Report of Independent Auditors on the Financial Statements of

PRINCE OF PEACE LUTHERAN CHURCH

December 31, 2015

Metz & Associates PLLC

PRINCE OF PEACE LUTHERAN CHURCH
(*a non-profit religious corporation*)
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
Year ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Council of
Prince of Peace Lutheran Church

We have audited the accompanying statements of financial position of Prince of Peace Lutheran Church (a non-profit religious corporation), 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.

Auditor's 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 auditor's 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 of 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 Prince of Peace Lutheran Church 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.

Metz & Associates PLLC

Phoenix, Arizona
December 7, 2016

PRINCE OF PEACE LUTHERAN CHURCH
(*a non-profit religious corporation*)
Statement of Financial Position
December 31, 2015

Assets:		**2015**
Current Assets:		
Cash and cash equivalents	$	364,427
Total Current Assets		364,427
Real property held by subsidiary, net		823,056
Total Assets	$	1,187,483
Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable	$	4,719
Note payable, current portion		23,233
Total Current Liabilities		27,952
Note payable		333,812
Total Liabilities		361,764
Net Assets, unrestricted		825,719
Total Liabilities and Net Assets	$	1,187,483

The accompanying Independent Auditors' Report
and notes are an integral part of these financial statements.

PRINCE OF PEACE LUTHERAN CHURCH
(*a non-profit religious corporation*)
Statement of Activities
Year ended December 31, 2015

Changes in unrestricted net assets:		
Revenue and support:		
Contributions	$	407,839
Restricted contributions		167,710
Rent		26,722
Preschool		1,304,769
Music Academy		55,934
Total unrestricted revenue and support		1,962,974
Expenses:		
Council		2,199
Benevolence		26,129
Outreach		1,827
Parish education		248
Ministry		11,164
Worship		13,462
Operations		127,478
Administration		41,456
Debt expense		19,377
Personnel expense		325,427
Miscellaneous expense		200
Depreciation expense		11,012
Preschool operations		268,655
Preschool depreciation		4,141
Preschool personnel expense		983,695
Music Academy personnel expense		41,746
Music Academy operations		14,204
Total expenses		1,892,420
Change in net assets		70,554
Net Assets, Beginning of Year		755,165
Net Assets, End of Year	$	825,719

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and notes are an integral part of these financial statements.

PRINCE OF PEACE LUTHERAN CHURCH
(*a non-profit religious corporation*)
Statement of Cash Flows
Year ended December 31, 2015

Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in net assets	$	70,554
Depreciation		15,153
Decrease (increase) in:		
Accounts receivable		1,750
Accounts payable		2,370
NET CASH PROVIDED BY OPERATING ACTIVITIES		89,827
Cash Flows from Investing Activities:		
Purchase of building improvements		(76,939)
NET CASH USED BY INVESTING ACTIVITIES		(76,939)
Cash Flows from Financing Activities:		
Payments on mortgage payable		(22,062)
NET CASH USED BY FINANCING ACTIVITIES		(22,062)
Decrease in Cash and Cash Equivalents		(9,174)
Cash and Cash Equivalents, Beginning of Year		373,601
Cash and Cash Equivalents, End of Year	$	364,427

SUPPLEMENTAL DISCLOSURE OF CASH FLOW		
Cash paid for interest during the year ended December 31, 2015	$	19,377

The accompanying Independent Auditors' Report
and notes are an integral part of these financial statements.

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The Prince of Peace Lutheran Church (Church) was incorporated in 1958 as a non-profit religious corporation. Its purpose is to create a community which welcomes all people, shares the experience of God's grace, grows in faith, and is sent out into the world to care.

Basis of Accounting – The accounts of the Church are maintained, and the financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation – Information regarding financial position and activities is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Support received is recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the nature of donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All other 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, 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. Contributions of unrestricted net assets with an economic life in excess of one year are recorded as increases in support and unrestricted net assets.

Use of Estimates – The preparation of financial statements in conformity 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 the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Actual results could differ from those estimates.

Concentrations of Credit Risk – Financial instruments which potentially subject the Church to concentrations of credit risk include cash deposits maintained in excess of Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") limits throughout the year. These funds are not insured by the Federal Deposit Insurance Corporation. At December 31, 2015, the Church's uninsured cash balances in totaled $138,870.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Church considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Promises to Give – There were no promises to give (pledges) that met the criteria for recording in the financial statements.

Property and Equipment – Property and equipment is recorded at cost, or if donated, at estimated fair value at donation date. Repairs, maintenance, and minor replacements are expensed as incurred. For financial reporting purposes, depreciation is computed using the straight line method over the estimated useful lives of the assets, which range from fifteen to thirty years.

Long-Lived Assets – The Accounting Standards Codification 360-10-05, "Impairment or disposal of long-lived Assets and for long-lived assets to be disposed of", requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Church assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. This standard did not have a material effect on the Church's results of operations, cash flows or financial position.

NOTE A – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences – The Church allows full-time employees to receive compensation for vacation and sick leave. Compensated absences for vacation and sick pay have not been accrued since they cannot be carried forward from year to year, but are expensed as incurred.

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

Donated Services – No amounts have been reflected in the financial statements for donated services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Church with specific programs, fund solicitations, and various committee assignments.

Advertising – Advertising is charged to expense when incurred. No advertising cost was incurred during the year ended December 31, 2015.

Income Tax Status – The Church is an exempt religious organization under the Internal Revenue Code Section 501(c)(3) and is covered by a group exemption letter issued to the Evangelical Lutheran Church in America.

Date of Management Review – In preparing these financial statements, the Church has evaluated events and transactions for potential recognition or disclosure through December 7, 2016, the date the financial statements were available to be issued.

NOTE B – FAIR VALUE MEASUREMENTS

The Church's investments are reported at fair value in the accompanying statement of net assets available for benefits. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Church believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Fair Value Measurements
Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Church has the ability to access.

Level 2 Fair Value Measurements
Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets
- quoted prices for identical or similar assets or liabilities in inactive markets
- inputs other than quoted prices that are observable for the asset or liability
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

NOTE B – FAIR VALUE MEASUREMENTS (continued)

Level 3 Fair Value Measurements
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Church did not have any assets requiring valuation as of December 31, 2015.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2015:

Land	$	465,000
Buildings & Improvements		5,108,890
Equipment		305,242
Playground		19,848
		5,898,980
Accumulated depreciation		(5,075,924)
Property and equipment, net	$	823,056

Depreciation expense for the year ended December 31, 2015 was $15,153.

NOTE D – MORTGAGE PAYABLE

In 2012, the Church refinanced a their outstanding mortgage loan of $429,412, secured by a deed of trust. The new note bears interest at 5.25% per annum. Principal and interest payments are due through the loan maturity date of June 2027.

The balance outstanding on the loan as of December 31, 2015 was:

Outstanding balance	$	357,045
Less: current portion		(23,233)
Net long-term portion	$	333,812

The future minimum liabilities for the loan for the current and succeeding years are as follows:

Year ending December 31,		
2016	$	23,233
2017		24,482
2018		25,799
2019		27,187
2020		28,649
Thereafter		227,695
	$	357,045

Interest expense totaled $19,377 for the year ended December 31, 2015.

NOTE E – UNCERTAIN TAX POSITIONS

The Church has implemented ASC 740-10, the generally accepted accounting guidance for uncertainty in income taxes. As of December 31, 2015, the Church had made no changes in the purpose, character or method of operations, and therefore there were no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

NOTE F – RISKS AND UNCERTAINTIES

The Church's investments are exposed to various risks such as interest rate, market and credit due to the level of risk associated with these investments and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the Church's investment account balances and the amounts reported in the accompanying financial statements.

NOTE G – SUBSEQUENT EVENTS

The Church evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Management has determined that there were no events that occurred that require additional disclosure. Subsequent events have been evaluated through December 7, 2016, which is the date the financial statements were available to be issued.

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