

Financial Statements
Years Ended
December 31, 2015 and 2014

Christ United Methodist Church, Inc.



Christ United Methodist Church, Inc.

Contents

	Page
<i>Independent Accountants' Review Report</i>	1
<i>Financial Statements</i>	
<i>Statements of Financial Position</i>	2
<i>Statements of Activities</i>	3 - 4
<i>Statements of Cash Flows</i>	5
<i>Notes to Financial Statements</i>	6 - 11

Independent Accountants' Review Report

Church Council
Christ United Methodist Church, Inc.
Fairfax Station, Virginia

We have reviewed the accompanying financial statements of ***Christ United Methodist Church, Inc.***, a Virginia Non-stock Corporation, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, and cash flows for the years 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 engagements 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 reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Ubelhart, Rogstad & Associates, P.C.

Chantilly, Virginia
May 26, 2016

Christ United Methodist Church, Inc.

Statements of Financial Position

December 31,	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 962,553	\$ 1,005,026
Tuition receivable	41,709	37,713
Prepaid expense	34,831	36,914
Total current assets	1,039,093	1,079,653
Property and equipment - net	20,266,589	14,622,083
Other assets		
Conservation deposit	50,000	50,000
Cash restricted for long term building	-	474,927
Total other assets	50,000	524,927
	\$ 21,355,682	\$ 16,226,663
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 19,503	\$ 1,281,692
Accrued liabilities	41,930	13,471
Deferred tuition revenue	54,740	44,605
Notes payable - current	82,498	-
Total current liabilities	198,671	1,339,768
Long-term liabilities		
Notes payable - long-term	12,336,203	5,964,948
Total liabilities	12,534,874	7,304,716
Net assets - unrestricted		
Undesignated	8,250,685	7,616,928
Board designated	507,348	82,450
Net assets - temporarily restricted		
Capital fund	-	1,150,896
Donor designated	62,775	71,673
Total net assets	8,820,808	8,921,947
	\$ 21,355,682	\$ 16,226,663

See accompanying notes and independent accountants' review report.

Christ United Methodist Church, Inc.

Statement of Activities

Year Ended December 31, 2015

	<u>Temporarily Restricted</u>			
	<u>General</u>	<u>Capital Fund</u>	<u>Donor Designated</u>	<u>Total</u>
Revenue, support and other charges				
Contributions	\$ 2,095,331	\$ 234,239	\$ 92,477	\$ 2,422,047
Tuition and fees income	526,504	-	-	526,504
Fundraising income	236,010	-	-	236,010
Program income	51,460	-	-	51,460
Gain on sale of equipment	6,584	-	-	6,584
Interest income	1,886	-	-	1,886
Net assets released from restrictions:				
Satisfaction of program restrictions	1,486,510	(1,385,135)	(101,375)	-
	<u>4,404,285</u>	<u>(1,150,896)</u>	<u>(8,898)</u>	<u>3,244,491</u>
Expenses				
Program				
Worship	810,175	-	-	810,175
Serve	72,444	-	-	72,444
Connect	183,560	-	-	183,560
Kids ministry	165,712	-	-	165,712
Preschool	360,680	-	-	360,680
Youth ministry	142,384	-	-	142,384
Ministry - donor designated	101,375	-	-	101,375
Apportionments	137,101	-	-	137,101
Interest expense	291,042	-	-	291,042
General and administrative				
Communications	129,490	-	-	129,490
Staff support	452,461	-	-	452,461
Church operations	303,113	-	-	303,113
Interest expense	15,318	-	-	15,318
Fundraising	180,775	-	-	180,775
	<u>3,345,630</u>	<u>-</u>	<u>-</u>	<u>3,345,630</u>
Change in net assets	1,058,655	(1,150,896)	(8,898)	(101,139)
Net assets - beginning of year	<u>7,699,378</u>	<u>1,150,896</u>	<u>71,673</u>	<u>8,921,947</u>
Net assets - end of year	<u>\$ 8,758,033</u>	<u>\$ -</u>	<u>\$ 62,775</u>	<u>\$ 8,820,808</u>

See accompanying notes and independent accountants' review report.

Christ United Methodist Church, Inc.

Statement of Activities

Year Ended December 31, 2014

	<u>Temporarily Restricted</u>			
	<u>General</u>	<u>Capital Fund</u>	<u>Donor Designated</u>	<u>Total</u>
Revenue, support and other charges				
Contributions	\$ 2,201,553	\$ 207,675	\$ 56,281	\$ 2,465,509
Tuition and fees income	449,785	-	-	449,785
Fundraising income	200,301	-	-	200,301
Program income	60,961	-	-	60,961
Gain on sale of property	8,249	-	-	8,249
Interest income	1,737	-	-	1,737
Net assets released from restrictions:				
Satisfaction of program restrictions	418,926	(295,830)	(123,096)	-
	<u>3,341,512</u>	<u>(88,155)</u>	<u>(66,815)</u>	<u>3,186,542</u>
Expenses				
Program				
Worship	656,806	-	-	656,806
Serve	80,038	-	-	80,038
Connect	160,697	-	-	160,697
Kids ministry	149,942	-	-	149,942
Preschool	341,454	-	-	341,454
Youth ministry	119,542	-	-	119,542
Ministry - donor designated	123,096	-	-	123,096
Apportionments	140,368	-	-	140,368
General and administrative				
Communications	135,732	-	-	135,732
Staff support	440,069	-	-	440,069
Church operations	214,476	-	-	214,476
Interest expense	-	-	-	-
Fundraising	154,515	-	-	154,515
	<u>2,716,735</u>	<u>-</u>	<u>-</u>	<u>2,716,735</u>
Change in net assets	624,777	(88,155)	(66,815)	469,807
Net assets - beginning of year	7,074,601	1,239,051	138,488	8,452,140
Net assets - end of year	<u>\$ 7,699,378</u>	<u>\$ 1,150,896</u>	<u>\$ 71,673</u>	<u>\$ 8,921,947</u>

See accompanying notes and independent accountants' review report.

Christ United Methodist Church, Inc.

Statements of Cash Flows

Years Ended December 31,	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (101,139)	\$ 469,807
Adjustments to reconcile to net cash from operating activities:		
Depreciation	349,877	115,367
Gain on sale of property and equipment	(6,584)	(8,249)
Contributions restricted for long-term purposes	(234,239)	(207,675)
Change in:		
Tuition receivable	(3,996)	1,257
Prepaid expense	2,083	(4,206)
Accounts payable	(1,262,189)	1,218,187
Accrued liabilities	28,459	(4,312)
Deferred tuition revenue	10,135	314
Net cash from operating activities	(1,217,593)	1,580,490
Cash flows from investing activities		
Proceeds from sale of property and equipment	6,584	8,249
Cash released for long term building	474,927	894,977
Property and equipment acquisitions	-	(2,280,989)
Net cash from investing activities	481,511	(1,377,763)
Cash flows from financing activities		
Proceeds from long-term debt	459,370	-
Collection of contributions restricted for long-term purposes	234,239	207,675
Net cash from financing activities	693,609	207,675
Net change in cash and cash equivalents	(42,473)	410,402
Cash and cash equivalents - beginning of year	1,005,026	594,624
Cash and cash equivalents - end of year	\$ 962,553	\$ 1,005,026
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 286,755	\$ -
Supplemental disclosure of noncash financing activities		
Property and equipment acquisitions in exchange for debt	\$ 5,995,990	\$ 5,964,948

See accompanying notes and independent accountants' review report.

Christ United Methodist Church, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

1. Organization and Nature of Activity

Christ United Methodist Church, Inc. (Church) was established to operate exclusively for spiritual and charitable purposes. The Church operates in Fairfax Station, Virginia in a 49,446 square foot facility located on 25 acres of land, which it occupied in July 2015. The Church's mission is to worship, connect, and serve as a community. On September 5, 2008, the Church incorporated in the Commonwealth of Virginia as a nonstock corporation and all property of the Church was transferred to the corporation through a Deed of Gift filed by the Board of Trustees of the Church.

As part of the Church's mission, the Church operates a preschool facility, Greentree Christian Preschool, which is controlled by and housed in the Church. The operations of this Preschool are included in these financial statements.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Church have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

The classes of net assets are described as follows:

- **Unrestricted** amounts are those currently available, at the discretion of the Church Council, for use in the Church's operations and those resources invested in property and equipment.
- **Temporarily restricted** amounts are those whose use is limited by donor-imposed stipulations that either expire by the passage of time or by the Church fulfilling the restriction of use for a specific purpose. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- **Permanently restricted** amounts subject to restrictions of the governing donor instruments that established the nature and purpose of such funds. Principal is invested in perpetuity and only the income is used as determined by the donor. The Church has no permanently restricted net assets.

Contributions, Pledges and Other Revenue

All contributions, tithes, and other offerings are considered available for unrestricted use unless specifically restricted by the donor or subject to other restriction. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Unconditional promises to give are recorded as revenue when the pledge is received. An allowance for uncollectible promises to give is provided based on management's evaluation of potential uncollectible promises at year-end. No allowance was required as the Church had no pledges as of December 31, 2015 and 2014.

Tuition revenue is recognized over the school year to which the revenue relates. Deferred tuition revenue relates to future periods.

Revenue from fundraising events and other ministry programs are recognized when the events or programs are held.

Cash and Cash Equivalents

Cash and cash equivalents include bank accounts and highly liquid money market accounts. From time-to-time portions of the bank account balances may consist of amounts that are in excess of the federally insured limit and, as a result, the Church is subject to a degree of credit risk. The Church's policy is to limit credit risk by depositing its funds with high quality financial institutions.

Tuition Receivable and Allowance for Doubtful Accounts

Tuition receivable is stated at unpaid balances, less an allowance for doubtful accounts. The Church extends unsecured credit to parents of students. The Church provides for losses on accounts receivable using the allowance method. The allowance is based on experience, and other circumstances. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Church's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At December 31, 2015 and 2014, there is no allowance for doubtful accounts as the Church expects all tuition receivable amounts to be fully collected.

Property and Equipment

Property and equipment are stated at cost for items purchased by the Church or at fair market value at date of gift for items donated to the Church. The Church follows a policy of capitalizing property and equipment with a cost or fair market value at time of donation in excess of \$200. The costs of assets sold, retired, or otherwise disposed and the related accumulated depreciation is eliminated from the accounts and any resulting gain or loss is included in other income. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Building and improvements	50 years
Equipment	10 - 15 years
Furniture	10 years
Vehicles	5 years
Computers	5 years

Advertising and Promotion Costs

The Church expenses advertising and promotion costs as they are paid. Advertising and promotion expense was \$15,158 and \$24,080 for 2015 and 2014, respectively.

Functional Expenses

The costs of providing the various programs and other activities of the Church have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited generally based on either the direct labor hours spent on the various functions or the percentage of facility spaces used.

Donated Materials and Services

The Church records the value of donated materials or services when there is an objective basis available to measure their value. The Church recognizes the estimated fair value of contributed services that meet the following criteria:

- The services rendered either create or enhance nonfinancial assets
- The services rendered required specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

A substantial number of unpaid volunteers have made significant contributions of their time and talent to the Church. The value of this contributed time is not reported in these financial statements since it does not meet the criteria for recognition.

Contributed materials are recorded at fair value at the date of donation. Contributions of materials are recorded as unrestricted support unless specifically restricted in use by the donor.

Income Taxes

The Church is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as an organization which is not a private foundation. Accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes and the Church is not required to file income tax returns or information returns. The Church has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2015 and 2014. Fiscal years ending on or after December 31, 2012 remain subject to examination by federal and state tax authorities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Subsequent Events

In preparing these financial statements, the Church has evaluated events and transactions for potential recognition or disclosure through May 26, 2016, the date the financial statements were available to be issued.

3. Property and Equipment

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 4,230,848	\$ 4,230,848
Building	15,385,710	-
Computers and equipment	1,632,393	958,669
Furniture	9,685	9,092
Vehicles	7,582	7,582
Construction in progress	-	10,065,286
	<u>21,266,218</u>	<u>15,271,477</u>
Less - accumulated depreciation	<u>(999,629)</u>	<u>(649,394)</u>
	<u>\$ 20,266,589</u>	<u>\$ 14,622,083</u>

All property and equipment is pledged as collateral for bank loans.

Depreciation expense for 2015 and 2014 was \$349,877 and \$115,367, respectively.

4. Leases

The Church entered into a lease agreement effective March 20, 2013 to lease its former land, building and improvements that were conveyed to the new owner. The initial lease term ended August 31, 2014 with an option to renew the lease for one additional period of time of one to seven calendar months as long as the lease agreement is not in default. The Church renewed the lease and was on a month to month lease. The Church gave notice and terminated the lease July 31, 2015. The lease agreement called for base rent of \$25,000 per month over the lease term and the Church was responsible for all operating costs of the facility including repairs, maintenance, utilities, insurance, and any other operating costs during the term of the lease. At December 31, 2015 and 2014, rent expense under the lease term was \$175,000 and \$300,000, respectively.

The Church leases office equipment under operating leases for a term of three years. The leases sets forth a base payment amount with additional amounts due based on usage. The following is a schedule of future minimum payments under these agreements:

2016	\$ 15,289
2017	6,996
2018	<u>4,081</u>
	<u>\$ 26,366</u>

5. Pension Plan

The Church sponsors a 403(b)(7) retirement plan for all part time and full-time permanent employees. The Church makes an annual contribution of 3% of an eligible employee's salary. The Church made total contributions of \$15,771 and \$13,489 for the years ended December 31, 2015 and 2014, respectively.

6. Notes Payable

The Church entered into a construction loan on June 21, 2013 with a bank to finance construction of the new facility. The new loan was for a net total borrowings of \$11,948,580 and was modified September 15, 2014 to increase the loan \$506,560 to a total of \$12,455,140. The Church has an ongoing contract which was signed in 2006 with H&H Architects for the design of the new Church. It also has a contract with a general contractor to construct the new building. Construction commenced on September 30, 2013 and was completed in July 2015. Interest accrues on the unpaid principal for the first 36 months at the Prime Rate as published in the Wall Street Journal, plus 1% subject to a floor rate of 5.5%. Interest then accrues for the remainder of the loan term at the then applicable 5 year Treasury as the Weekly Average Yield of United States Treasury Securities, adjusted for a constant maturity of 5 years. During the initial 24 months term of this note, monthly interest only payments shall be due and payable on the principal advanced until June 20, 2015. For the following 12 months, monthly interest only payments shall be due and payable up to the conversion date of June 20, 2016. After conversion, equal monthly principal and interest payments in an amount sufficient to fully amortize the then outstanding principal balance based on a 30 year amortization schedule from the conversion date at the rate set forth above commencing on July 20, 2016, and continuing on the same day of each month thereafter to and including June 20, 2021. If not sooner, the entire balance of principal remaining unpaid, plus interest accrued, plus any fees and costs, if any, shall be due and payable in full on June 20, 2021. The Church has drawn on the loan in the amounts of \$12,336,203 and \$5,964,948 as of December 31, 2015 and 2014.

Future principal maturities are as follows for years ending December 31:

2016	\$	82,498
2017		171,945
2018		181,644
2019		191,890
2020		202,714
Thereafter		<u>11,588,010</u>
	\$	<u>12,418,701</u>

Interest expense for 2015 and 2014 was \$306,360 and -, respectively. Capitalized interest for 2015 and 2014 was \$266,721 and \$92,275, respectively.

The construction loan requires the Church to deliver to the lender reviewed financial statements no later than 150 days after the close of its fiscal year. The loan document also requires the Church to meet certain financial ratios that are computed on an annual basis. At December 31, 2015 and 2014, the Church met all of the required financial ratios

The loan required the Church to deliver to the lender \$2,144,767 to be held in escrow by the lender to fund the initial development and construction expenses of the project. The escrow account was funded with the proceeds of the sale of the property and existing contributions. The account has been drawn down fully during 2015 for the use of the construction of the new Church.

The bank has required the Church to obtain a life insurance policy in the amount of \$2,000,000 for the lead Pastor. The bank is the beneficiary of the policy. The Church pays the premiums on the policy entered into on June 19, 2013.

The Church entered into a loan on September 21, 2015 with a bank to finance the potential requirement to build a traffic light on the main road in front of the Church if the Fairfax County Department of Public Works and Environmental Service require a light to be built. The loan is in the form of an Irrevocable Letter of Credit in the amount of \$234,413 issued to the Fairfax County Department of Public Works and Environmental Services. The Letter of Credit will automatically renew on a semi-annual basis. The maximum term for the Letter of Credit is ten years. A 1% annual fee will be assessed and collected for the Irrevocable Letter of Credit. The balance drawn at December 31, 2015 was \$-0-.

The Irrevocable Letter of Credit loan requires the Church to deliver to the lender annual financial statements no later than 120 days after the end of each fiscal year. In house/Church prepared statements must be signed by an authorized officer.

The Church obtained a loan commitment from another bank on December 2, 2015 to refinance the current loan in an amount not to exceed \$12,500,000. The loan would have a five year tem with the first 36 monthly payments of the loan. This is anticipated to occur in June 2016.

7. Affiliation Agreement

The Church is affiliated with the United Methodist Church. The United Methodist Church operates in an informal oversight capacity to the Church and its mission is to make disciples of Jesus Christ for the transformation of the world. The Church contributed \$137,101 and \$140,368 during the years ended December 31, 2015 and 2014, respectively to the United Methodist Church by way of apportionments for various funds.

8. Net Assets - Unrestricted

Net assets - unrestricted consist of the following:

	<u>2015</u>	<u>2014</u>
Undesignated	\$ 8,250,685	\$ 7,616,928
Board designated, Our Journey Debt Reduction	370,700	-
Board designated, Women's Group	1,040	1,167
Board designated, Youth Fund Raisers	17,841	15,365
Board designated, Communion/Christmas	117,767	65,918
	<u>\$ 8,758,033</u>	<u>\$ 7,699,378</u>

9. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

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