

## **FAITH PROMISE CHURCH**

Financial Statements  
With Independent Auditors' Report

June 30, 2016 and 2015

# FAITH PROMISE CHURCH

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## **INDEPENDENT AUDITORS' REPORT**

Leadership Team  
Faith Promise Church  
Knoxville, Tennessee

We have audited the accompanying financial statements of Faith Promise Church, which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these 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 financial statements are free from 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 presentation of the financial statements.

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

Leadership Team  
Faith Promise Church  
Knoxville, Tennessee

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Faith Promise Church as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Atlanta, Georgia  
July 28, 2016

# FAITH PROMISE CHURCH

## Statements of Financial Position

	June 30,	
	2016	2015
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 2,979,280	\$ 2,062,818
Cash held for long-term purposes	2,405,186	1,386,037
Prepays, deferred costs and other assets	173,044	106,149
Property and equipment—net	20,699,063	21,153,649
<b>Total Assets</b>	\$ 26,256,573	\$ 24,708,653
<b>LIABILITIES AND NET ASSETS:</b>		
Accounts payable	\$ 25,513	\$ 19,691
Deferred revenue	38,561	35,751
Accrued expenses	121,746	192,465
Interest rate swap liability	491,423	186,638
Notes payable	14,086,852	14,480,159
	14,764,095	14,914,704
<b>Net assets:</b>		
Unrestricted	9,087,292	8,407,912
Temporarily restricted	2,405,186	1,386,037
	11,492,478	9,793,949
<b>Total Liabilities and Net Assets</b>	\$ 26,256,573	\$ 24,708,653

See notes to financial statements

# FAITH PROMISE CHURCH

## Statements of Activities

	Year Ended June 30.					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions	\$9,280,460	\$1,695,068	\$10,975,528	\$8,082,648	\$1,644,044	\$ 9,726,692
Program revenue	347,507	-	347,507	242,052	-	242,052
Other income	(403)	-	(403)	799	-	799
	<u>9,627,564</u>	<u>1,695,068</u>	<u>11,322,632</u>	<u>8,325,499</u>	<u>1,644,044</u>	<u>9,969,543</u>
<b>RECLASSIFICATIONS:</b>						
Satisfaction of:						
Purpose restrictions	675,919	(675,919)	-	993,070	(993,070)	-
Total Support and Revenue	<u>10,303,483</u>	<u>1,019,149</u>	<u>11,322,632</u>	<u>9,318,569</u>	<u>650,974</u>	<u>9,969,543</u>
<b>OPERATING EXPENSES:</b>						
Ministry	678,264	-	678,264	674,410	-	674,410
Employee	3,939,985	-	3,939,985	3,333,737	-	3,333,737
Program and missions	1,242,363	-	1,242,363	1,021,830	-	1,021,830
Building and grounds	736,704	-	736,704	993,516	-	993,516
Depreciation and amortization	801,988	-	801,988	812,973	-	812,973
Interest	645,784	-	645,784	669,673	-	669,673
Administrative	1,274,230	-	1,274,230	1,157,971	-	1,157,971
Total Operating Expenses	<u>9,319,318</u>	<u>-</u>	<u>9,319,318</u>	<u>8,664,110</u>	<u>-</u>	<u>8,664,110</u>
Change in Net Assets from Operating Activities	984,165	1,019,149	2,003,314	654,459	650,974	1,305,433
<b>NON-OPERATING ACTIVITIES:</b>						
Change in value of interest rate swap	(304,785)	-	(304,785)	(73,981)	-	(73,981)
Loss on investment	-	-	-	(18,300)	-	(18,300)
Loss on disposal of assets	-	-	-	(165,000)	-	(165,000)
Change in Net Assets	679,380	1,019,149	1,698,529	397,178	650,974	1,048,152
Net Assets, Beginning of Year	<u>8,407,912</u>	<u>1,386,037</u>	<u>9,793,949</u>	<u>8,010,734</u>	<u>735,063</u>	<u>8,745,797</u>
Net Assets, End of Year	<u>\$9,087,292</u>	<u>\$2,405,186</u>	<u>\$11,492,478</u>	<u>\$8,407,912</u>	<u>\$1,386,037</u>	<u>\$ 9,793,949</u>

See notes to financial statements

# FAITH PROMISE CHURCH

## Statements of Cash Flows

	Year Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,698,529	\$ 1,048,152
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	792,711	803,696
Change in cash held for long-term purposes	(1,019,149)	(650,974)
Amortization of loan costs	9,277	9,277
Change in fair market value of interest rate swap	304,785	73,981
Noncash contributions	(197,768)	(222,065)
Proceeds from sale of stock from contributions	-	29,698
Loss on sale of securities	-	18,300
Contributions received for building fund	(1,477,448)	(1,419,647)
Changes in operating assets and liabilities:		
Prepays, deferred costs and other assets	(76,172)	(36,397)
Accounts payable	5,822	(63,781)
Deferred revenue	2,810	35,751
Accrued expenses	(70,719)	122,711
Net Cash Used by Operating Activities	<u>(27,322)</u>	<u>(251,298)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of property and equipment	-	159,229
Loss on disposal of fixed assets	1,380	165,000
Proceeds from investments	197,768	94,250
Change in construction in progress	5,773	5,773
Purchases of property and equipment	(345,278)	(410,764)
Net Cash Provided (Used) by Investing Activities	<u>(140,357)</u>	<u>13,488</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions received for building fund	1,477,448	1,419,647
Payments on long-term debt	(393,307)	(377,207)
Net Cash Provided by Financing Activities	<u>1,084,141</u>	<u>1,042,440</u>
Net Change in Cash and Cash Equivalents	916,462	804,630
Cash and Cash Equivalents, Beginning of Year	<u>2,062,818</u>	<u>1,258,188</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,979,280</u></u>	<u><u>\$ 2,062,818</u></u>
<b>SUPPLEMENTAL CASH DISCLOSURE:</b>		
Cash paid for interest	<u><u>\$ 645,784</u></u>	<u><u>\$ 669,673</u></u>

See notes to financial statements

# FAITH PROMISE CHURCH

## Notes to Financial Statements

June 30, 2016 and 2015

1. NATURE OF ORGANIZATION:

Faith Promise Church (Church) was established in 1995. The Church is a non-profit organization and is dedicated to reaching the unchurched for God through its various campuses across Tennessee and worldwide via the Internet. The Church strives to create relevant environments to lead people into experiencing God. The Church is supported primarily through contributions from the congregation.

The Church is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code) and comparable state law. Contributions to the Church are deductible from income taxes within the limitations prescribed by the Code. The Church is not a private foundation under Section 509(a)(1) of the Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Church have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

### USE OF ESTIMATES

The preparation of the Church's financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held in checking, savings, and money market accounts. While the Church maintains cash and cash equivalents in bank deposit accounts which may, at times, exceed federally insured limits, the Church has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

### PROPERTY AND EQUIPMENT

Property and equipment are carried at cost at date of acquisition or fair market value at date of donation in the case of gifts. Purchases and gifts of property and equipment valued at \$2,000 or more are capitalized. Maintenance, repairs, and minor replacements are expensed as incurred. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. A summary of depreciable lives follows:

Buildings and building improvements	10-40 years
Leasehold improvements	5-15 years
Furniture, fixtures, and equipment	5-20 years



# FAITH PROMISE CHURCH

## Notes to Financial Statements

June 30, 2016 and 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### PROPERTY AND EQUIPMENT, continued

During the year ended June 30, 2015, the Church adopted the provisions of the *Accounting Changes* topic of the FASB Accounting Standards Codification and increased its threshold to capitalize property and equipment from \$1,000 to \$2,000. Accordingly, items which would have been previously capitalized approximating \$19,000 were expensed for the year ended June 30, 2015.

#### CLASSES OF NET ASSETS

The financial statements report amounts separately by class of net assets.

*Unrestricted* amounts are currently available for ministry purposes under the direction of the board and for amounts designed by the leadership team for missions and building projects. Investment in property and equipment represents amounts invested in property and equipment net of accumulated depreciation and related debt.

*Temporarily restricted* amounts are contributed with donor stipulations for specific operating purposes or programs, with time restrictions, or not currently available for use until commitments regarding their use have been fulfilled.

#### REVENUES, EXPENSES, AND RECLASSIFICATIONS

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to the Church.

The Church reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as satisfaction of purpose restrictions.

Donated goods (including securities, property, and equipment) are recorded at fair value at the date of the gift. Contributions of donated services that create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded in the financial statements at their fair values in the period received. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. The value of those services has not been estimated. During the year ended June 30, 2016, \$24,000 of qualifying donated services have been recorded as income and expense in the statement of activities.

Expenses are reported when costs are incurred.

# FAITH PROMISE CHURCH

## Notes to Financial Statements

June 30, 2016 and 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### ALLOCATION OF EXPENSES

The Church's expenses are recorded and reported on a budgetary basis in the statements of activities. In order to report the Church's expenses on a functional basis, the costs of providing various program services and supporting activities are to be allocated among the program services and supporting activities benefited.

Operating expenses are allocated as follows:

	Year Ended June 30,	
	2016	2015
Program	\$ 5,860,612	\$ 5,029,977
General and administrative	3,458,706	3,634,133
	<u>\$ 9,319,318</u>	<u>\$ 8,664,110</u>

#### RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2016 presentation.

#### UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. For the years ended June 30, 2016 and 2015, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

# FAITH PROMISE CHURCH

## Notes to Financial Statements

June 30, 2016 and 2015

### 3. PROPERTY AND EQUIPMENT—NET:

Property and equipment—net, consist of:

	June 30,	
	2016	2015
Land and land improvements	\$ 3,494,779	\$ 3,482,279
Buildings and improvements	18,811,379	18,757,528
Leasehold improvements	1,473,789	1,420,813
Furniture, fixtures, and equipment	1,700,790	1,728,267
	25,480,737	25,388,887
Less accumulated depreciation	(4,781,674)	(4,241,011)
	20,699,063	21,147,876
Add construction in process	-	5,773
	20,699,063	21,153,649
Less related indebtedness	(14,086,852)	(14,480,159)
Property and equipment—net	<u>\$ 6,612,211</u>	<u>\$ 6,673,490</u>

### 4. INTEREST RATE SWAP:

In September 2011, the Church executed an interest rate swap which fixes the variable rate exposure associated with the Bank of the West note payable to effective synthetic rates of 5.3%. The interest rate swap agreement matures on April 1, 2023. Terminating the swap and keeping the loan in place would result in paying off the liability and the interest rate reverting back to the 30-day LIBOR rate plus 275 basis points per annum. The contractual terms for the year ended June 30, 2016, consist of:

Fixed rate (upon the swap exercise)	5.30%
Variable/Replacement rate	3.20%
Remaining term of contract in years	7
Original note payable balance covered by agreement	\$ 5,550,000
Notional amount outstanding at June 30, 2016	\$ 5,182,213

The agreement is accounted for as a fair value hedge. The unrealized gain and loss on the agreement is included in nonoperating activities in the statements of activities and the corresponding fair value liability is included in as the interest rate swap liability in the statements of financial position.

# FAITH PROMISE CHURCH

## Notes to Financial Statements

June 30, 2016 and 2015

4. INTEREST RATE SWAP, continued:

The effects of the derivative instrument on the financial statements for the year ended June 30, 2016, were as follows:

*Fair Value of Derivative Instruments in statements of financial position:*

	<u>Statement Location</u>	
<i>Fair value hedge:</i>		
Interest rate swap	Interest rate swap liability	\$ 491,423

*Effects of Derivative Instruments on statements of activities:*

	<u>Statement Location</u>	
<i>Fair value hedge:</i>		
Interest rate swap	Change in value of interest rate swap	\$ (304,785)

5. NOTES PAYABLE:

Notes payable consist of:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Note payable with an interest rate of 4.03%. The Church made interest only payments through April 2013; starting in May 2013, the note became payable in monthly amortizing installments, plus interest, with the balance due October 2016. The note is secured by real property and equipment owned by the Church.	\$ 8,543,607	\$ 8,776,089
Note payable with an interest rate of LIBOR plus 2.75% (effective rate of 5.47% as of December 31, 2013). The Church made monthly interest only payments through April 2013; starting in May 2013, the note became payable in monthly amortizing installments, plus interest, with the balance due April 2023. The note is augmented by a fixed interest rate swap agreement (Note 4). The note is secured by real property and equipment owned by the Church.	5,182,213	5,301,931
Note payable with an interest rate of 4.33%. The Church made interest only payments through April 2013; starting in May 2013, the note became payable in monthly amortizing installments, plus interest, with the balance due April 2023. The note is secured by real property and equipment owned by the Church.	361,032	402,139
	<u>\$ 14,086,852</u>	<u>\$ 14,480,159</u>

# FAITH PROMISE CHURCH

## Notes to Financial Statements

June 30, 2016 and 2015

5. NOTES PAYABLE, continued:

The notes payable is expected to mature as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2017	\$ 8,700,180
2018	179,392
2019	189,107
2020	198,956
2021	210,109
Thereafter	<u>4,609,108</u>
	<u>\$ 14,086,852</u>

The terms of the Church's mortgage notes payable provide for certain financial and nonfinancial covenants. At June 30, 2016, management believes the Church was in compliance with these covenants.

6. NET ASSETS:

Net assets consist of:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Unrestricted:		
Undesignated	\$ 2,475,081	\$ 1,734,422
Investment in property and equipment	<u>6,612,211</u>	<u>6,673,490</u>
	<u>9,087,292</u>	<u>8,407,912</u>
Temporarily restricted:		
Building fund	<u>2,405,186</u>	<u>1,386,037</u>
	<u>\$ 11,492,478</u>	<u>\$ 9,793,949</u>

# FAITH PROMISE CHURCH

## Notes to Financial Statements

June 30, 2016 and 2015

6. NET ASSETS, continued:

Activity for temporarily restricted net assets is as follows for the year ended June 30, 2016:

	<u>6/30/2015</u>	<u>Contributions</u>	<u>Released from Restriction</u>	<u>6/30/2016</u>
Missions	\$ -	\$ 93,541	\$ (93,541)	\$ -
Mission trips	-	124,079	(124,079)	-
Other restricted	-	-	-	-
Building fund	<u>1,386,037</u>	<u>1,477,448</u>	<u>(458,299)</u>	<u>2,405,186</u>
	<u>\$ 1,386,037</u>	<u>\$ 1,695,068</u>	<u>\$ (675,919)</u>	<u>\$ 2,405,186</u>

\$257,106 of building fund contributions released from restriction were capitalized as property and equipment for the year ended June 30, 2016.

Activity for temporarily restricted net assets is as follows for year ended June 30, 2015:

	<u>6/30/2014</u>	<u>Contributions</u>	<u>Released from Restriction</u>	<u>6/30/2015</u>
Missions	\$ -	\$ 97,312	\$ (97,312)	\$ -
Mission trips	-	127,085	(127,085)	-
Other restricted	-	-	-	-
Building fund	<u>735,063</u>	<u>1,419,647</u>	<u>(768,673)</u>	<u>1,386,037</u>
	<u>\$ 735,063</u>	<u>\$ 1,644,044</u>	<u>\$ (993,070)</u>	<u>\$ 1,386,037</u>

\$256,121 of building fund contributions released from restriction were capitalized as property and equipment for the year ended June 30, 2015.

# FAITH PROMISE CHURCH

## Notes to Financial Statements

June 30, 2016 and 2015

7. EMPLOYEE BENEFIT PLAN:

The Church sponsors an Internal Revenue Code Section 403(b) Tax Sheltered Annuity Plan. The plan covers all qualified employees. Employee contributions and investments are self directed, subject to annual limits established by the Internal Revenue Service. The Church contributes 5% of each participant's qualified compensation. Participants are fully vested in their own deferrals and the Church's contributions. Church contributions for the years ended June 30, 2016 and 2015, were \$120,574 and \$108,145, respectively.

8. COMMITMENTS AND LEASES:

The Church leases facilities and certain office equipment under noncancelable operating lease agreements with various expirations through 2019. Total lease expenses for the years ended June 30, 2016 and 2015, was \$297,613 and \$593,810, respectively. Future minimum lease payments under noncancelable operating leases are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2017	\$ 326,823
2018	223,945
2019	147,000
2020	54,750
2021	24,000
	<u>\$ 776,518</u>

9. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statement were available to be issued. Subsequent events after that date have not been evaluated.