”) Ministry for operations. The remaining \$260,000 was set aside for future needs of LWSM. The Council has designated unrestricted net assets to be expended for the following purposes at December 31:

Council designated:	<u>2016</u>	<u>2015</u>
Living Word Santa Maria – Operating Reserve	\$ 260,500	\$ 260,000
Living Word Santa Maria – Operating Budget	56,150	72,500
Mission Street Church	<u>32,500</u>	<u>122,500</u>
	<u>\$ 349,150</u>	<u>\$ 455,000</u>

## 10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Patricia and John Anderson Fund	\$ 356	\$ 304
Bates-Coons Family Memorial Fund	1,278	955
Jack R. Brink Memorial Fund	3,056	2,435
Richard H. Miller Memorial Fund	52,731	52,731
Front Porch	18,913	57,934
IMPACT	39,286	-
Santa Barbara Mission Conference	21,521	34,901
Mission Street Church	-	-
New Covenant Mutual Funds	28,288	27,830
Dismissal receivables (Note 4)	43,425	54,500
Pass-through activity payables (Note 7)	<u>(46,417)</u>	<u>(8,955)</u>
	<u>\$ 162,137</u>	<u>\$ 222,635</u>

### *Patricia and John Anderson Fund*

Permanent fund established with Presbyterian Church Foundation (the "Foundation") on March 21, 1991. The Foundation makes distributions to the Presbytery quarterly. This fund was established in honor of Patricia and John Anderson, members of the First Presbyterian Church of Santa Barbara, California. The purpose of this fund is to encourage pastors to emphasize continuing education as a priority for pastoral ministry and to seek appropriate opportunities for such. The total amount of annual income shall be given to either a pastor or an associate pastor who is regularly installed in one of the churches of the Presbytery. The money shall be used in the year received and to add to any funds designated by a local church for that person's continuing education or study leave allowance.

### *Bates-Coon Family Memorial Fund*

Beneficiary of this fund was transferred to the Presbytery upon dismissal of Santa Ynez Valley Presbyterian Church of Solvang on April 8, 2014. Permanent fund established with the Foundation. Distributions are made to the Presbytery quarterly. The purpose of the income is to be used for support of ministry to the aging.

### *Jack R. Brink Memorial Fund*

Beneficiary of this fund was transferred to the Presbytery upon dismissal of Santa Ynez Valley Presbyterian Church of Solvang on April 8, 2014. Permanent fund established with the Foundation. Distributions are made to the Presbytery quarterly. The purpose of the income is for music program enrichment excluding staff salaries.

## **10. TEMPORARILY RESTRICTED NET ASSETS**

### *Richard H. Miller Memorial Fund*

Fund was established in 1993 with the purpose of providing interest free loans to Seminarian students in attendance of any church of the Presbytery. Maximum annual loan of \$6,000 with lifetime cap of \$18,000. Loan can be forgiven for each year of future service to the ministry up to \$3,000 a year.

### *Front Porch*

Front Porch was established in 2004. Funds are held by the Presbytery and distributed as needed by Front Porch. Front Porch seeks to build authentic relationships with college students of Cal Poly University and Cuesta College in San Luis Obispo, California. They follow the teachings of Jesus, and learn what it means to follow him and share with others what that looks like.

### *IMPACT (International Mission Project and Cross-cultural Training)*

Mission of IMPACT is to form, train, and send teams prepared to cross-cultural destinations to spread the teaching of Christ and his church while training participants to be missionaries. Teams spend three days training before being sent out to countries around the world to serve between one to three weeks.

### *Santa Barbara Mission Conference*

The first Santa Barbara Mission Conference took place on January 18, 2003. This conference is held annually with income principally earned through registration fees. The conference's goal is to inform, inspire, and engage all who attend to be active in God's work in the world.

### *Mission Street Church*

Mission Street Church was established with the funds restricted for the new church development in Camarillo, California. Purpose of funds is to support the community through God and neighborhood outreach.

## **11. CUSTOMER AND CREDIT RISK CONCENTRATIONS**

Financial instruments that potentially subject the Presbytery to credit risk consist principally of cash and cash held for investment.

The Presbytery maintains bank accounts at four financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per institution. The Presbytery's uninsured cash balances totaled approximately \$540,000 and \$655,500 at December 31, 2016 and 2015, respectively.

## **12. COMMITMENTS AND CONTINGENCIES**

The Presbytery purchases professional and general liability insurance to cover losses that may result from asserted claims, as well as claims from unknown incidents that may be asserted in the future. There are known claims and incidents that may result in losses. Management does not expect such losses to have a material adverse effect on the financial position of the Presbytery.

The Book of Order of the Presbyterian Church U.S.A. (Book of Order) governs title to real property and the related debt that funds the acquisition of, or improvements to, such property. It states that all property held by or for a particular church, a presbytery, a synod, the General Assembly, or the Presbyterian Church U.S.A. is held in trust for the benefit of the Presbyterian Church U.S.A. It also does not allow any church to sell, mortgage, or otherwise encumber any of its real property or acquire any real property subject to an encumbrance without the written permission of the Presbytery.

The Book of Order dictates that the related debt of member churches will revert to the Presbytery if the church is unable to meet its obligations, creating a contingent liability to the Presbytery. The Presbytery also guarantees individual church loans (Note 3). As of December 31, 2016 and 2015, the Presbytery had no contingent liabilities related to member churches.

## **13. SUBSEQUENT EVENT**

### *SESLOC FCU Interest Rate*

In August 2017, SESLOC FCU revised the interest rate on the note payable based on the 11<sup>th</sup> District Cost of Funds (COFI) index. The new interest rate for is 5.00% and may change every 12 months. On August 2018, this interest rate increased to 5.25%.

### *Dismissal of El Montecito Presbyterian Church*

On August 28, 2018, the Presbytery executed an agreement with El Montecito Presbyterian Church to establish terms for its dismissal from the Presbytery. The terms of dismissal include fulfillment of administrative tasks for the dismissal and payments to the Presbytery. El Montecito will pay the Presbytery a total of \$1,522,954 with \$350,000 due within 90 days and the remaining \$1,172,954 due on the following dates:

**13. SUBSEQUENT EVENT (Cont.)**

September 1, 2019	\$	65,000
September 1, 2020		71,500
September 1, 2021		78,650
September 1, 2022		86,515
September 1, 2023		99,492
September 1, 2024		114,416
September 1, 2025		131,579
September 1, 2026		151,315
September 1, 2027		174,013
September 1, 2028		<u>200,114</u>
		<u>\$ 1,172,594</u>

On September 14, 2018, El Montecito fulfilled all of the obligations and the initial payment to the Presbytery, El Montecito was considered dismissed on this date..