

SOUTHBROOK CHRISTIAN CHURCH
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

GOLDSHOT, LAMB & HOBBS, INC.
CERTIFIED PUBLIC ACCOUNTANTS
3066 KETTERING BLVD
DAYTON, OHIO 45439

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INDEPENDENT AUDITOR'S REPORT

To the Vision Team
SouthBrook Christian Church

We have audited the accompanying financial statements of SouthBrook Christian Church (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of September 30, 2016 and 2015, and the related statements of support, revenue, expenses, and changes in net assets - modified cash basis and cash flows - modified cash basis 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 the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of SouthBrook Christian Church as of September 30, 2016 and 2015, and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Goldshot, Lamb & Hobbs, chc.

February 11, 2017

SOUTHBROOK CHRISTIAN CHURCH

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS

SEPTEMBER 30, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 3,932,897	\$ 3,923,046
Investment	84,400	70,896
Total Current Assets	<u>4,017,297</u>	<u>3,993,942</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land and Improvements	1,752,106	1,749,134
Buildings and Improvements	13,786,853	13,764,976
Campus Systems	88,258	63,096
Furniture and Equipment	1,696,860	1,289,727
Vehicle	44,050	20,800
Information Systems	63,172	63,172
Construction in Process	1,918,908	554,448
Total Property and Equipment	<u>19,350,207</u>	<u>17,505,353</u>
Less: Accumulated Depreciation	<u>5,459,121</u>	<u>4,872,318</u>
Total Property and Equipment - Net	<u>13,891,086</u>	<u>12,633,035</u>
TOTAL	<u><u>\$ 17,908,383</u></u>	<u><u>\$ 16,626,977</u></u>

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
<u>CURRENT LIABILITIES</u>		
Funds Due to Events and Classes	\$ 43,710	\$ 15,597
Current Portion of Long-Term Obligation	<u>197,517</u>	<u>186,815</u>
Total Current Liabilities	<u>241,227</u>	<u>202,412</u>
<u>LONG-TERM OBLIGATION (Net of Current Portion)</u>	<u>5,382,651</u>	<u>5,698,689</u>
<u>TOTAL LIABILITIES</u>	<u>5,623,878</u>	<u>5,901,101</u>
<u>NET ASSETS</u>		
Temporarily Restricted Net Assets	2,156,169	2,179,927
Unrestricted Net Assets	<u>10,128,336</u>	<u>8,545,949</u>
Total Net Assets	<u>12,284,505</u>	<u>10,725,876</u>
TOTAL	<u><u>\$ 17,908,383</u></u>	<u><u>\$ 16,626,977</u></u>

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

SOUTHBROOK CHRISTIAN CHURCH

STATEMENT OF SUPPORT, REVENUE, EXPENSES, AND CHANGE IN NET ASSETS -

MODIFIED CASH BASIS

YEAR ENDED SEPTEMBER 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Contributions	\$ 5,214,795	\$ 1,999,001	\$ 7,213,796
Bookstore Revenue	16,772	-	16,772
Interest and Dividends	3,625	-	3,625
Change in Market Value of Investments	13,504	-	13,504
Loss on Sales of Securities	(300)	-	(300)
Gain on Disposal of Assets	-	-	-
Net Assets Released from Restrictions	2,022,759	(2,022,759)	-
Total Support and Revenue	<u>7,271,155</u>	<u>(23,758)</u>	<u>7,247,397</u>
<u>EXPENSES</u>			
Bookstore	11,394	-	11,394
Communications	105,513	-	105,513
Community (Pastoral) Care	55,758	-	55,758
Compensation and Benefits	2,999,730	-	2,999,730
IT	107,489	-	107,489
Liberty Campus	227,205	-	227,205
Ministry Support	1,082,047	-	1,082,047
Missions	453,054	-	453,054
Next Generation	61,481	-	61,481
Operations	449,020	-	449,020
Weekend	136,077	-	136,077
Total Expenses	<u>5,688,768</u>	<u>-</u>	<u>5,688,768</u>
<u>CHANGE IN NET ASSETS</u>	1,582,387	(23,758)	1,558,629
<u>NET ASSETS - BEGINNING</u>	<u>8,545,949</u>	<u>2,179,927</u>	<u>10,725,876</u>
<u>NET ASSETS - ENDING</u>	<u>\$ 10,128,336</u>	<u>\$ 2,156,169</u>	<u>\$ 12,284,505</u>

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

SOUTHBROOK CHRISTIAN CHURCH

STATEMENT OF SUPPORT, REVENUE, EXPENSES, AND CHANGE IN NET ASSETS -

MODIFIED CASH BASIS

YEAR ENDED SEPTEMBER 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Contributions	\$ 4,679,342	\$ 2,817,935	\$ 7,497,277
Bookstore Revenue	28,731	-	28,731
Interest and Dividends	3,771	-	3,771
Change in Market Value of Investments	13,504	-	13,504
Loss on Sales of Securities	(427)	-	(427)
Gain on Disposal of Assets	10,000	-	10,000
Net Assets Released from Restrictions	693,128	(693,128)	-
Total Support and Revenue	<u>5,428,049</u>	<u>2,124,807</u>	<u>7,552,856</u>
<u>EXPENSES</u>			
Bookstore	31,402	-	31,402
Communications	88,904	-	88,904
Community (Pastoral) Care	49,012	-	49,012
Compensation and Benefits	2,722,847	-	2,722,847
IT	108,971	-	108,971
Ministry Support	1,053,931	-	1,053,931
Missions	526,528	-	526,528
Next Generation	59,313	-	59,313
Operations	459,401	-	459,401
Weekend	138,135	-	138,135
Total Expenses	<u>5,238,444</u>	<u>-</u>	<u>5,238,444</u>
<u>CHANGE IN NET ASSETS</u>	189,605	2,124,807	2,314,412
<u>NET ASSETS - BEGINNING</u>	<u>8,356,344</u>	<u>55,120</u>	<u>8,411,464</u>
<u>NET ASSETS - ENDING</u>	<u>\$ 8,545,949</u>	<u>\$ 2,179,927</u>	<u>\$ 10,725,876</u>

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

SOUTHBROOK CHRISTIAN CHURCH

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 1,558,629	\$ 2,314,412
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
Depreciation Expense	586,804	566,280
Gain on Disposal of Assets	-	(10,000)
Net Realized and Unrealized Gain on Investments	(13,204)	(13,077)
Donation of Investments	(76,763)	(56,706)
Change in Operating Assets and Liabilities		
Credit Card Overpayment	-	24,166
Funds Due to Events and Classes	28,113	(13,347)
Net Cash Provided by Operating Activities	<u>2,083,579</u>	<u>2,811,728</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sale of Investments	76,463	56,279
Proceeds from the Sale of Property and Equipment	-	10,000
Purchase of Property and Equipment	<u>(1,844,855)</u>	<u>(464,200)</u>
Net Cash Used by Investing Activities	<u>(1,768,392)</u>	<u>(397,921)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payments on Long-term Obligations	<u>(305,336)</u>	<u>(295,310)</u>
Net Cash Used by Financing Activities	<u>(305,336)</u>	<u>(295,310)</u>
<u>NET INCREASE IN CASH</u>	9,851	2,118,497
<u>CASH - BEGINNING</u>	<u>3,923,046</u>	<u>1,804,549</u>
<u>CASH - ENDING</u>	<u>\$ 3,932,897</u>	<u>\$ 3,923,046</u>
<u>SUPPLEMENTARY INFORMATION</u>		
Cash Paid for Interest	<u>\$ 201,593</u>	<u>\$ 211,619</u>
Cash Paid for Income Taxes	<u>\$ -</u>	<u>\$ -</u>

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

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

1. NATURE OF ORGANIZATION:

SouthBrook Christian Church (the Organization) is a not-for-profit Ohio corporation. The Organization provides a non-denominational place to worship and study the Bible. The Organization's mission is to help de-churched skeptics live like Jesus forever.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements are prepared on the modified cash basis of accounting; consequently certain revenue and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred, except provisions for property and long-term obligations are recorded.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Basis of Presentation

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

Cash and Cash Equivalents

The Organization considers all short-term investments with an original maturity of one year or less when purchased to be "cash equivalents".

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in annuities at their fair values in the Statements of Assets, Liabilities and Net Assets - Modified Cash Basis. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Support, Revenues, Expenses and Changes in Net Assets - Modified Cash Basis.

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$2,500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the useful lives as follows:

	<u>Years</u>
Land Improvements	15
Buildings and Improvements	10 - 30
Campus Systems	7 - 10
Furniture and Equipment	5 - 30
Vehicle	5
Information Systems	5 - 7

Gains and losses on disposal of property and equipment are reflected currently in revenue. Maintenance and repairs are charged to expense at the time the expenditure is incurred. Replacements and betterments, which significantly lengthen useful lives, are capitalized.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Presentation of Sales Tax

The State of Ohio imposes a sales tax on all of the Organization's sales to nonexempt customers. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Tax Exempt Status

The Organization is exempt from federal income taxes under Internal Revenue Code 501(c)(3). However, income from certain activities not directly related to the Organization's exempt purpose is subject to taxation as unrelated business income. Additionally, since the Organization is publicly supported, contributions made to the Organization qualify for the maximum charitable contribution deduction under the Internal Revenue Code.

The Organization determines the recognition of uncertain tax positions, if applicable, that may subject the Organization to unrelated business income tax by applying a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with tax authorities. The Organization has not taken any uncertain tax positions.

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

Date of Management's Review

Subsequent events have been evaluated through February 11, 2017, which is the date the financial statements were available to be issued.

3. INVESTMENTS:

Investment values as of September 30, 2016 and 2015 were as follows:

	<u>2016</u>		
	<u>Fair Value</u>	<u>Cost Value</u>	<u>Unrealized Gain</u>
Closely Held Stock	<u>\$ 84,400</u>	<u>\$ 67,520</u>	<u>\$ 16,880</u>
	<u>2015</u>		
	<u>Fair Value</u>	<u>Cost Value</u>	<u>Unrealized Gain</u>
Closely Held Stock	<u>\$ 70,896</u>	<u>\$ 67,520</u>	<u>\$ 3,376</u>

The Organization holds an investment individually, which is uninsured. The Organization's uninsured balances as of September 30, 2016 and 2015 were \$84,400 and \$70,896 respectively.

4. FAIR VALUE MEASUREMENTS:

Assets and liabilities are measured at their fair value, defined as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

A three-level fair value hierarchy that prioritizes the inputs is used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

SOUTHBROOK CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

4. FAIR VALUE MEASUREMENTS (continued):

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.
- Level 2 – Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect the Company’s own assumptions about the assumption that market participants would use in pricing an asset or liability.

The Organization has determined that the only material financial assets or liabilities that are measured at fair value on a recurring basis and categorized using the fair value hierarchy are investments. For such investments, fair value measurement is based upon an appraisal (Level 2). The Level 2 security is a non-publicly traded financial institution’s stock. The market value was determined by an independent appraisal.

5. CONSTRUCTION LOAN AGREEMENTS:

In August 2016, the Organization entered into two construction loan agreements in the amounts of \$2,750,000 and \$550,000 to fund the completion of the current DayOne project. The \$2,750,000 is for building needs and the \$550,000 is for audio visual equipment needs. The Organization will take draws as needed for the DayOne projects. The loans bear an interest rate of prime plus 0.25% and require monthly interest payments. These loans are secured by the real estate and equipment. The outstanding loan balances are due on August 16, 2019. The Organization has not drawn on these loans as of September 30, 2016.

The Organization's loan agreements contain a debt service coverage ratio covenant. The debt service coverage ratio must greater than 1.10 to 1.00 at September 30th. The organization has passed this covenant for the year ended September 30, 2016.

6. LONG-TERM OBLIGATION:

	<u>2016</u>	<u>2015</u>
First Financial Bank, interest at 3.45%, monthly payments of \$32,244 including interest, due July 2018, secured by real estate.	5,580,168	5,885,504
Less: Current Maturities	<u>197,517</u>	<u>186,815</u>
Total Long-term Obligation (Net of Current Portion)	<u>\$ 5,382,651</u>	<u>\$ 5,698,689</u>

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

6. LONG-TERM OBLIGATION (continued):

Maturities of long-term obligation are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2017	\$ 197,517
2018	<u>5,382,651</u>
Total	<u>\$ 5,580,168</u>

The Organization has various loan covenants associated with its long-term obligation. One loan covenant requires that the Organization present its financial statements in accordance with accounting principles generally accepted in the United States of America. The Organization has obtained a waiver letter from the bank concerning this loan covenant because it uses the modified cash basis of accounting.

7. LEASE:

The Organization has a 60 month copier lease with monthly payments of \$240. The lease expense for the years ended September 30, 2016 and 2015 was \$2,880 and \$3,310, respectively.

Minimum annual lease payments are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2017	\$ 2,880
2018	2,880
2019	2,880
2020	<u>240</u>
Total	<u>\$ 8,880</u>

8. RETIREMENT PLAN:

The Organization participates in a retirement plan, which covers its pastors and full-time employees. The Plan is a tax sheltered annuity plan under Section 403(b) of the Internal Revenue Code. Under the Plan, employees may elect salary deferral. The Organization contributed \$146,855 and \$127,555 to the retirement plan for the years ended September 30, 2016 and 2015, respectively.

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

9. CONCENTRATION OF CREDIT RISK:

The Organization maintains cash balances at various institutions. The Federal Deposit Insurance Corporation, Securities Investor Protection Corporation, and National Credit Union Administration insured up to \$250,000 on all accounts at September 30, 2016 and 2015. At September 30, 2016 and 2015, the Organization's uninsured cash balances totaled \$3,172,079 and \$3,142,684, respectively.

10. DESIGNATED UNRESTRICTED NET ASSETS:

The management of the Organization has designated unrestricted net assets for the following purpose at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
EPIC Missions (Kroger & Dorothy Lane Cards)	\$ <u>1,123</u>	\$ <u>0</u>

11. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were available for the following purposes at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
DayOne Fund	2,135,694	2,165,022
Mission Fund	15,909	0
Trip Fund	<u>4,566</u>	<u>14,905</u>
Total Temporarily Restricted Net Assets	<u>\$2,156,169</u>	<u>\$2,179,927</u>

12. FAIR VALUE OF INSTRUMENTS:

The Organization has a number of financial instruments, none of which are held for trading purposes. The Organization estimates that the fair value of all financial instruments at September 30, 2016 and 2015, does not differ materially from the aggregate carrying values of its financial instruments in the accompanying balance sheets. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015

13. MISSIONS:

Missions expense consisted of the following areas at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Missions Budget	328,992	256,780
Restricted Expenses	<u>124,062</u>	<u>269,748</u>
Total Missions	<u>\$ 453,054</u>	<u>\$ 526,528</u>

14. CONTRIBUTIONS:

Contributions consisted of the following at September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Miamisburg Campus	5,109,732	4,679,342
Liberty Campus	537,283	0
Mission and Trip	129,632	229,533
DayOne	<u>1,437,149</u>	<u>2,588,402</u>
Total Contributions	<u>\$7,213,796</u>	<u>\$7,497,277</u>