

MISSION COMMUNITY CHURCH, INC.

Financial Statements

June 30, 2012

With Independent Auditors' Report

Romek, Sanders & Company, P.C.

Certified Public Accountants

Members of American Institute of Certified Public Accountants
and Arizona Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Servant Leaders
Mission Community Church, Inc.

We have audited the accompanying statement of financial position of Mission Community Church, Inc. (an Arizona corporation, not for profit) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Church's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Church's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission Community Church, Inc. at June 30, 2012, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Romek, Sanders & Company, P.C.

January 7, 2013

MISSION COMMUNITY CHURCH, INC.
Statement of Financial Position
June 30, 2012

ASSETS	
Cash and cash equivalents	\$ 620,166
Receivables	
Employees	2,815
Other	6,176
Prepaid expense	74,272
Cash and cash equivalents restricted for property	376,999
Property and equipment, net of accumulated depreciation (NOTE 2)	<u>15,474,831</u>
Total assets	<u><u>\$ 16,555,259</u></u>
 LIABILITIES	
Accounts payable	\$ 91,133
Accrued expenses	135,110
Deferred revenue	83,692
Capital lease (NOTE 3)	5,519
Notes payable (NOTE 4)	<u>12,344,220</u>
Total liabilities	<u>12,659,674</u>
 NET ASSETS	
Unrestricted	
Undesignated	137,991
Net investment in property and equipment	<u>3,125,092</u>
	3,263,083
Temporarily restricted (NOTE 6)	<u>632,502</u>
Total net assets	<u>3,895,585</u>
Total liabilities and net assets	<u><u>\$ 16,555,259</u></u>

The accompanying notes are an integral part of this statement

MISSION COMMUNITY CHURCH, INC.
Statement of Activities
For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 5,340,811	\$ 1,026,636	\$ 6,367,447
Church activities	262,779	0	262,779
Other	21,440	0	21,440
Net assets released from restrictions (NOTE 7):			
Satisfaction of program restrictions	554,103	(554,103)	0
Satisfaction of debt retirement restrictions	66,136	(66,136)	0
	6,245,269	406,397	6,651,666
EXPENSES			
Salaries and benefits	2,054,290	0	2,054,290
Mortgage and property taxes	831,848	0	831,848
Justice and mercy	1,051,773	0	1,051,773
Facilities	1,055,185	0	1,055,185
Operating costs	311,672	0	311,672
Creative arts	167,322	0	167,322
Spiritual formation	283,812	0	283,812
Training and development	208,294	0	208,294
Connections	130,221	0	130,221
Communications	59,880	0	59,880
	6,154,297	0	6,154,297
CHANGE IN NET ASSETS	90,972	406,397	497,369
NET ASSETS, BEGINNING OF YEAR	3,172,111	226,105	3,398,216
NET ASSETS, END OF YEAR	\$ 3,263,083	\$ 632,502	\$ 3,895,585

The accompanying notes are an integral part of this statement

MISSION COMMUNITY CHURCH, INC.
Statement of Cash Flows
For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	<u>\$ 497,369</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	708,400
Cash and cash equivalents restricted for property and debt retirement	(326,136)
Changes in assets and liabilities, net	
(Increase) decrease in assets:	
Employee receivable	(2,815)
Other receivable	(4,626)
Prepaid expense	(46,941)
Increase (decrease) in liabilities:	
Accounts payable	56,213
Accrued expenses	49,922
Deferred revenue	<u>40,220</u>
Total adjustments	<u>474,237</u>
Net cash provided by operating activities	<u>971,606</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Property and equipment purchases	<u>(265,135)</u>
Net cash (used) by investing activities	<u>(265,135)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on capital lease	(3,572)
Payments on notes payable	(630,718)
Cash and cash equivalents restricted and used for debt retirement	<u>66,136</u>
Net cash (used) by financing activities	<u>(568,154)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	138,317
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>481,849</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 620,166</u></u>

The accompanying notes are an integral part of this statement

MISSION COMMUNITY CHURCH, INC.
Notes to Financial Statements
June 30, 2012

NOTE 1 - Description of Organization and Summary of Significant Accounting Policies

Description of Organization

Mission Community Church, Inc. (the "Church") was incorporated in October 1995 under the laws of the State of Arizona and is located in Gilbert, Arizona. The common objective of the Church is to serve the world, seeing unchurched people become fully devoted followers of Jesus Christ through Biblically functioning communities. Its mission based on Micah 6:8 is to "do justice, love mercy, and walk humbly." The Church is a member of Converge Southwest which is part of Converge Worldwide and contributed \$5,500 to these organizations during the year ended June 30, 2012.

The Church is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and comparable state law, and contributions to the Church are tax deductible with the limitations described by the Code.

As of June 30, 2012, the Church had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Church will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Church has no unrelated business income and therefore, has not filed unrelated business income tax returns. Consequently, all tax years remain subject to examination for federal and state income tax purposes.

Temporarily Restricted Amounts

The Church reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Church reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Church reports expirations of donor restriction when the donated or acquired long-lived assets are placed in service.

Property and Equipment

Property and equipment are carried at cost or, for donated assets, at the fair value at the date of donation. Maintenance and repairs are expensed as incurred; significant acquisitions and improvements with a cost of \$2,000 or greater and a useful life of more than one year are capitalized. Depreciation of buildings and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	5 - 30 years
Land improvements	5 - 20 years
Furniture and equipment	3 - 10 years

MISSION COMMUNITY CHURCH, INC.
Notes to Financial Statements
June 30, 2012

NOTE 1 - Description of Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable are stated at the unpaid balances. There is no allowance for doubtful accounts at year end, because management considers all balances collectible.

Cash and Cash Equivalents

Cash and cash equivalents include all amounts deposited in bank accounts.

Use of 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. Actual results could differ from those estimates.

Donated Assets and Services

Donated assets are recorded at estimated fair value at the date of receipt.

A substantial number of unpaid volunteers have made significant contributions of their time to the Church. Generally accepted accounting principles require that contributed skilled services be valued and reflected on the financial statements. The Church's contributed skilled services are not significant in relation to total contributed services; accordingly, support arising from contributed services has not been recognized in the financial statements.

Cash Flow Statement - Supplemental Information

Cash paid for interest was \$829,172, none of which was capitalized. There was no cash paid for income taxes.

Functional Expenses

In accordance with generally accepted accounting principles, the Church is required to report expenses on a functional basis. Disclosed in NOTE 12 is a summary of the costs that have been allocated between program services and supporting activities and include directly identifiable expenses. Expenses related to more than one function are charged to program services and supporting activities on the basis of periodic time and expense studies. Supporting activities also include expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Church.

MISSION COMMUNITY CHURCH, INC.
Notes to Financial Statements
June 30, 2012

NOTE 2 - Property and Equipment

Property and equipment consisted of the following at June 30, 2012:

Land and improvements		\$	1,606,366
Buildings and improvements			15,336,844
Furniture and equipment			1,225,220
Vehicles			<u>3,858</u>
Total cost			18,172,288
Less accumulated depreciation			<u>(2,697,457)</u>
			<u>\$ 15,474,831</u>

NOTE 3 - Capital Lease

In September 2008, the Church acquired equipment under a capital lease, which contains a bargain purchase option at the end of the lease term. The economic substance of the lease is that the Church is financing the acquisition of the equipment through the lease, and, accordingly, it is recorded in the Church's assets and liabilities. The cost of the asset, which is included in furniture and equipment, was \$16,072 and accumulated depreciation was \$12,322 at June 30, 2012.

The following is a schedule of future minimum payments required under this lease as of June 30, 2012:

<u>For the Year Ending June 30,</u>			
2013		\$	4,991
2014			<u>1,248</u>
Total minimum lease payments			6,239
Less amount representing interest			<u>(720)</u>
Present value of lease payments			<u>\$ 5,519</u>

NOTE 4 - Notes Payable

Notes payable to the Converge Cornerstone Fund consisted of the following at June 30, 2012:

Building loan payable, interest at 6%, subject to review and adjustment every five years, monthly payments of \$30,048 including interest, final payment due June 2025, secured by deed of trust		\$	3,234,552
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MISSION COMMUNITY CHURCH, INC.
Notes to Financial Statements
June 30, 2012

NOTE 4 - Notes Payable (continued)

Loan, interest at 8%, monthly payments of \$43,452 including interest, final payment due July 2015, secured by deed of trust	2,145,319
Construction loan converted to a permanent loan in June 2011, interest at 6.375%, monthly payments of \$48,156 including interest, final payment due July 2035, secured by deed of trust	<u>6,964,349</u>
	<u>\$ 12,344,220</u>

Maturities on the notes payable are as follows:

<u>For the Year Ending June 30,</u>	
2013	\$ 672,094
2014	721,835
2015	1,738,776
2016	370,185
2017	395,244
Thereafter	<u>8,446,086</u>
	<u>\$ 12,344,220</u>

Interest expense was \$829,172 for the year ended June 30, 2012.

NOTE 5 - Credit Risk Concentration

The Church has no cash in excess of FDIC insurance limits at June 30, 2012.

NOTE 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Building fund	\$ 376,999
Justice and mercy	<u>255,503</u>
	<u>\$ 632,502</u>

MISSION COMMUNITY CHURCH, INC.
Notes to Financial Statements
June 30, 2012

NOTE 7 - Temporarily Restricted Expenses

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Justice and mercy	\$ 554,103
Debt retirement	<u>66,136</u>
Total restrictions released	<u>\$ 620,239</u>

NOTE 8 - Retirement Plan

The Church has a 403(b) plan with Converge Worldwide for eligible staff. The Church contributes 6% of compensation to the plan for pastoral staff only. The Church contributed \$31,047 to the plan for the year ended June 30, 2012.

NOTE 9 - Operating Leases

The Church leases office equipment under operating leases that require total monthly payments of \$1,477 with various expiration dates through June 2014. Rent expense for the year was \$17,578.

Future minimum lease payments are as follows:

<u>For the Year Ending June 30,</u>	
2013	\$ 13,878
2014	9,159

NOTE 10 - Facilities Use and License Agreement

The Church has a facilities use and license agreement with a limited liability company to occupy a portion of the Church campus and operate a bookstore for the convenience of Church members. The Church does not charge the company a fee and this agreement can be terminated at any time.

NOTE 11 - Contingency

Church credit cards issued to employees to use for Church-related business have a total credit limit of \$98,500. In addition, five employees have a second credit card without a credit limit.

MISSION COMMUNITY CHURCH, INC.
Notes to Financial Statements
June 30, 2012

NOTE 12 - Functional Expenses

The costs of providing various programs and other activities consist of:

Program services	\$ 5,216,003
Supporting activities	
General and administrative	<u>938,294</u>
	<u>\$ 6,154,297</u>

NOTE 13 - Subsequent Events

Management has evaluated subsequent events through January 7, 2013, which is the date the financial statements were available to be issued.