

FAITH PROMISE CHURCH

Financial Statements
With Independent Auditors' Report

June 30, 2017 and 2016

FAITH PROMISE CHURCH

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INDEPENDENT AUDITORS' REPORT

Board of Directors
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, 2017 and 2016, 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.

Board of Directors
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, 2017 and 2016, 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

Lawrenceville, Georgia
December 20, 2017

FAITH PROMISE CHURCH

Statements of Financial Position

	June 30,	
	2017	2016
ASSETS:		
Cash and cash equivalents	\$ 1,188,954	\$ 5,384,466
Other assets	315,885	173,044
Property and equipment—net	20,217,190	20,699,063
Total Assets	\$ 21,722,029	\$ 26,256,573
LIABILITIES AND NET ASSETS:		
Accounts payable	\$ 112,547	\$ 25,513
Accrued expenses	154,197	121,746
Deferred revenue	56,343	38,561
Interest rate swap liability	105,735	491,423
Notes payable	7,967,602	14,086,852
	8,396,424	14,764,095
Net assets:		
Unrestricted:		
Undesignated	(2,457,423)	2,966,504
Equity in property and equipment	12,143,853	6,120,788
	9,686,430	9,087,292
Temporarily restricted	3,639,175	2,405,186
	13,325,605	11,492,478
Total Liabilities and Net Assets	\$ 21,722,029	\$ 26,256,573

See notes to financial statements

FAITH PROMISE CHURCH

Statements of Activities

	Year Ended June 30.					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$9,719,836	\$1,822,108	\$11,541,944	\$9,281,439	\$1,695,068	\$10,976,507
Program revenue	395,137	-	395,137	347,507	-	347,507
Change in value of interest rate swap	385,688	-	385,688	(304,785)	-	(304,785)
Loss on disposal	(5,103)	-	(5,103)	(1,382)	-	(1,382)
Total Support and Revenue	10,495,558	1,822,108	12,317,666	9,322,779	1,695,068	11,017,847
RECLASSIFICATIONS:						
Satisfaction of:						
Purpose restrictions	588,119	(588,119)	-	675,919	(675,919)	-
EXPENSES:						
Program services	9,022,375	-	9,022,375	8,004,482	-	8,004,482
Supporting activities	1,462,164	-	1,462,164	1,314,836	-	1,314,836
Total Expenses	10,484,539	-	10,484,539	9,319,318	-	9,319,318
Change in Net Assets	599,138	1,233,989	1,833,127	679,380	1,019,149	1,698,529
Net Assets, Beginning of Year	9,087,292	2,405,186	11,492,478	8,407,912	1,386,037	9,793,949
Net Assets, End of Year	\$9,686,430	\$3,639,175	\$13,325,605	\$9,087,292	\$2,405,186	\$11,492,478

See notes to financial statements

FAITH PROMISE CHURCH

Statements of Cash Flows

	Year Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,833,127	\$ 1,698,529
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	815,300	792,711
Loss on disposal of assets	5,103	1,382
Change in value of interest rate swaps	(385,688)	304,785
Noncash contributions of securities	(110,341)	(197,768)
Contributions received for building fund	(1,608,789)	(1,477,448)
Changes in operating assets and liabilities:		
Other assets	(142,841)	(66,897)
Accounts payable	87,034	5,822
Deferred revenue	17,782	2,810
Accrued expenses	32,451	(70,719)
Net Cash Provided by Operating Activities	543,138	993,207
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of contributed securities	110,341	197,768
Change in construction in progress	-	5,773
Purchases of property and equipment	(338,530)	(345,278)
Net Cash Used by Investing Activities	(228,189)	(141,737)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions received for building fund	1,608,789	1,477,448
Payments on long-term debt	(6,119,250)	(393,307)
Net Cash Provided (Used) by Financing Activities	(4,510,461)	1,084,141
Net Change in Cash and Cash Equivalents	(4,195,512)	1,935,611
Cash and Cash Equivalents, Beginning of Year	5,384,466	3,448,855
Cash and Cash Equivalents, End of Year	\$ 1,188,954	\$ 5,384,466
SUPPLEMENTAL CASH DISCLOSURE:		
Cash paid for interest	\$ 813,918	\$ 645,784

See notes to financial statements

FAITH PROMISE CHURCH

Notes to Financial Statements

June 30, 2017 and 2016

1. NATURE OF ORGANIZATION:

Faith Promise Church (FPC) 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.

FPC 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 FPC 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.

ESTIMATES

The preparation of 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 and disclosures at the date of the financial statements. 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.

OTHER ASSETS

Other assets consist of prepaid expenses, prepaid insurance, and other assets.

PROPERTY AND EQUIPMENT

Items capitalized as property and equipment are stated at cost or, if donated, at market value on the date of donation in excess of \$2,000. The Church reports donations of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Church reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as 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, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INTEREST RATE SWAP LIABILITY

In 2011, FPC executed an interest rate swap which fixed the variable rate exposure associated with the \$5,550,000 note payable. As of June 30, 2017, the 2011 interest rate swap has matured or been paid off.

In 2017, FPC executed an interest rate swap which fixed the variable rate exposure associated with the \$14,311,958 promissory note.

The purpose of the interest swap agreements is to manage the economic effect of variable interest obligations associated with the debt instruments described in Note 4 so that the interest payable on the related indebtedness effectively becomes a fixed rate, thereby reducing the impact of future interest rate changes on future interest expense.

FPC adopted the disclosure requirements required by the *Derivatives and Hedging* topic of the FASB ASC, and provided the appropriate disclosures below:

	June 30,	
	2017	2016
2011 Interest rate swap:		
Fixed rate	-	5.30%
Variable rate	-	3.20%
Remaining term of contract in years	-	7
Maturity date	-	4/1/2023
Original note payable balance covered by agreement (notional amount)	\$ -	\$ 5,550,000
Notional amount outstanding at June 30	\$ -	\$ 5,182,213
2017 Interest rate swap:		
Fixed rate	3.98%	-
Variable rate	2.96%	-
Remaining term of contract in years	7	-
Maturity date	10/31/2023	-
Original note payable balance covered by agreement (notional amount)	\$ 7,000,000	\$ -
Notional amount outstanding at June 30	\$ 7,000,000	\$ -

The agreement was accounted for as a fair value hedge. The change in fair value of interest rate swap is in the statements of activities and the corresponding fair value liability is included in the interest rate swap liability in the statements of financial position.

FAITH PROMISE CHURCH

Notes to Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INTEREST RATE SWAP LIABILITY, continued

The effects of derivative instruments on the financial statements were as follows as of June 30, 2017 and 2016, and for the years then ended:

Fair value of derivative instruments in statements of financial position:

		Fair Value	
		2017	2016
	<u>Statement Location</u>		
Fair value hedge:			
Interest rate swap	Interest rate swap liability	\$ 105,735	\$ 491,423

Effects of derivative instruments in statements of activities:

		Gain (Loss)	
		2017	2016
	<u>Statement Location</u>		
Fair value hedge:			
Interest rate swap	Change in value of interest rate swap	\$ 385,688	\$ (304,785)

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.

FAITH PROMISE CHURCH

Notes to Financial Statements

June 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

REVENUES, EXPENSES, AND RECLASSIFICATIONS, continued

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 be estimated. During the year ended June 30, 2017, \$0 of qualifying donated services have been recorded as income and expense in the statement of activities.

RECLASSIFICATIONS

Certain information from the prior year financial statements has been reclassified to conform to the current year presentation format.

3. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net, consist of:

	June 30,	
	2017	2016
Land and land improvements	\$ 3,494,779	\$ 3,494,779
Buildings and improvements	18,897,865	18,811,379
Leasehold improvements	1,469,537	1,473,789
Furniture, fixtures, and equipment	1,931,595	1,700,790
	<u>25,793,776</u>	<u>25,480,737</u>
Less accumulated depreciation	<u>(5,576,586)</u>	<u>(4,781,674)</u>
	<u>\$ 20,217,190</u>	<u>\$ 20,699,063</u>

FAITH PROMISE CHURCH

Notes to Financial Statements

June 30, 2017 and 2016

4. NOTES PAYABLE:

Notes payable consist of:

	June 30,	
	2017	2016
Note payable with an interest rate of 4.03%. Principal and interest payments were due in monthly installments. The note was secured by real property and equipment owned by FPC. The note was refinanced during the year ended June 30, 2017.	\$ -	\$ 8,543,607
Note payable with monthly principal and interest payments due in monthly installments. The interest is subject to an interest rate swap (See Note 2). The note was secured by real property and equipment owned by FPC. The note was refinanced during the year ended June 30, 2017.	-	5,182,213
Note payable with an interest rate of 4.33%. Principal and interest payments were due in monthly installments. The note was secured by real property and equipment owned by FPC. The note was refinanced during the year ended June 30, 2017.	-	361,032
Step down revolving promissory note with interest only payments. The promissory note is a step down revolving note until maturity at October 31, 2023. The agreement is subject to an interest rate swap (See Note 2). The note is secured by real property owned by the Church. There are no restrictive financial covenants. As of June 30, 2017 the amount of available credit was \$6,344,356.	7,967,602	-
	\$ 7,967,602	\$ 14,086,852

The maximum loan availability of the step down revolving promissory note is as follows:

Year ending June 30,	Amounts
2018	\$ 13,820,000
2019	\$ 13,170,000
2020	\$ 12,480,000
2021	\$ 11,750,000
2022	\$ 10,970,000
2023	\$ 10,144,000

FAITH PROMISE CHURCH

Notes to Financial Statements

June 30, 2017 and 2016

5. TEMPORARILY RESTRICTED NET ASSETS:

The following is a summary of the activity for temporarily restricted net assets:

	June 30, 2016	Contributions	Released from Restriction	June 30, 2017
Missions	\$ -	\$ 112,848	\$ (112,848)	\$ -
Mission trips	-	100,471	(100,471)	-
Building fund	2,405,186	1,608,789	(374,800)	3,639,175
	\$ 2,405,186	\$ 1,822,108	\$ (588,119)	\$ 3,639,175

6. EMPLOYEE BENEFIT PLAN:

FPC 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. FPC contributes 5% of each participant's qualified compensation. Participants are fully vested in their own deferrals and the FPC's contributions. FPC contributions for the years ended June 30, 2017 and 2016, were \$130,176 and \$120,574, respectively.

7. COMMITMENTS AND LEASES:

FPC 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, 2017 and 2016, was \$297,813 and \$297,613, respectively. Future minimum lease payments under noncancelable operating leases are as follows:

Year ending June 30,	Amounts
2018	\$ 223,945
2019	147,000
2020	54,750
2021	24,000
	\$ 449,695

8. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 20, 2017, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.