

**GRACE CHURCH
OF OVERLAND PARK**

FINANCIAL STATEMENTS

**Year Ended December 31, 2015
with
Independent Auditors' Report**

GRACE CHURCH OF OVERLAND PARK

FINANCIAL STATEMENTS

December 31, 2015

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Keller & Owens, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grace Church of Overland Park

We have audited the accompanying financial statements of **Grace Church of Overland Park**, (a Kansas non-profit corporation) (the "Church"), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year 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 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 auditors consider 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.

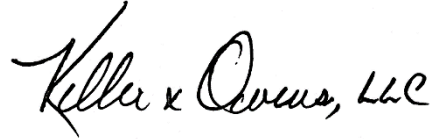
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Grace Church of Overland Park** as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited **Grace Church of Overland Park's** 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Keller & Owens, LLC". The signature is written in a cursive, flowing style.

Overland Park, Kansas
April 6, 2016

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF FINANCIAL POSITION

December 31, 2015

(With comparative totals as of December 31, 2014)

ASSETS

	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 1,651,369	\$ 1,432,678
Investments	33,869	3,480
Accounts receivable	465	4,034
Prepaid expenses	42,719	57,562
Total Current Assets	1,728,422	1,497,754
Assets Restricted for Capital Campaign:		
Cash and cash equivalents	568,876	1,935,489
Total Assets Restricted for Capital Campaign	568,876	1,935,489
Property and Equipment, net	14,505,921	8,623,624
Website Development Costs, net	11,667	30,618
Total Assets	\$ 16,814,886	\$ 12,087,485

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 178,372	\$ 315,027
Accrued expenses	130,048	69,917
Deferred revenue	6,687	4,864
Current portion of long-term debt	15,210	-
Total Current Liabilities	330,317	389,808
Long-Term Debt	5,563,320	2,926,289
Total Liabilities	5,893,637	3,316,097
Net Assets:		
Unrestricted:		
Net investment in property, equipment, and other assets	8,939,058	5,727,953
Board designated	914,015	694,252
Undesignated	465,499	392,367
Total Unrestricted	10,318,572	6,814,572
Temporarily restricted	602,677	1,956,816
Total Net Assets	10,921,249	8,771,388
Total Liabilities and Net Assets	\$ 16,814,886	\$ 12,087,485

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF ACTIVITIES Year Ended December 31, 2015

(With comparative totals for the year ended December 31, 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	
Support and Revenue:				
Cash contributions	\$ 4,423,404	\$ 1,917,471	\$ 6,340,875	\$ 5,297,747
Non-cash contributions	61,240	37,977	99,217	63,938
Program and activity fees	133,112	-	133,112	122,480
Other income	30,405	-	30,405	29,571
Investment income	4,744	-	4,744	5,484
Net assets released from restrictions	<u>3,309,587</u>	<u>(3,309,587)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>7,962,492</u>	<u>(1,354,139)</u>	<u>6,608,353</u>	<u>5,519,220</u>
Expenses:				
Program services:				
Leadership development	91,030	-	91,030	101,045
Personal & corporate worship	722,847	-	722,847	577,130
Family ministries	1,204,234	-	1,204,234	1,093,742
Connections	781,432	-	781,432	732,591
Outreach	657,652	-	657,652	648,548
People care	<u>227,283</u>	<u>-</u>	<u>227,283</u>	<u>175,163</u>
Total Program Services	<u>3,684,478</u>	<u>-</u>	<u>3,684,478</u>	<u>3,328,219</u>
Support services:				
General and administration	715,837	-	715,837	485,047
Fundraising	<u>58,177</u>	<u>-</u>	<u>58,177</u>	<u>42,874</u>
Total Support Services	<u>774,014</u>	<u>-</u>	<u>774,014</u>	<u>527,921</u>
Total Expenses	<u>4,458,492</u>	<u>-</u>	<u>4,458,492</u>	<u>3,856,140</u>
Change in Net Assets	3,504,000	(1,354,139)	2,149,861	1,663,080
Net Assets, Beginning of Year	<u>6,814,572</u>	<u>1,956,816</u>	<u>8,771,388</u>	<u>7,108,308</u>
Net Assets, End of Year	<u>\$ 10,318,572</u>	<u>\$ 602,677</u>	<u>\$ 10,921,249</u>	<u>\$ 8,771,388</u>

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

(With comparative totals for the year ended December 31, 2014)

	2015	2014
Cash Flows from Operating Activities:		
Cash received from donations and other activities	\$ 4,821,722	\$ 4,233,129
Cash paid to employees, vendors and others	(3,787,331)	(3,254,954)
Interest paid	(106,580)	(144,949)
Net Cash Provided by Operating Activities	927,811	833,226
Cash Flows from Investing Activities:		
Change in cash and cash equivalents restricted for acquisition of new church facilities	1,366,613	(557,964)
Purchases of property and equipment	(6,326,833)	(804,153)
Proceeds from sale of assets	-	580
Payments for website development costs	-	(17,501)
Proceeds from sale of stock	40,600	59,695
Net Cash Used by Investing Activities	(4,919,620)	(1,319,343)
Cash Flows from Financing Activities:		
Contributions received for the purchase of buildings and furnishings	1,689,399	1,225,565
Proceeds from sale of stock donated for the purchase of buildings and furnishings	28,066	6,000
Principal payments on long-term debt	(482,725)	(788,032)
Proceeds from the issuance of long-term debt	3,134,966	-
Payment of short-term trade account used to finance land, buildings, and equipment acquisition	(159,206)	(79,184)
Net Cash Provided by Financing Activities	4,210,500	364,349
Net Change in Cash and Cash Equivalents	218,691	(121,768)
Cash and Cash Equivalents, Beginning of Year	1,432,678	1,554,446
Cash and Cash Equivalents, End of Year	\$ 1,651,369	\$ 1,432,678

NONCASH INVESTING AND FINANCING ACTIVITIES

Land, Buildings, and Equipment Acquired Using Accounts Payable	\$ 13,191	\$ 159,206
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See accompanying notes

GRACE CHURCH OF OVERLAND PARK

STATEMENT OF CASH FLOWS (continued)

Year Ended December 31, 2015

(With comparative totals for the year ended December 31, 2014)

Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities

	<u>2015</u>	<u>2014</u>
Change in Net Assets	\$ 2,149,861	\$ 1,663,080
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	452,739	380,630
Unrealized losses	1,032	-
Realized gains	(870)	(122)
Donated securities	(61,240)	(62,938)
Loss on disposal of assets	23,939	3,535
Donated securities restricted for the purchase buildings and furnishings	(37,977)	(1,000)
Contributions restricted for purchase of buildings and furnishings	(1,689,399)	(1,225,565)
(Increase) decrease in operating assets:		
Prepaid expenses	14,843	(7,465)
Accounts receivable	3,569	(1,999)
Increase (decrease) in operating liabilities:		
Accounts payable	9,360	58,387
Accrued expenses	60,131	24,728
Deferred revenue	<u>1,823</u>	<u>1,955</u>
Net Cash Provided by Operating Activities	<u>\$ 927,811</u>	<u>\$ 833,226</u>

See accompanying notes

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization - Grace Church of Overland Park (the "Church") is a Kansas nonprofit corporation. The Church was incorporated on January 7, 1997 under the laws of the State of Kansas. The Church exists to fulfill its vision: "Help everyone become an outward focused follower of Jesus." This, coupled with the Church's mission statement, "Love, Learn, Lead...with God, household, church," calls others into a personal relationship with Jesus, relationship with others around them, and encourages growing closer to Christ daily.

The Church's donors reside primarily in the greater Kansas City metropolitan area.

Advertising - The Church incurs costs to promote their activities through various media types. These costs are expensed as incurred and amounted to \$31,450 and \$37,529 for 2015 and 2014, respectively.

Basis of Accounting - The Church's policy is to prepare its financial statements on the accrual basis of accounting; consequently, certain support and revenue are recognized when earned rather than when received and certain expenses are recognized when the obligation is incurred rather than when cash is disbursed.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand, noninterest-bearing checking, certificates of deposit, and interest-bearing money market accounts subject to minimal withdrawal restrictions.

Comparative Financial Information - The financial statements include certain prior year summarized information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Church's financial statements for the year ended December 31, 2014 from which the summarized information is derived.

Concentration of Cash Risk - The Church maintains its cash in bank accounts in amounts that may exceed federally insured limits at times. The Church has not experienced any losses in these accounts in the past, and management believes the Church is not exposed to significant credit risks as they periodically evaluate the strength of the financial institutions in which it deposits funds.

Contributions - The Church follows the accounting principles under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Materials, Equipment and Services - Donated materials and equipment are reflected as contributions at their estimated fair values at date of receipt. A number of volunteers donated service to the Church in 2015 and 2014. These services do not meet the criteria for recognition as a contribution and are not reflected in the accompanying financial statements.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments - The carrying amounts of financial instruments including cash and cash equivalents, receivables, accrued expenses, and accounts payable approximated fair values as of December 31, 2015 due to their short-term nature. The carrying value of the long-term debt approximates fair value based on the terms available to the Church. The fair value of investments is disclosed in Note 2.

Financial Statement Presentation - Financial statement presentation follows the recommendations of FASB ASC 958-210. Under FASB ASC 958-210, entities are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those currently available at the discretion of the Board for use in the entity's operations and those resources invested in land, buildings, and equipment.

Temporarily restricted net assets are those which are stipulated by donors for specific operating purposes, special projects, or for the acquisition or construction of land, buildings, and equipment.

Permanently restricted amounts are those restricted by donors in perpetuity as endowments or irrevocable trusts. At December 31, 2015, there are no permanently restricted net assets.

Functional Allocation of Expenses - Expenses are charged to each program based on direct expenditures incurred. Expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, estimated usage, or other reasonable methods. Supporting services include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Church.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes - The Church is a nonprofit organization exempt from Federal income taxes, with certain exceptions, under Section 501(c)(3) of the Internal Revenue Code. The Church has been classified as a publicly-supported entity which is not a private foundation under Section 509(a) of the Code.

The Church's policy with regard to FASB ASC 740-10 is to record a liability for any tax position that is beneficial to the Church, including any related interest and penalties, when it is more likely than not the position taken by management with respect to the transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2015 and, accordingly, no liability has been accrued. However, in general, tax years for the prior three years remain subject to IRS examination.

Property and Equipment - Expenditures for property and equipment over \$1,500 with an anticipated useful life of more than one year are recorded at cost and depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives are as follows:

Building and building improvements	7 - 40 years
Land improvements	7 - 35 years
Furniture and equipment	3 - 7 years
Vehicles	5 years

Reclassifications - Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

Subsequent Events - Management has evaluated events and transactions that have occurred since December 31, 2015 and reflected their effects, if any, in these financial statements through April 6, 2016, the date the financial statements were available to be issued.

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES

The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three-tier hierarchy of inputs is summarized in the three broad levels below:

- Level 1 - inputs are unadjusted quoted market prices in active independent markets for identical assets and liabilities;
- Level 2 - inputs are directly or indirectly observable estimates from quotes for similar but not identical assets and liabilities, market trades for identical assets not actively traded, or other external independent means;

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

2. FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

- Level 3 - inputs are unobservable and reflect assumptions on the part of the reporting entity.

The following table sets forth information about the level within the fair value hierarchy at which the Church's financial assets and liabilities are measured on a recurring basis at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Stock	\$ 33,869	\$ -	\$ -	\$ 33,869
Total Assets - Recurring Basis	\$ 33,869	\$ -	\$ -	\$ 33,869

Fair values for the Level 1 assets were determined by unadjusted quoted market prices in active independent markets for identical assets and liabilities.

The following table sets forth information about the level within the fair value hierarchy at which the Church's financial assets and liabilities are measured on a recurring basis at December 31, 2014:

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 3,480	\$ -	\$ -	\$ 3,480
Total Assets - Recurring Basis	\$ 3,480	\$ -	\$ -	\$ 3,480

Fair values for the Level 1 assets were determined by unadjusted quoted market prices in active independent markets for identical assets and liabilities.

3. INVESTMENTS

Investment income for the years ended December 31, 2015 and 2014 is comprised of the following:

	2015	2014
Interest	\$ 4,698	\$ 5,288
Dividends	208	74
Unrealized losses	(1,032)	-
Realized gains	870	122
Total Investment Income	\$ 4,744	\$ 5,484

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

4. PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation are summarized as follows at December 31, 2015 and 2014:

	2015	2014
Land	\$ 1,035,313	\$ 1,035,313
Land improvements	248,193	221,389
Construction in progress	-	630,519
Building	14,296,834	7,912,149
Furniture and equipment	1,557,836	1,138,758
Vehicles	26,023	26,023
Accumulated depreciation	<u>(2,658,278)</u>	<u>(2,340,527)</u>
Total Property and Equipment, net	<u>\$ 14,505,921</u>	<u>\$ 8,623,624</u>

Depreciation expense was \$433,787 and \$328,157 for the years ended December 31, 2015 and 2014, respectively.

5. WEBSITE DEVELOPMENT COSTS

The Church accounts for website development costs in accordance with FASB ASC 350-50. All costs incurred in the planning stage are expensed as incurred, costs incurred in the website application and infrastructure development stage are accounted for in accordance with ASC 350-50, which requires the capitalization of certain costs that meet specific criteria, and costs incurred in the day to day operation of the website are expensed as incurred. Capitalized website development costs are subject to straight-line amortization over a three-year period. Website development costs as of December 31, 2015 and 2014 are summarized as follows:

Capitalized Costs	\$ 174,918	\$ 174,918
Less: Accumulated Amortization	<u>(163,251)</u>	<u>(144,300)</u>
Total Website Development Costs, net	<u>\$ 11,667</u>	<u>\$ 30,618</u>

Amortization expense was \$18,952 and \$52,473 for the years ended December 31, 2015 and 2014, respectively.

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

6. LONG-TERM DEBT

On August 19, 2014, the Church signed a mortgage note with a maximum balance not to exceed \$8,500,000. Construction financing provided by this note was \$3,134,966 and \$0 for the years ended December 31, 2015 and 2014, respectively. The note is secured by real property, capital campaign pledges and receipts, and the assignment of a life insurance policy on a Church employee.

The mortgage note has the following payment terms: interest only payments monthly beginning September 13, 2014 through November 13, 2016 at which time the remaining principal balance will be amortized over 20 years with monthly principal and interest payments beginning December 13, 2016 through maturity in August 2021.

The mortgage has the following interest terms: the interest rate will be fixed at 3.25% from August 19, 2014 through August 13, 2016 adjusting to 4.00% from August 14, 2016 through August 13, 2019 then adjusting to 4.50% to maturity.

Estimated maturities of long-term debt, amortized over 20 years, are as follows:

Year ending December 31,

2016	\$ 15,210
2017	186,519
2018	194,119
2019	198,872
2020	201,208
Thereafter	<u>4,782,602</u>
Total Long-term debt	<u>\$ 5,578,530</u>

Interest expense was \$111,418 and \$141,515 for the years ended December 31, 2015 and 2014, respectively.

7. OPERATING LEASES

In September 2011, the Church entered into a 63-month operating lease on a copier. This lease will expire December 2016. Lease charges for the copier for the years ended December 31, 2015 and 2014 were \$10,152 and \$10,152, respectively. The following is a schedule by year of future minimum lease payments under this lease:

Years Ended December 31,

2016	<u>\$ 10,152</u>
Total	<u>\$ 10,152</u>

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

8. BOARD-DESIGNATED UNRESTRICTED NET ASSETS

Board-designated unrestricted net assets consist of the following:

	2015	2014
Strategic reserve	\$ 379,600	\$ 374,400
Projects	189,599	100,575
Capital expenditures	20,549	25,459
Depreciation reserves	64,267	104,000
Debt reduction	260,000	89,818
Total Board-Designated Unrestricted Net Assets	\$ 914,015	\$ 694,252

9. TEMPORARILY RESTRICTED NET ASSETS

The following tables set forth information about temporarily restricted net assets for the year ended December 31, 2015:

	Ultimate Investment	Ministries & Programs	Outreach	Total
Beginning balance	\$ 1,935,489	\$ 13,650	\$ 7,677	\$ 1,956,816
Restricted contributions	1,727,376	39,521	188,551	1,955,448
Releases from restriction	3,093,989	35,652	179,946	3,309,587
Ending balance	\$ 568,876	\$ 17,519	\$ 16,282	\$ 602,677

The following table sets forth information about temporarily restricted net assets for the year ended December 31, 2014:

	Ultimate Investment	Ministries & Programs	Outreach	Total
Beginning balance	\$ 1,382,640	\$ 5,675	\$ 600	\$ 1,388,915
Restricted contributions	1,226,565	26,862	91,988	1,345,415
Releases from restriction	673,716	18,887	84,911	777,514
Ending balance	\$ 1,935,489	\$ 13,650	\$ 7,677	\$ 1,956,816

GRACE CHURCH OF OVERLAND PARK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

10. EMPLOYEE BENEFITS

The Church has a 403(b) defined contribution salary deferral plan covering eligible employees. Under the plan, employees can contribute the maximum amount allowed by the Internal Revenue Code. Contributions, if any, by the Church under this Plan are at the discretion of the Board. Contributions of \$48,320 and \$35,185 were made for the years ended December 31, 2015 and 2014, respectively.

11. CONSTRUCTION COMMITMENT

On November 19, 2014, the Church entered into a contract with a contractor for construction services. The Church will make progress payments on account of the contract sum to the vendor based upon applications for payment submitted to the architect by the contractor. A final payment, constituting the entire unpaid balance of the contract sum, will be made by the Church to the contractor when the services are completed and all final deliverables are satisfied. The final adjusted contract sum of this project was \$5,764,113. As of December 31, 2015, \$5,764,113 in construction services were provided and of which the Church owed \$13,191 to the contractor.

12. SUBSEQUENT EVENTS

On January 19, 2016, the church made a \$1,101,334 payment against the principal of the long-term debt disclosed in Note 6.