



September 23, 2011

To the Board of Elders
Christ Fellowship

We have audited the financial statements of Christ Fellowship for the year ended June 30, 2011, and have issued our report thereon dated September 23, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 17, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 16, 2011.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Christ Fellowship are described in Note 2 to the financial statements. We noted no transactions entered into by the Church during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciable lives of property and equipment is based on management's experience and judgment. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has been notified of these misstatements and has corrected all such misstatements. The following material adjusting journal entries were made during our audit:

*Entry to capitalize current year fixed asset additions totaling \$107,341.

*Entry to record current year depreciation expense totaling \$534,605.

*Entry to record current year accrued payroll totaling \$80,380.

*Entries to record current year accounts payable totaling \$34,336.

*These adjustments were made by us to properly convert the Church's financial statements from budgetary cash basis to accrual basis in order to be in compliance with accounting principles generally accepted in the United States of America.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Church's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Church's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Elders and management of Christ Fellowship and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

PSK LLP

PSK LLP

CHRIST FELLOWSHIP

McKinney, Texas

Financial Statements

For the Year Ended June 30, 2011

CHRIST FELLOWSHIP
Financial Statements
For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Elders
Christ Fellowship
McKinney, Texas

We have audited the accompanying statement of financial position of Christ Fellowship (a Texas not-for-profit corporation) as of June 30, 2011, 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 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 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 Christ Fellowship as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PSK LLP

September 23, 2011

CHRIST FELLOWSHIP
Statement of Financial Position
June 30, 2011

ASSETS

Current assets	
Cash and cash equivalents	\$ 787,186
Prepaid expenses	74,211
Other	<u>354</u>
Total current assets	<u>861,751</u>
Property and equipment	
Land	979,059
Buildings and improvements	11,724,417
Furniture, fixtures and equipment	1,704,807
Vehicles	39,485
Construction in progress	<u>245,695</u>
	14,693,463
Less: accumulated depreciation	<u>(4,848,431)</u>
Net property and equipment	<u>9,845,032</u>
Other assets	
Donated assets held for sale	29,680
Loan origination costs, net	<u>27,237</u>
Total other assets	<u>56,917</u>
Total assets	<u>\$ 10,763,700</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 34,336
Accrued expenses	75,607
Current portion of notes payable	<u>186,792</u>
Total current liabilities	296,735
Notes payable, net of current portion	<u>6,621,288</u>
Total liabilities	<u>6,918,023</u>
Net assets	
Unrestricted	
Board designated	781,019
Undesignated	<u>3,006,504</u>
Total unrestricted	3,787,523
Temporarily restricted	<u>58,154</u>
Total net assets	<u>3,845,677</u>
Total liabilities and net assets	<u>\$ 10,763,700</u>

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

CHRIST FELLOWSHIP
Statement of Activities
For the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Tithes and offerings	\$ 3,247,670	\$ 1,461,643	\$ 4,709,313
Interest income	9,113	-	9,113
Contribution of noncash property and equipment	8,100	-	8,100
Net assets released from restrictions	<u>1,661,173</u>	<u>(1,661,173)</u>	<u>-</u>
Total revenues	<u>4,926,056</u>	<u>(199,530)</u>	<u>4,726,526</u>
Program expenses			
Care ministries	8,644	-	8,644
Children	335,715	-	335,715
Communications	36,985	-	36,985
Connections and ministry involvement	6,020	-	6,020
Discipleship and growth	35,043	-	35,043
Global ministries	731,260	-	731,260
Lifesteps for women	593	-	593
Men's ministry	17,076	-	17,076
Neighbor to neighbor	6,609	-	6,609
Outreach	247,660	-	247,660
Small groups	14,837	-	14,837
Spanish ministry	2,655	-	2,655
Women's ministry	30,252	-	30,252
Worship	26,837	-	26,837
Young adults	1,333	-	1,333
Youth	<u>35,446</u>	<u>-</u>	<u>35,446</u>
Total program expenses	<u>1,536,965</u>	<u>-</u>	<u>1,536,965</u>
Supporting services			
Administration	80,670	-	80,670
Executive leadership	10,547	-	10,547
Facilities	1,473,906	-	1,473,906
Food services	34,676	-	34,676
Finance	37,668	-	37,668
Human resources	1,759,391	-	1,759,391
Information technology	41,174	-	41,174
Office	<u>48,724</u>	<u>-</u>	<u>48,724</u>
Total supporting services	<u>3,486,756</u>	<u>-</u>	<u>3,486,756</u>
Total expenses	<u>5,023,721</u>	<u>-</u>	<u>5,023,721</u>
Change in net assets	(97,665)	(199,530)	(297,195)
Net assets at beginning of the year	<u>3,885,188</u>	<u>257,684</u>	<u>4,142,872</u>
Net assets at end of the year	<u>\$ 3,787,523</u>	<u>\$ 58,154</u>	<u>\$ 3,845,677</u>

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

CHRIST FELLOWSHIP
Statement of Cash Flows
For the Year Ended June 30, 2011

Cash flows from operating activities:	
Change in net assets	\$ (297,195)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation	534,605
Amortization	3,757
Contribution of noncash property and equipment	(8,100)
Change in assets and liabilities:	
Increase in prepaid expenses	(45,558)
Increase in other current assets	(156)
Decrease in accounts payable	(8,202)
Increase in accrued expenses	<u>3,819</u>
Net cash and cash equivalents provided by operating activities	<u>182,970</u>
Cash flows from investing activities:	
Purchase of property and equipment	<u>(99,241)</u>
Cash flows from financing activities:	
Principal payments on notes payable	<u>(600,975)</u>
Change in cash and cash equivalents	(517,246)
Cash and cash equivalents at the beginning of the year	<u>1,304,432</u>
Cash and cash equivalents at the end of the year	<u>\$ 787,186</u>
Supplemental disclosures of cash flow information:	
Cash paid for interest and expensed	<u>\$ 419,979</u>

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

CHRIST FELLOWSHIP
Notes to Financial Statements

1 - Historical Background

On November 22, 2010, McKinney Fellowship Bible Church changed its name to Christ Fellowship (the "Church"). The Church was established in March of 1997 in the state of Texas, as a nonprofit organization, under Internal Revenue Code section 501(c)(3), as other than a private foundation, for the purpose of providing ministry services to the public.

2 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of the Church have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Revenue Recognition - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

Basis of Presentation - As required by the Not-for-Profit Entities Classification of Net Assets topic of the Financial Accounting Standards Board *Accounting Standards Codification* ("FASB ASC"), the Church reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Programs - The Church pursues its objectives through the execution of the following major programs:

Care Ministries - Pastoral counseling and caring for hurting people, as well as support/recovery ministries at the Church and in the area.

Children - Relationship building, growth, worship, and outreach for children.

Communications - Print, verbal and information technology media for transmitting information to church members, guests, the surrounding community and the world.

Connections and Ministry Involvement - This is our Assimilation Ministry for prospective and existing Church members.

Discipleship and Growth - Adult education, Bible studies, stewardship, etc.

Global Ministries - Reaching out beyond our area with the love of Jesus Christ, supporting and partnering with missionaries and mission organizations and supporting church plants.

Lifesteps for Women - The Community Impact Ministry that is under the direction of Lay Leader, Kristen Mycke. It is specific to training women to enter the workforce.

Men's Ministry - Relationship building, growth, worship, and outreach for men.

Neighbor to Neighbor - The Community Impact Ministry that is under the direction of our East Side Missionary, Jimmie King.

Outreach - Reaching out to the people in the area with the love of Jesus Christ.

CHRIST FELLOWSHIP
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Small Groups - The heart of the Church. The place where adults experience biblical community, building relationships and growing to Christian maturity.

Spanish Ministry - This is our ministry to the Spanish speaking members of our church family and reaching Spanish speaking people in our community.

Women's Ministry - Relationship building, growth, worship, and outreach for women.

Worship - Weekend church services and special events to lead everyone to a worship lifestyle.

Young Adults - Relationship building, growth, worship, and outreach for young adults.

Youth - Relationship building, growth, worship, and outreach for middle school and high school students.

Use of Estimates - Management used estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Revenues and Support - Revenues and support for the Church are primarily derived from unrestricted contributions from the Church membership.

Donated Services - No amounts have been reflected in the financial statements for donated services. The Church pays for most services requiring specific expertise. A large number of people have contributed significant amounts of time to the activities of the Church without compensation. The financial statements do not reflect the value of those contributed services.

Donated Assets - Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair market values at the date of donation.

Cash and Cash Equivalents - For purposes of the financial statements, the Church considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment - Property and equipment are recorded at cost, if purchased, and fair market value at date of donation, if contributed. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings and improvements	20 - 30 years
Furniture, fixtures and equipment	3 - 25 years
Vehicles	5 years

Depreciation expense for the year ended June 30, 2011 amounted to \$534,605. Maintenance, repairs and minor renewals that do not significantly improve or extend the lives of the representative assets are expensed when incurred. Additions, improvements and major renewals in excess of \$1,000 are capitalized.

Compensated Absences - Employees of the Church, administrative and ministerial, are entitled to paid vacation depending upon length of service and other factors. The Church cannot reasonably estimate the amount of compensation for future absences; accordingly, no liability has been recorded in the accompanying financial statements. The Church's policy is to recognize the cost of compensated absences when paid to employees.

CHRIST FELLOWSHIP
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Subsequent Events - Subsequent events have been evaluated through September 23, 2011, which is the date the financial statements were available to be issued.

3 - Loan Origination Costs

In October 2008, the Church incurred \$37,568 in closing costs related to a loan refinance with a financial institution. The closing costs are amortized over the term of the respective note agreements. The following is a summary of the components of loan origination costs which are included in other assets in the accompanying financial statements at June 30, 2011:

Loan origination costs	\$ 37,568
Accumulated amortization	<u>(10,331)</u>
	<u>\$ 27,237</u>

4 - Notes Payable

In October 2008, the Church entered into a term loan agreement with a financial institution, maturing in November 2018. The original principal amount was divided into two equal tranches of \$3,815,866. In November 2008, subject to provisions of the loan agreement, 50% of the outstanding loan balance of Tranche II was transferred to Tranche I, and is now subject to a Rate Swap Agreement.

Tranche I bears a variable interest rate of 1.6% plus One-month LIBOR. The Church entered into a Rate Swap Agreement with the bank agreeing to the same maturity as the term loan. In the Rate Swap Agreement the Church is the fixed rate payer at 5.66%, and the bank is the variable rate payer. Tranche I requires fixed monthly payments of principal, which increase over time, (currently \$10,172), plus interest. The balance outstanding at June 30, 2011 was \$5,443,179.

If the Church chooses to refinance its existing debt, there is no assurance that the lending institution would relieve the Church of its obligations under the interest rate swap agreement, and as of year-end the fair value of the agreement would likely favor the lending institution upon early termination of the loan and swap agreement; however, the Church does not anticipate terminating the agreement in advance of maturity, so no liability has been recorded for this contingency.

Tranche II bears interest at a fixed rate of 5.59% through November 2013, at which time the rate will be adjusted. Tranche II requires monthly payments of principal and interest in the amount of \$11,824. The balance outstanding at June 30, 2011 was \$1,364,901.

Future maturities, based upon interest rates in place at June 30, 2011, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 186,792
2013	198,086
2014	210,282
2015	222,829
2016	235,649

5 - Concentration of Credit Risks

The Church maintains accounts at financial institutions which, at times, may exceed federally insured limits. The Church has not experienced any losses in such accounts, and management does not believe it is exposed to any significant credit risk.

CHRIST FELLOWSHIP
Notes to Financial Statements

6 - Operating Leases

The Church has non-cancelable operating leases for certain office equipment. The following is a schedule of future minimum rentals under the leases at June 30, 2011.

<u>Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 41,460
2013	39,810
2014	29,857

Rent expense for the year ended June 30, 2011 was \$36,108.

7 - Temporarily Restricted Net Assets

The balance of temporarily restricted net assets as of June 30, 2011 relates to certain contributions for which the donor has imposed restrictions. These restrictions require the Church to use such funds for expenses directly related to program, administration and facilities-related activities. During the year ended June 30, 2011, temporarily restricted net assets in the amount of \$1,661,173 had been expensed in accordance with donor restrictions and have been reclassified to unrestricted net assets.

8 - Income Taxes

The Church follows the Income Taxes topic of the FASB ASC, which clarifies the accounting for uncertainty in income taxes recognized in the Church's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The topic also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return. The application of this topic did not have a material effect on the Church for the year ended June 30, 2011.

The Church is subject to filing a Form 990T tax return in the U.S. federal jurisdiction if there is any unrelated business income. The Church's federal income tax returns for tax years 2007 and beyond remain subject to examination by the Internal Revenue Service.

The Church did not have unrecognized tax benefits as of June 30, 2011 and does not expect this to change significantly over the next twelve months. In connection with the application of the Income Taxes topic, the Church will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of June 30, 2011, the Church has not accrued interest or penalties related to uncertain tax positions.