

CRYSTAL CATHEDRAL MINISTRIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Crystal Cathedral Ministries

We have audited the accompanying consolidated financial statements of Crystal Cathedral Ministries and the Crystal Cathedral (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2015 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Long Beach, California
June 30, 2016

CRYSTAL CATHEDRAL MINISTRIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

ASSETS

ASSETS

Cash and equivalents	\$ 610,191
Restricted cash held in trust	70,059
Investments	3,050,052
Pledges receivable	1,885,394
Accounts receivable	198,670
Inventory	108,976
Prepaid expenses and other assets	376,032
Property and equipment, net	<u>1,129,989</u>

TOTAL ASSETS \$ 7,429,363

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 203,851
Accrued expenses	509,927
Capital lease obligation	<u>44,952</u>
	<u>758,730</u>

COMMITMENTS (Note 9)

NET ASSETS

Unrestricted	3,229,590
Temporarily restricted	3,387,961
Permanently restricted	<u>53,082</u>
Total net assets	<u>6,670,633</u>

TOTAL LIABILITIES AND NET ASSETS \$ 7,429,363

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

CRYSTAL CATHEDRAL MINISTRIES

**CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Donations and collections				
Ministry and media activities	\$ 8,949,964	\$ -	\$ 3,200	\$ 8,953,164
Church activities	1,760,100	14,215	-	1,774,315
Other income	50,967	-	-	50,967
Investment income	141	584	-	725
Realized and unrealized loss on investments	(119,347)	-	-	(119,347)
Net assets released from restrictions	652,834	(652,834)	-	-
Total Support and Revenue	<u>11,294,659</u>	<u>(638,035)</u>	<u>3,200</u>	<u>10,659,824</u>
EXPENDITURES				
Program Services				
Ministry and media activities	9,192,376	-	-	9,192,376
Church activities	1,769,786	-	-	1,769,786
Total Program Services	<u>10,962,162</u>	<u>-</u>	<u>-</u>	<u>10,962,162</u>
Supporting Services				
General and administrative	853,130	-	-	853,130
Fund-raising	244,433	-	-	244,433
Interest	6,906	-	-	6,906
Total Supporting Services	<u>1,104,469</u>	<u>-</u>	<u>-</u>	<u>1,104,469</u>
TOTAL EXPENDITURES	<u>12,066,631</u>	<u>-</u>	<u>-</u>	<u>12,066,631</u>
CHANGE IN NET ASSETS FROM CONTINUING OPERATIONS	(771,972)	(638,035)	3,200	(1,406,807)
DISCONTINUED OPERATIONS (Note 3)	<u>(440,257)</u>	<u>-</u>	<u>-</u>	<u>(440,257)</u>
CHANGE IN NET ASSETS	(1,212,229)	(638,035)	3,200	(1,847,064)
NET ASSETS AT BEGINNING OF YEAR	<u>4,441,819</u>	<u>4,025,996</u>	<u>49,882</u>	<u>8,517,697</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,229,590</u>	<u>\$ 3,387,961</u>	<u>\$ 53,082</u>	<u>\$ 6,670,633</u>

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

CRYSTAL CATHEDRAL MINISTRIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (1,847,064)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Loss on discontinued operations	440,257
Net realized and unrealized loss on investments	119,347
Depreciation	571,900
Changes in operating assets and liabilities:	
Pledges receivable	(257,236)
Accounts receivable	(42,418)
Inventory	(31,975)
Prepaid expenses and other assets	356,259
Accounts payable	(17,031)
Accrued expenses	(940,742)
Net Cash Used In Operating Activities	<u>(1,648,703)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(85,115)
Purchases of investments	(465,224)
Proceeds from sale of discontinued operations	<u>1</u>
Net Cash Used In Investing Activities	<u>(550,338)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on capital lease obligation	(22,977)
Payment of interest due to creditors	(1,141,224)
Decrease in restricted cash	<u>1,112,347</u>
Net Cash Used In Financing Activities	<u>(51,854)</u>

NET CHANGE IN CASH AND EQUIVALENTS (2,250,895)

CASH AND EQUIVALENTS AT BEGINNING OF YEAR 2,861,086

CASH AND EQUIVALENTS AT END OF YEAR \$ 610,191

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest \$ 1,148,130

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

CRYSTAL CATHEDRAL MINISTRIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 1 – Nature of Organization

Operations

The accompanying consolidated financial statements include the accounts of Crystal Cathedral Ministries and the Crystal Cathedral (collectively, the Organization), entities under common operational control. All significant transactions between the entities are eliminated in the consolidated financial statements.

The Organization's primary activities relate to the Shepherd's Grove church located in Garden Grove, California. Along with activities of the church, the weekly church service is broadcast world-wide as the "*Hour of Power with Bobby Schuller.*"

The primary sources of revenues for the Organization are donations received by the Shepherd's Grove church and donations received from viewers of the *Hour of Power*.

During the year ended December 31, 2015, the Organization terminated its operations of the Shepherd's Grove Academy upon the conclusion of the 2014-2015 school year and these operations are shown as discontinued operations in the accompanying consolidated financial statements (Note 3).

Chapter 11 Bankruptcy

The Organization filed for Chapter 11 bankruptcy in October 2010 and has since continued operations in accordance with a court approved reorganization plan which included liquidating assets in order to satisfy all creditors of the Organization. The Organization reports restricted cash totaling \$70,059 as of December 31, 2015 on the accompanying balance sheet that is overseen by a court appointed plan agent responsible for the disbursement of assets to creditors. The cash is restricted for the purpose of a final distribution to settle the remaining interest due to creditors against the Organization. During May 2016, the Organization emerged from bankruptcy as the Chapter 11 case was closed. Restricted cash was released for use by the Organization.

CRYSTAL CATHEDRAL MINISTRIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 2 – Summary of Significant Accounting Policies

The consolidated financial statements of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The following significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

Consolidated Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

CRYSTAL CATHEDRAL MINISTRIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Contributions, including endowment gifts and pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Legacies and Bequests

The Organization has been named a beneficiary in a number of bequests. Bequests are not recognized as support until all of the following conditions are met: the demise of the testator; the amount of the bequest is known; and the Organization is certain that, based on the estate's net assets, the amount bequeathed is realizable and the probate court has declared the will valid.

Contributed Services

A substantial number of volunteers make significant contributions of their time in the furtherance of the Organization's purpose. The value of this contributed time is not reflected in the accompanying consolidated financial statements, as it does not meet the recognition criteria under generally accepted accounting principles for contributed services.

Tuition Revenue

Tuition and fees are recorded as revenues over the period the related academic services are rendered for students. Tuition and fees received in advance of services to be rendered are recorded as deferred tuition revenue.

CRYSTAL CATHEDRAL MINISTRIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Cash and Equivalents

The Organization considers cash equivalents to be all highly liquid debt instruments purchased with an initial maturity of three months or less. Cash and equivalents includes cash deposits with a bank and a treasury note.

The Organization maintains its cash in financial institutions which, at times, may exceed federally insured limits. Historically, the Organization has not experienced any losses in such accounts.

Restricted Cash Held in Trust

The Organization had restricted cash held in a trust account that was being overseen by the plan agent of their bankruptcy proceedings. The cash was restricted for the purposes of a final distribution to settle the remaining claims of creditors against the Organization as a result of the bankruptcy proceedings that commenced in 2010. The final distribution was made in March 2015.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statement of financial position. Realized gains and losses are computed as the difference between historical cost and sales proceeds. Unrealized gains and losses are the change in the spread between historical cost and fair value during the year. Unrealized gains and losses are included in the change in net assets.

Accounts Receivable

Accounts receivable consist primarily of balances due for tuition and fees and are stated at the amount the Organization expects to collect from balances outstanding at year-end. The Organization records a provision for bad debts at such time as collectability cannot be reasonably assured. At December 31, 2015, there was no provision recorded for doubtful accounts.

CRYSTAL CATHEDRAL MINISTRIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Other Receivables

Other receivables primarily represent billings for production costs of licensed content that the Organization permits certain international organizations the rights to air in their respective countries. The costs associated with any direct mailing services that the Organization provides on behalf of the international organizations are also billed by the Organization and included in other receivables. Management has concluded that anticipated losses on balances outstanding at December 31, 2015 are not significant. Other receivables are included in prepaid expenses and other assets in the consolidated statement of financial position.

Inventory

Inventory, consisting primarily of books and gifts offered as premiums to donors, is stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost, with the exception of donated equipment, which is recorded at fair market value on the date received. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets, which range from three to thirty years. Building improvements are amortized over the remaining term of the building lease where the improvements are made. Expenditures for repairs and maintenance are expensed as incurred.

Amortization of equipment under capital lease is computed based on the shorter of the lease terms or the life of the asset and is included in depreciation expense.

Works of art that have been donated to the Organization, qualifying as part of a collection, are not capitalized or recognized as contributions at the time of the donation and are carried on the books at zero value.

Allocation of Expenses

Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service. Expenses which apply to more than one functional category have been allocated based on estimates made by management.

CRYSTAL CATHEDRAL MINISTRIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 – Summary of Significant Accounting Policies (Continued)

Advertising

All costs associated with advertising and promoting the Organization's activities are expensed in the year incurred. Advertising expense totaled approximately \$16,414 for the year ended December 31, 2015.

Income Tax Status

The Organization has received tax-exempt status from the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

The Organization recognizes the financial statement benefit of tax positions, such as its position of being tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and state purposes is generally three and four years, respectively.

Subsequent Events

The Organization's management has evaluated subsequent events and transactions for potential recognition or disclosure through June 30, 2016, the date the consolidated financial statements were available to be issued.

NOTE 3 – Discontinued Operations

During the year ended December 31, 2015, the Organization terminated its operations of the Shepherd's Grove Academy upon the conclusion of the 2014-2015 school year. The Organization signed an asset purchase agreement to sell the school on August 28, 2015 for \$1, which included selling furniture and fixtures attributable to the school and assignment of the cash account to the buyer.

CRYSTAL CATHEDRAL MINISTRIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 – Discontinued Operations (Continued)

The results of operations for the school for the year ended December 31, 2015 are as follows:

Revenue	\$ 780,117
Operating expenses	(1,205,424)
Loss on disposal of furniture and fixtures	<u>(14,950)</u>
Loss from discontinued operations	<u>(\$ 440,257)</u>

NOTE 4 – Pledges Receivable

The Organization expects to collect the majority of the balance of pledges receivable within one year and has not recorded a reserve for doubtful pledges. The following is a summary of the Organization’s pledges receivable classified by the expected period of collection:

Receivable in less than one year	\$ 1,733,187
Receivable in one to five years	16,000
Receivable in more than five years	<u>136,207</u>
	<u>\$ 1,885,394</u>

NOTE 5 – Property and Equipment

Property and equipment consists of the following at December 31, 2015:

Furniture and equipment	\$ 8,236,653
Buildings and improvements	<u>221,225</u>
	8,457,878
Accumulated depreciation	<u>(7,327,889)</u>
	<u>\$ 1,129,989</u>

Depreciation expense was \$571,900 for the year ended December 31, 2015. Included in buildings and improvements are modular buildings under capital lease with a cost of approximately \$149,900 at December 31, 2015, and accumulated depreciation approximating \$35,000.

CRYSTAL CATHEDRAL MINISTRIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 6 – Fair Value Measurements

The Financial Accounting Standards Board (FASB) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB also establishes a fair value hierarchy for the classification of instruments recorded at fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are other observable inputs, such as quoted prices for similar instruments or quoted prices in markets that are not active.
- Level 3 inputs are unobservable inputs for the asset or liability.

Where quoted prices are available in active markets, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded funds and equity securities.

The following table presents instruments that are measured at fair value on a recurring basis in the accompanying consolidated statement of financial position at December 31, 2015:

	<u>Fair Value Measurements at Reporting Date Using</u>			
		<u>Significant</u>		
	<u>Total</u>	<u>Quoted Prices</u>	<u>Other</u>	<u>Significant</u>
	<u>Fair Value</u>	<u>in Active</u>	<u>Observable</u>	<u>Unobservable</u>
		<u>Markets</u>	<u>Inputs</u>	<u>Inputs</u>
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Investments:				
Exchange-traded funds	\$ 45,169	\$ 45,169	\$ -	\$ -
Equity securities	<u>3,004,833</u>	<u>3,004,883</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,050,052</u>	<u>\$ 3,050,052</u>	<u>\$ -</u>	<u>\$ -</u>

CRYSTAL CATHEDRAL MINISTRIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 7 – Temporarily Restricted Net Assets

Activity for temporarily restricted net assets designated for a specific program or restricted by time for the year ended December 31, 2015 are as follows:

	<u>Beginning of year</u>	<u>Support and revenue</u>	<u>Release from restriction</u>	<u>End of year</u>
Airtime and media	\$ 3,606,882	\$ 919	\$ (357,387)	\$ 3,250,414
Program production	96,000	-	(96,000)	-
Scholarships	51,876	-	(51,876)	-
Family ministry development	96,000	-	(96,000)	-
Children’s Choir and Music Program	125,000	-	(24,263)	100,737
Other program and time restrictions	<u>50,238</u>	<u>13,880</u>	<u>(27,308)</u>	<u>36,810</u>
	<u>\$ 4,025,996</u>	<u>\$ 14,799</u>	<u>\$ (652,834)</u>	<u>\$ 3,387,961</u>

NOTE 8 – Endowment

The Organization’s endowment consists of individual donor-designated funds to support the activities of the Organization. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The majority of the temporarily restricted endowment is restricted for support of the television program *Hour of Power*. Annual spending appropriations are restricted to 10% of the fund balance. The Organization’s endowment funds as of December 31, 2015 by net asset class are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Airtime and media	\$ 3,250,414	\$ 23,430	\$ 3,273,844
Congregation	<u>17,894</u>	<u>29,652</u>	<u>47,546</u>
	<u>\$ 3,268,308</u>	<u>\$ 53,082</u>	<u>\$ 3,321,390</u>

CRYSTAL CATHEDRAL MINISTRIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 8 – Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2015 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
January 1, 2015	\$ 3,625,110	\$ 49,882	\$ 3,674,992
Contributions	-	3,200	3,200
Investment return	585	-	585
Expenditures	<u>(357,387)</u>	<u>-</u>	<u>(357,387)</u>
December 31, 2015	<u>\$ 3,268,308</u>	<u>\$ 53,082</u>	<u>\$ 3,321,390</u>

The Organization’s management and Board of Directors understand California State law as (1) requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent donor stipulations to the contrary and (2) allowing the spending of income and gains on restricted endowments, absent explicit donor stipulations that all or a portion of such gains be maintained in perpetuity.

The primary long-term financial objective for the Organization’s endowment funds is to preserve the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of portfolio management. The endowment funds are also managed to optimize the long-term total rate of return on invested assets, assuming a prudent level of risk.

The Organization’s Board approves the yearly spending amount annually, in line with any donor-imposed restrictions.

The Organization’s Investment Committee is responsible for making decisions on the placement of investment assets for endowment funds. The Investment Committee employs an investment management strategy which considers both financial return and social good (“socially responsible investing”). Additionally, the committee also seeks to broadly diversify the Organization’s investment portfolio in order to mitigate the risk of a large loss due to concentrations.

CRYSTAL CATHEDRAL MINISTRIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 – Commitments

Capital Lease

The Organization has a capital lease, secured by certain modular buildings, payable in monthly installments, including imputed interest at 12%, with final payment due August 2017.

Commitments under the capital lease are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 29,892
2017	<u>19,929</u>
	49,821
Less: amounts representing interest	<u>(4,869)</u>
	<u>\$ 44,952</u>

Operating Leases

The Organization maintains two operating lease agreements. One is for the church facility in Garden Grove and the other is for administrative and production offices and a warehouse in Huntington Beach. The lease for the church expires in December 2022, although it allows for termination by the Organization with a 90-day notice. Subsequent to year-end, the Organization renewed the lease for the facility in Huntington Beach through March 2019, although it allows for termination by the Organization with a 180-day notice.

Rent expense for the year ended December 31, 2015 totaled approximately \$585,000.