

Faith Promise Church
Financial Statements

For the Years Ended December 31, 2012 and 2011

with
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Faith Promise Church
Knoxville, Tennessee

We have audited the accompanying financial statements of Faith Promise Church as of and for the years ended December 31, 2012 and 2011. These financial statements are comprised of the statement of financial position and related statements of activities and cash flows, and the 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 of 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 auditors' 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.

Michael Hall Group LLC

ASSURANCE • TAX • ADVISORY

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 December 31, 2012 and 2011, 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.

Michael Hall Group LLC

Atlanta, Georgia
February 5, 2013

Faith Promise Church
Statement of Financial Position
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash	\$ 1,304,353	\$ 1,184,143
Prepays, deferred costs, and other assets	77,035	92,682
Fixed assets, net	20,679,254	12,663,477
	\$ 22,060,642	\$ 13,940,302
 LIABILITIES AND NET ASSETS		
Payables and accruals	\$ 281,296	\$ 439,582
Notes payable	13,764,142	6,487,278
	14,045,438	6,926,860
Net assets, temporarily restricted	908,651	684,492
Net assets, unrestricted	7,106,553	6,328,950
	8,015,204	7,013,442
	\$ 22,060,642	\$ 13,940,302

See accompanying notes.

Faith Promise Church

Statement of Activities

For the Years Ended December 31, 2012 and 2011

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUE AND SUPPORT				
Contributions	\$ 5,984,837	\$ 5,623,093	\$ 1,912,240	\$ 1,630,924
Other income	400	1,581	-	-
Interest	<u>599</u>	<u>640</u>	<u>-</u>	<u>-</u>
	<u>5,985,836</u>	<u>5,625,314</u>	<u>1,912,240</u>	<u>1,630,924</u>
EXPENSES				
Ministry	438,238	438,349	-	-
Employee	3,253,832	2,843,207	-	-
Program and missions	581,864	565,215	-	-
Building and grounds	605,371	520,172	-	-
Depreciation and amortization	442,384	451,963	-	-
Interest	464,449	283,471	-	-
Administrative	1,110,176	510,090	-	-
Release of restricted funds	<u>(1,688,081)</u>	<u>(1,252,877)</u>	<u>1,688,081</u>	<u>1,252,877</u>
	<u>5,208,233</u>	<u>4,359,590</u>	<u>1,688,081</u>	<u>1,252,877</u>
Change in net assets	777,603	1,265,724	224,159	378,047
Net Assets, beginning of year	<u>6,328,950</u>	<u>5,063,226</u>	<u>684,492</u>	<u>306,445</u>
Net Assets, end of year	<u>\$ 7,106,553</u>	<u>\$ 6,328,950</u>	<u>\$ 908,651</u>	<u>\$ 684,492</u>

	<u>Permanently Restricted</u>		<u>TOTAL</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUE AND SUPPORT				
Contributions	\$ -	\$ -	\$ 7,897,077	\$ 7,254,017
Other income	-	-	400	1,581
Interest	-	-	599	640
	<u>-</u>	<u>-</u>	<u>7,898,076</u>	<u>7,256,238</u>
EXPENSES				
Ministry	-	-	438,238	438,349
Employee	-	-	3,253,832	2,843,207
Program and missions	-	-	581,864	565,215
Building and grounds	-	-	605,371	520,172
Depreciation and amortization	-	-	442,384	451,963
Interest	-	-	464,449	283,471
Administrative	-	-	1,110,176	510,090
Release of restricted funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>6,896,314</u>	<u>5,612,467</u>
Change in net assets	-	-	1,001,762	1,643,771
Net Assets, beginning of year	<u>-</u>	<u>-</u>	<u>7,013,442</u>	<u>5,369,671</u>
Net Assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,015,204</u>	<u>\$ 7,013,442</u>

See accompanying notes.

Faith Promise Church

Statement of Cash Flows

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions	\$ 7,897,477	\$ 7,255,598
Cash paid to employees and suppliers	(6,141,397)	(4,632,568)
Interest paid	(464,449)	(283,471)
Interest received	599	640
Net Cash From Operating Activities	<u>1,292,230</u>	<u>2,340,199</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(8,448,884)</u>	<u>(2,513,661)</u>
Net Cash From Investing Activities	(8,448,884)	(2,513,661)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from refinance of long-term debt	-	5,550,000
Net change in line of credit	-	(99,932)
Net advances on construction line of credit	7,276,864	937,278
Payments on long-term debt	<u>-</u>	<u>(5,592,994)</u>
Net Cash From Financing Activities	<u>7,276,864</u>	<u>794,352</u>
Net change in cash	<u>120,210</u>	<u>620,890</u>
Cash at beginning of year	<u>1,184,143</u>	<u>563,253</u>
Cash at end of year	<u>\$ 1,304,353</u>	<u>\$ 1,184,143</u>
Reconciliation of Change in Net Assets to Net Cash from Operating Activities:		
Change in net assets	\$ 1,001,762	\$ 1,643,771
Adjustments to reconcile		
Depreciation and amortization	433,107	417,558
Payables and accruals	(158,286)	340,305
Other changes in operating assets and liabilities	<u>15,647</u>	<u>(61,435)</u>
Net Cash From Operating Activities	<u>\$ 1,292,230</u>	<u>\$ 2,340,199</u>

See accompanying notes.

Faith Promise Church

Notes to Financial Statements

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Faith Promise Church (the “Church”) is a Christian not-for-profit corporation organized in 1995. The Church is exclusively engaged in charitable and religious activities through campuses located in Knoxville, Tennessee and the surrounding area.

The Church has made application and been approved as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates: The preparation of financial statements in accordance 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments: The carrying value of cash, accounts payable and accruals approximate their fair value due to the short maturity of these instruments. The carrying value of notes payable approximates fair value since the underlying interest rates approximate market rates.

Cash: The Church considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

On occasion the Church maintains cash balances on deposit with financial institutions in excess of federally insured limits. Management continually monitors the soundness of these financial institutions and believes the exposure to loss to be minimal.

Fixed Assets: Fixed assets are stated at cost. Depreciation is computed principally by the straight-line method of depreciation over the assets’ estimated useful lives. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are eliminated from the accounts and the resulting gain or loss is reflected in the Church’s statement of activities during the applicable period.

Expenditures for renewals and improvements that significantly add to productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

Long-Lived Assets: The Church evaluates the recoverability of long-lived assets by determining whether the carrying value of an asset can be recovered through projected undiscounted future operating cash flows over its remaining life. The amount of impairment, if any, is measured based on fair value, which is determined using projected discounted future operating cash flows.

Faith Promise Church

Notes to Financial Statements

Income Taxes: The Church maintains its exemption from income taxes as provided under Section 501(c)(3) of the Internal Revenue Code. The Church has no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Revenue and Support: The Church recognizes contributions and revenue when received. Contributions are recorded as either unrestricted, temporarily restricted, or permanently restricted based on the existence and nature of any donor-imposed restrictions.

Temporarily restricted amounts are reclassified to unrestricted amounts when the restriction is satisfied.

Donated goods are recorded at their estimated fair value on the date of the gift. The Church receives a substantial amount of services from its members in carrying out the Church's ministry. However, no amounts for donated services have been reflected in the accompanying financial statements.

Subsequent Events: Management has evaluated subsequent events in consideration of these financial statements through February 5, 2013, the date the financial statements were available to be issued.

NOTE 2—FIXED ASSETS

Fixed assets consist of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 3,222,279	\$ 3,222,279
Building	7,296,892	7,264,943
Leasehold improvements	1,483,978	1,183,978
Furniture, fixtures and equipment	<u>1,021,766</u>	<u>1,009,766</u>
	13,024,915	12,680,966
Less accumulated depreciation	<u>(2,750,409)</u>	<u>(2,317,302)</u>
	10,274,506	10,363,664
Construction in progress	<u>10,404,748</u>	<u>2,299,813</u>
	<u>\$ 20,679,254</u>	<u>\$ 12,663,477</u>

During 2011 the Church began a major expansion of its main campus. Expenditures related to this expansion have been capitalized, along with accrued retainage of \$166,287, but no depreciation will be recorded until the expansion is complete and the facilities have been placed into service, which is expected in February 2013.

Faith Promise Church

Notes to Financial Statements

NOTE 3—EMPLOYEE BENEFIT PLAN

The Church sponsors a qualified salary deferral plan as permitted under relevant sections of the Internal Revenue Code. Participants make voluntary contributions to the plan in the form of pre-tax salary deferrals. The Church contributes 5% of each participant's qualified compensation and matches the participant's contribution up to 5% of eligible compensation. Participants are fully vested in their own deferrals, while Church contributions are subject to vesting. Church contributions were \$129,024 and \$121,655 for the years ended December 31, 2012 and 2011, respectively.

NOTE 4 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2012</u>	<u>2011</u>
Note payable with an original amount of \$5,550,000; interest only payable monthly at LIBOR plus 2.75% through April 2013; the note includes provisions by which unpaid principal may be amortized through 2023; secured by fixed assets	\$ 5,550,000	\$ 5,550,000
Construction line of credit / note payable with a maximum amount of \$9,250,000; interest only payable monthly at 4.03% through April 2013; the note includes provisions by which unpaid principal may be amortized through 2016; secured by fixed assets	8,214,142	937,278
	<u>\$ 13,764,142</u>	<u>\$ 6,487,278</u>

Expected future principal payments are as follows:

2013	\$ 244,044
2014	305,346
2015	319,484
2016	7,787,005
2017	131,195
Thereafter	4,977,068
	<u>\$ 13,764,142</u>

Faith Promise Church

Notes to Financial Statements

NOTE 5—LEASES

The Church leases certain office equipment under arrangements that qualify as operating leases. In addition, the Church leases facilities under operating leases. Future minimum payments are as follows for the years ended December 31:

	<u>Facilities</u>	<u>Equipment</u>
2013	\$ 234,000	\$ 26,900
2014	156,000	26,900
2015	<u>156,000</u>	<u>6,700</u>
	<u>\$ 546,000</u>	<u>\$ 60,500</u>

The Church also leases space on the University of Tennessee campus under a short-term lease agreement.