



BLUE OAKS CHURCH

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020





INDEPENDENT ACCOUNTANT'S REVIEW REPORT

The Elder Board
Blue Oaks Church
Pleasanton, California

We have reviewed the accompanying financial statements of Blue Oaks Church ("the Church"), which consist of the statement of financial position as of June 30, 2020, and the related statements of activities, cash flows, and functional expenses 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 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.

Accountant's 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.

Accountant's 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 conformity with accounting principles generally accepted in the United States of America.

Battt Morrison Wales & Lee, P.A.

BATTT MORRISON WALES & LEE, P.A.

Plano, Texas
October 22, 2020

BLUE OAKS CHURCH
STATEMENT OF FINANCIAL POSITION
June 30, 2020

ASSETS

ASSETS

Cash and cash equivalents	\$ 976,564
Cash and cash equivalents restricted for long-term purposes	1,242,524
Other assets	299,156
Property and equipment, net	<u>5,405,498</u>

Total assets \$ 7,923,742

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 98,689
Note payable	<u>4,031,000</u>

Total liabilities 4,129,689

NET ASSETS

Without donor restrictions	
Undesignated	1,062,780
Designated for property and equipment	<u>1,374,498</u>

Total net assets without donor restrictions 2,437,278

With donor restrictions	<u>1,356,775</u>
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Total net assets 3,794,053

Total liabilities and net assets \$ 7,923,742

BLUE OAKS CHURCH
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2020

	Without donor restrictions	With donor restrictions	Total
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS			
Contributions	\$ 1,924,173	\$ 593,356	\$ 2,517,529
Other revenue	324,899	—	324,899
Grant revenue	130,315	—	130,315
Net assets released from restrictions	1,547,123	(1,547,123)	—
Total public support and revenue and net assets released from restrictions	3,926,510	(953,767)	2,972,743
EXPENSES			
Program activities	1,232,729	—	1,232,729
Supporting activities	1,021,486	—	1,021,486
Total expenses	2,254,215	—	2,254,215
CHANGE IN NET ASSETS	1,672,295	(953,767)	718,528
NET ASSETS - Beginning of year	764,983	2,310,542	3,075,525
NET ASSETS - End of year	\$ 2,437,278	\$ 1,356,775	\$ 3,794,053

BLUE OAKS CHURCH
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2020

OPERATING CASH FLOWS	
Change in net assets	\$ 718,528
Adjustments to reconcile change in net assets to operating cash flows	
Depreciation	110,188
Contributions restricted for long-term purposes	(379,901)
Conversion of note payable to grant revenue (see Note F)	(130,315)
Change in other assets	(124,937)
Change in accounts payable and accrued expenses	<u>6,488</u>
Net operating cash flows	<u>200,051</u>
INVESTING CASH FLOWS	
Purchases of and improvements to property and equipment	<u>(5,158,950)</u>
Net investing cash flows	<u>(5,158,950)</u>
FINANCING CASH FLOWS	
Proceeds from contributions restricted for long-term purposes	379,901
Borrowings	<u>4,161,315</u>
Net financing cash flows	<u>4,541,216</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(417,683)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - Beginning of year	<u>2,636,771</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - End of year	<u>\$ 2,219,088</u>
REPORTED IN THE STATEMENT OF FINANCIAL POSITION AS FOLLOWS	
Cash and cash equivalents	\$ 976,564
Cash and cash equivalents restricted for long-term purposes	<u>1,242,524</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 2,219,088</u>

SUPPLEMENTAL DISCLOSURE

\$130,315 of principal reductions of a certain note payable are included in "grant revenue" in the accompanying statement of activities. See Note F.

BLUE OAKS CHURCH
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2020

	Program activities	Supporting activities	Total expenses
Salaries and benefits	\$ 720,630	\$ 427,477	\$ 1,148,107
Rent expense	187,184	101,098	288,282
Interest	—	153,615	153,615
Licenses, fees, and taxes	10,290	134,299	144,589
Depreciation	45,188	65,000	110,188
Office expenses and supplies	64,742	34,173	98,915
Maintenance and utilities	4,262	68,829	73,091
Professional services	46,719	22,563	69,282
Advertising and publicity	62,132	—	62,132
Travel and meals	37,106	6,274	43,380
Gifts and benevolence	40,414	—	40,414
Miscellaneous	14,062	8,158	22,220
Total	<u>\$ 1,232,729</u>	<u>\$ 1,021,486</u>	<u>\$ 2,254,215</u>

BLUE OAKS CHURCH
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE A – NATURE OF ACTIVITIES

Blue Oaks Church (“the Church”) is a California not-for-profit corporation. The Church’s mission is to lead everyone into Christ-centered living. The Church conducts numerous activities in accomplishing its mission, including worship services, educational training, child care, evangelistic efforts, support of missionary endeavors, and other similar activities. The Church is located in Pleasanton, California.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Church recognizes cash contributions when the contributions are received by the Church. Contributions received are recorded as without or with 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 statement of activities as “net assets released from restrictions.”

Cash and cash equivalents

The Church considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

Cash and cash equivalents restricted for long-term purposes

Cash and cash equivalents restricted for long-term purposes consist of amounts held which are restricted for capital projects and debt retirement.

Property and equipment

Property and equipment are stated at cost, if purchased, or estimated fair value on the date of donation, if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets.

Net assets

Net assets without donor restrictions are available for use at the discretion of the Elder Board and/or management for general operating purposes. Net assets with donor restrictions consist of amounts with uses limited by donor-imposed time and/or purpose restrictions.

Functional allocation of expenses

The statement of functional expenses presents expenses by function 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 functional areas based primarily on employee time and space utilization.

Income taxes

The Church is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to California law. The Church is further classified as a public charity and not as a private foundation for federal tax purposes. The Church engages in a certain unrelated business activity, the net income from which is subject to federal and state income taxes. Income taxes on unrelated business income are immaterial and are recognized as expenses when paid.

Use of estimates

Management uses estimates and assumptions in preparing the 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 financial statements include those related to the useful lives of property and equipment. Actual results could differ from the estimates.

BLUE OAKS CHURCH
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the Church’s financial condition and has taken actions to mitigate its impact. Such actions include availing the Church 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 for the year ending June 30, 2021.

Subsequent events

The Church has evaluated for possible financial reporting and disclosure subsequent events through October 22, 2020, the date as of which the financial statements were available to be issued.

NOTE C – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

Financial assets available:	
Cash and cash equivalents	\$ 976,564
Cash and cash equivalents restricted for long-term purposes	1,242,524
Investments (included in “other assets”)	<u>285,537</u>
 Total financial assets available within one year	 2,504,625
 Less:	
Amounts unavailable for general expenditure within one year, due to donor-imposed restrictions limiting use to capital projects and debt retirement	<u>(1,242,524)</u>
 Net financial assets available within one year	 <u>\$ 1,262,101</u>

The Church is primarily supported by contributions. As part of the Church’s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Church has certain assets limited to use for long-term donor-restricted purposes. Because a donor’s restriction requires resources to be used in a specific manner or in a future period, the assets may not be available for general expenditure within one year and are excluded from net financial assets available to meet general expenditures within one year. The Church has other donor-restricted assets that are available for general expenditure within one year, because the restrictions on net assets are expected to be met by conducting the normal activities of the Church in the coming year. Management believes the Church has sufficient financial assets available for general operations that may be drawn upon in the event of unanticipated financial distress or an immediate liquidity need.

NOTE D – CONCENTRATIONS

The Church 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. The Church has not experienced any losses in such accounts, and the Church believes it is not exposed to any significant credit risk related to cash and cash equivalents.

BLUE OAKS CHURCH
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE D – CONCENTRATIONS (Continued)

Cash and cash equivalents of approximately \$1,516,000 were held by a certain religiously-affiliated financial institution as a term certificate used to raise funds to make loans to other churches. Such amounts are not covered by federal depository or other insurance, and accordingly, are subject to the risk of loss.

As of June 30, 2020, the Church’s note payable was held by one financial institution.

For the year ended June 30, 2020, approximately 13% of the Church’s total contribution revenue was received from three members of the Elder Board.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Category	
Land	\$ 2,080,000
Building	3,120,000
Equipment	447,201
Construction in progress	<u>158,413</u>
Total property and equipment	5,805,614
Less: Accumulated depreciation	<u>(400,116)</u>
Net property and equipment	<u>\$ 5,405,498</u>

Depreciation expense amounted to approximately \$110,000 during the year ended June 30, 2020.

NOTE F – NOTE PAYABLE

During the year ended June 30, 2020, the Church obtained a note payable to a financial institution in the amount of \$4,031,000 which requires monthly interest-only payments at 5.10% per annum beginning in November 2019 and continuing through October 2022. The note is secured by certain real property and other collateral as described in the loan documents. The outstanding principal and interest is due in October 2022.

The Church also obtained a Paycheck Protection Program note payable (“PPP loan”) to a financial institution in the amount of \$130,315 during the year ended June 30, 2020. The PPP loan is unsecured and bears interest at a fixed rate of 1.00% per annum with a deferral of interest and principal payments which ends on the earlier of the date the Small Business Administration issues a decision on the forgiveness amount of the loan or May 2021. The PPP loan matures in May 2022.

Pursuant to federal law, the PPP loan may be forgiven in whole or in part based on the nature of the Church’s expenditures during an applicable period. Management estimates that the Church incurred or spent at least \$130,315 for expenditures eligible for forgiveness during the year ended June 30, 2020. This amount has been recognized as a reduction to “note payable” in the accompanying statement of financial position (reducing the balance of the PPP loan to zero as of June 30, 2020) and as “grant revenue” in the accompanying statement of activities.

BLUE OAKS CHURCH
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE F - NOTE PAYABLE (Continued)

Approximate future maturities of the note payable are as follows (after giving effect to the expected forgiveness of the PPP loan described above):

Year Ending <u>June 30,</u>	
2021	\$ —
2022	—
2023	<u>4,031,000</u>
Total	<u>\$ 4,031,000</u>

Interest expense was approximately \$154,000 during the year ended June 30, 2020.

NOTE G - LEASES

The Church leases office space to tenants under non-cancellable operating leases as lessor. The Church expects to receive approximately \$326,000 of future minimum lease payments during the year ending June 30, 2021 under the terms of the lease agreements.

The Church also leases office and meeting space under non-cancellable operating leases as lessee. Total lease expense for all operating leases for the year ended June 30, 2020 amounted to approximately \$93,000. Future minimum lease payments under non-cancellable operating leases are approximately \$60,000 for the year ending June 30, 2021.

NOTE H - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

<u>Category</u>	
Building fund	\$ 1,242,524
Benevolence and other funds	<u>114,251</u>
Total net assets with donor restrictions	<u>\$ 1,356,775</u>

NOTE I - RETIREMENT PLAN

The Church has adopted a 403(b) retirement plan (“the Plan”) for the benefit of eligible employees. Employees are eligible to participate upon meeting the eligibility requirements described in the Plan document. The Church contributes 2% of an eligible employee’s compensation and provides a matching contribution of up to the next 5% of an eligible employee’s deferrals to the Plan. The Church contributed approximately \$59,000 to the Plan during the year ended June 30, 2020.