

CHRIST COMMUNITY EVANGELICAL FREE CHURCH

**INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2020

CHRIST COMMUNITY EVANGELICAL FREE CHURCH

SEPTEMBER 30, 2020

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EMERICK & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS, AUDITING & TAX PROFESSIONALS

David Emerick • James Flanagan • Rick Hann • Kristy Helt

INDEPENDENT AUDITORS' REPORT

**Board of Elders
Christ Community Evangelical Free Church
Leawood, Kansas**

We have audited the accompanying financial statements of Christ Community Evangelical Free Church, which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, functional expenses 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christ Community Evangelical Free Church as of September 30, 2020, 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.

Emerick & Company, P.C.

January 28, 2021
Kansas City, Missouri

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2020**

ASSETS

CURRENT ASSETS

| | |
|---------------------------|---------------|
| Cash and cash equivalents | \$ 4,002,896 |
| Accounts receivable | 11,093 |
| Prepaid expenses | <u>28,800</u> |

| | |
|----------------------|------------------|
| Total Current Assets | <u>4,042,789</u> |
|----------------------|------------------|

PROPERTY AND EQUIPMENT

| | |
|-------------------------------------|--------------------|
| Land | 2,427,543 |
| Buildings and building improvements | 33,633,964 |
| Equipment and furniture | 1,602,316 |
| Accumulated depreciation | <u>(8,841,311)</u> |

28,822,512

| | |
|--------------------------|------------------|
| Construction in progress | <u>1,945,818</u> |
|--------------------------|------------------|

| | |
|------------------------------|-------------------|
| Total Property and Equipment | <u>30,768,330</u> |
|------------------------------|-------------------|

| | |
|--------------|-----------------------------|
| TOTAL ASSETS | <u><u>\$ 34,811,119</u></u> |
|--------------|-----------------------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--------------------------------|----------------|
| Accounts payable | \$ 361,725 |
| Accrued expenses | 133,479 |
| Notes payable, current portion | <u>276,815</u> |

| | |
|---------------------------|----------------|
| Total Current Liabilities | <u>772,019</u> |
|---------------------------|----------------|

| | |
|---------------------------------------|------------------|
| NOTES PAYABLE, net of current portion | <u>4,581,585</u> |
|---------------------------------------|------------------|

| | |
|-------------------|------------------|
| TOTAL LIABILITIES | <u>5,353,604</u> |
|-------------------|------------------|

NET ASSETS

| | |
|----------------------------|-------------------|
| Without donor restrictions | <u>29,457,515</u> |
|----------------------------|-------------------|

| | |
|------------------|-------------------|
| Total Net Assets | <u>29,457,515</u> |
|------------------|-------------------|

| | |
|----------------------------------|-----------------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 34,811,119</u></u> |
|----------------------------------|-----------------------------|

See Notes to Financial Statements

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

| | |
|-----------------------------------|-----------------------------|
| SUPPORT AND REVENUE | |
| Contributions | \$ 9,190,169 |
| Paycheck Protection Program grant | 883,600 |
| Preschool tuition and fees | 220,353 |
| Administrative service fee | 124,020 |
| Other program fees | 50,600 |
| Interest income | 20,274 |
| Other income | <u>6,081</u> |
| TOTAL SUPPORT AND REVENUE | <u>10,495,097</u> |
| EXPENSES | |
| Program expenses | 5,544,324 |
| Management and general | <u>2,699,262</u> |
| TOTAL EXPENSES | <u>8,243,586</u> |
| CHANGE IN NET ASSETS | 2,251,511 |
| NET ASSETS, BEGINNING OF YEAR | <u>27,206,004</u> |
| NET ASSETS, END OF YEAR | <u><u>\$ 29,457,515</u></u> |

See Notes to Financial Statements

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

| | Program Expenses | | | | | | Management and General | Total | |
|---------------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------------|---------------------|---------------------|
| | Adult Ministry | Family Ministry | Residency | KC Fellows | Preschool | Outreach | | | Total |
| Bank fees | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 74,979 | \$ 74,979 |
| Compensation and benefits | 1,274,626 | 1,047,828 | 238,245 | 91,843 | 275,392 | - | 2,927,934 | 1,671,319 | 4,599,253 |
| Congregant development | 17,037 | 16,754 | - | - | - | - | 33,791 | 3,828 | 37,619 |
| Contract services | 1,425 | - | - | - | - | - | 1,425 | 7,080 | 8,505 |
| Depreciation | - | 753,313 | - | - | - | - | 753,313 | 232,911 | 986,224 |
| Events | 47,510 | 62,106 | - | 20,292 | - | - | 129,908 | - | 129,908 |
| General insurance | - | 58,965 | - | - | - | - | 58,965 | 18,231 | 77,196 |
| Information technology | - | - | - | - | - | - | - | 140,275 | 140,275 |
| Interest | - | - | - | - | - | - | - | 160,715 | 160,715 |
| Outreach and benevolence | 30 | 88,751 | - | - | - | 530,060 | 618,841 | - | 618,841 |
| Promotion | - | - | 9,333 | 1,072 | 4,850 | - | 15,255 | 40,221 | 55,476 |
| Property taxes | - | 25,964 | - | - | - | - | 25,964 | 8,028 | 33,992 |
| Repairs and maintenance | - | 158,099 | - | - | - | - | 158,099 | 62,251 | 220,350 |
| Service fees | - | - | - | - | 911 | - | 911 | 23,992 | 24,903 |
| Staff development | 32,867 | 19,316 | 10,399 | - | 3,777 | 30,042 | 96,401 | 35,552 | 131,953 |
| Supplies and materials | 49,237 | 55,845 | - | 4,783 | 7,060 | 2,793 | 119,718 | 33,201 | 152,919 |
| Utilities/occupancy | - | 425,213 | - | - | - | - | 425,213 | 131,468 | 556,681 |
| Rent | - | 178,586 | - | - | - | - | 178,586 | 55,211 | 233,797 |
| TOTAL EXPENSES | \$ 1,422,732 | \$ 2,890,740 | \$ 257,977 | \$ 117,990 | \$ 291,990 | \$ 562,895 | \$ 5,544,324 | \$ 2,699,262 | \$ 8,243,586 |

See Notes to Financial Statements

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|------------------|
| Change in net assets | \$ 2,251,511 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Donated stock | (587,802) |
| Proceeds from sale of donated stock | 587,802 |
| Depreciation | 986,224 |
| Contributions restricted for long-term purposes | (713,840) |
| Changes in: | |
| Accounts receivable | 11,752 |
| Prepaid expenses | (28,800) |
| Accounts payable | 161,966 |
| Accrued expenses | 51,507 |
| Net cash provided by operating activities | <u>2,720,320</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|--------------------|
| Purchases of property and equipment | (4,042,542) |
| Net cash used in investing activities | <u>(4,042,542)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---|------------------|
| Notes payable proceeds, net | 1,598,400 |
| Contributions restricted for long term purposes | 713,840 |
| Net cash provided by financing activities | <u>2,312,240</u> |

INCREASE IN CASH AND CASH EQUIVALENTS 990,018

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 3,012,878

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 4,002,896

SUPPLEMENTAL DISCLOSURE

Interest paid during the year \$ 160,715

See Notes to Financial Statements

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Christ Community Evangelical Free Church (the Church) was incorporated under the laws of the state of Kansas, and is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Church is supported primarily through contributions from the congregation.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

Revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets are classified and reported as follows:

Net assets without donor restrictions - Net assets that are not subject to any donor-imposed restrictions.

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Church or by the passage of time. Other donor restrictions can be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

All net assets were without donor restrictions as of September 30, 2020.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Church considers all liquid investments with original maturities of three months or less, including money market funds, to be cash equivalents. At various times throughout the year, the Church's cash and cash equivalent balances in its bank accounts exceeded federally insured amounts.

Property and Equipment

Land, buildings and equipment in excess of \$1,500 are capitalized at cost, or if donated, at fair market value on the date of donation. Property and equipment is being depreciated over estimated useful lives of three to 40 years using the straight-line method.

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

**NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)**

Change in Accounting Principle

The Church has adopted Accounting Standards Update (ASU) No. 2018-08 Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605). The adoption of this standard did not have a material effect on the presentation in these financial statements.

Revenue and Revenue Recognition

The Church recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions in which case they are reported as increases in donor restricted net assets. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. Expenses are reported as decreases in net assets without donor restrictions. Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until such time as the conditions are substantially met.

Noncash contributions of land, buildings and equipment are recorded at their estimated fair market value at the date of contribution. Noncash contributions are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used.

Program fees, interest income, and other income are reported when earned.

Contributed Services

A substantial number of volunteers have donated significant amounts of their time to the activities of the Church. However, these services have not been reflected in the accompanying statements as they do not meet the accounting standards for recording in the financial statements.

Income Taxes

The Church is exempt from federal income taxes on under Section 501(c)(3) of the IRC and files Internal Revenue Service (IRS) Form 990 annually with the federal government. However, the Church is subject to federal income tax on any unrelated business taxable income. The Church did not have any unrelated business income tax expense for the year ended September 30, 2020.

Subsequent Events

Subsequent events have been evaluated through January 28, 2021, which is the date the financial statements were available to be issued.

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 2: AVAILABILITY AND LIQUIDITY

The Church strives to maintain liquid financial assets sufficient to cover operating expenditures. The following table reflects the Church's financial assets as of September 30, 2020, reduced by amounts that are not available to meet general expenditures because of contractual restrictions or internal board designations.

| | |
|---|----------------------------|
| Financial assets at year-end: | <u>2020</u> |
| Cash and cash equivalents | \$ 4,002,896 |
| Accounts receivable | <u>11,093</u> |
| Total financial assets | <u>4,013,989</u> |
| | |
| Less amounts not available for general expenditures: | <u> -</u> |
| | |
| Financial assets available to meet general expenditures over the next twelve months | <u><u>\$ 4,013,989</u></u> |

NOTE 3: NOTE PAYABLE

On February 13, 2017, the Church entered into an agreement with a bank for a line of credit and related construction loan up to \$3,000,000. The line of credit is secured by the first mortgage on real estate owned by the Church. The balance of the loan at September 30, 2020 was \$1,930,400. The interest rate was 3.9% as of September 30, 2020 and can be adjusted each five year period based on a U.S. Treasury Index. Monthly interest and principal payments of \$18,109 are due with a final payment of the remaining principal due on February 13, 2027.

On February 21, 2019, the Church entered into an agreement with a bank for a line of credit up to \$4,300,000. The line of credit is secured by the first mortgage on real estate owned by the Church. The balance of the loan at September 30, 2020 was \$2,928,000. The interest rate was 3.9% as of September 30, 2020 and can be adjusted each five year period based on a U.S. Treasury Index. Monthly payments of interest only are due through March 21, 2021. Subsequently, monthly interest and principal payments of \$28,222 will be due, assuming the full \$4,300,000 is borrowed at that time. A final payment of the remaining principal will be due on February 21, 2029.

Future minimum payments for the notes are as follows:

| | |
|---------------------------|---------------------------|
| Year ending September 30, | |
| 2021 | \$ 276,815 |
| 2022 | 379,326 |
| 2023 | 393,246 |
| 2024 | 409,436 |
| 2025 | 426,295 |
| Thereafter | <u>2,973,282</u> |
| | <u><u>\$4,858,400</u></u> |

NOTE 4: FUNCTIONAL ALLOCATION OF EXPENSES

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs that can be directly attributed to a specific program or supporting service are charged to that program or supporting function. Expenses that relate to more than one program or supporting service require allocation on a reasonable basis that is consistently applied.

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 4: FUNCTIONAL ALLOCATION OF EXPENSES (continued)

The expenses that are allocated include utilities, repairs and maintenance, depreciation, information technology, general insurance and property taxes, which are allocated on the basis of estimates of square footage.

NOTE 5: RETIREMENT PLAN

The Church maintains a 403(b) retirement plan for eligible employees through the Free Church Ministers and Missionaries (FCMM) retirement program. The Church contributes 3% of gross pay for all employees as a base contribution. The employees may make voluntary contributions to the plan. The Church makes a matching contribution of 100% of the first 3% contributed by each employee and 50% of the next 8% contributed by each employee. Contributions are limited to amounts permitted under the IRC for the plan year. Contributions are invested in a tax deferred annuity account as directed by each participant. Contributions of \$231,640 were made by the Church for the year ended September 30, 2020.

NOTE 6: LEASES

The Church leases office space under an agreement that expires on August 31, 2024. In addition to monthly rent, the Church pays a percentage of the building expenses each month. The Church also leased a building under an agreement that expired September 30, 2020.

Future minimum lease payments for the lease are as follows:

| Year ending September 30, | |
|---------------------------|------------------|
| 2021 | \$110,100 |
| 2022 | 111,973 |
| 2023 | 113,857 |
| 2024 | <u>105,952</u> |
| | <u>\$441,882</u> |

Rent expense for the above leases for the year ended September 30, 2020 was \$162,920.

The Church rented additional space on a month to month basis through March 2020. Related rent expense was \$40,704 for the year ended September 30, 2020.

NOTE 7: MADE TO FLOURISH

Made to Flourish is a network of pastors that provides training and resources to its members. It is a separate entity from the Church and has its own board of directors. The senior pastor of the Church is also an employee of Made to Flourish.

Made to Flourish pays a monthly fee to the Church for management and administrative services. Total revenue from Made to Flourish was \$124,020 for the year ended September 30, 2020.

NOTE 8: REACH KC CAPITAL FUNDING

During the year ended September 30, 2016, the Church began a capital funding initiative for a planned expansion of the Olathe campus and purchase of land for the Shawnee Mission campus. Contributions received during the year ended September 30, 2020 were \$713,840.

**CHRIST COMMUNITY EVANGELICAL FREE CHURCH
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

NOTE 9: PAYCHECK PROTECTION PROGRAM GRANT

The Church was granted a \$883,600 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The proceeds were utilized to fund payroll and other operating expenses. If certain requirements of the U.S. Small Business Administration PPP, including provisions under the CARES Act, are met, the loan would be forgiven. The Church initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Church has recognized \$883,600 as grant revenue for the year ended September 30, 2020.

NOTE 10: UNCERTAINTIES

In March 2020, the World Health Organization declared coronavirus (COVID-19) a global pandemic. The COVID-19 outbreak in the United States and the related work restrictions has impacted the Church. While the disruption is currently expected to be temporary, the related financial impact and duration cannot be reasonably estimated at this time.