

**EAST 91ST STREET CHRISTIAN CHURCH
FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2016 AND 2015**

**GOLDSHOT, LAMB & HOBBS, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Elder Council
East 91st Street Christian Church

We have audited the accompanying financial statements of East 91st Street Christian Church (a nonprofit organization), which comprise the statements of assets, liabilities and net assets - modified cash basis as of August 31, 2016 and 2015, and the related statements of support, revenue, expenses and changes in net assets - modified cash basis and cash flows - modified cash basis for the years 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 the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits 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 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 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 assets, liabilities, and net assets of East 91st Street Christian Church as of August 31, 2016 and 2015, and its support, revenue, and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Goldshot, Lamb & Hobbs, Inc.

June 23, 2017

EAST 91ST STREET CHRISTIAN CHURCH

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS

AUGUST 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 681,119	\$ 484,097
Investments	-	7,712
Investments Held for Church Planting	102,726	96,034
Property Held for Sale	55,000	-
Total Current Assets	<u>838,845</u>	<u>587,843</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land and Land Improvements	3,347,403	3,430,626
Buildings	33,100,663	33,100,663
Equipment	2,720,368	2,746,199
Construction In Progress	37,482	-
Total Property and Equipment	<u>39,205,916</u>	<u>39,277,488</u>
Less: Accumulated Depreciation	<u>16,198,261</u>	<u>15,310,081</u>
Total Property and Equipment - Net	<u>23,007,655</u>	<u>23,967,407</u>
<u>OTHER ASSETS</u>		
Loan Costs - Net of Amortization	<u>31,186</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 23,877,686</u>	<u>\$ 24,555,250</u>

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
<u>CURRENT LIABILITIES</u>		
Funds Due to Events and Classes	\$ 12,792	\$ 17,619
Payroll Withholdings	5,095	3,033
Current Portion of Post-Retirement Income Agreement	3,333	5,000
Current Portion of Mortgage Payable	-	-
Total Current Liabilities	<u>21,220</u>	<u>25,652</u>
<u>LONG-TERM LIABILITIES</u>		
Post-Retirement Income Agreement (Net of Current Portion)	-	1,667
Mortgage Payable (Net of Current Portion)	4,697,397	4,728,667
Total Long-Term Liabilities	<u>4,697,397</u>	<u>4,730,334</u>
TOTAL LIABILITIES	<u>4,718,617</u>	<u>4,755,986</u>
<u>NET ASSETS</u>		
Unrestricted	18,968,571	19,631,406
Temporarily Restricted	190,498	167,858
Total Net Assets	<u>19,159,069</u>	<u>19,799,264</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 23,877,686</u>	<u>\$ 24,555,250</u>

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

EAST 91ST STREET CHRISTIAN CHURCH

**STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS**

YEAR ENDED AUGUST 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<u>SUPPORT AND REVENUE:</u>			
Contributions	\$ 3,498,315	117,639	3,615,954
God's Kids Early Learning Ministry Fees	767,231	-	767,231
Crucible Counseling Support	82,211	-	82,211
Great Banquet	-	72,231	72,231
Other Income	12,431	-	12,431
Donation of Land	55,000	-	55,000
Loss on Disposal of Assets	(19,419)	-	(19,419)
Realized and Unrealized Loss	(3,528)	-	(3,528)
Interest Income	978	109	1,087
Net Assets Released from Restriction	167,339	(167,339)	-
Total Support and Revenue	<u>4,560,558</u>	<u>22,640</u>	<u>4,583,198</u>
<u>EXPENSES</u>			
Salaries and Benefits	1,445,006	-	1,445,006
Ministry Support	1,150,538	-	1,150,538
Depreciation & Amortization	1,026,889	-	1,026,889
Outreach	269,356	-	269,356
God's Kids Early Learning Ministry Expenses	707,558	-	707,558
Worship	191,443	-	191,443
Family Ministry	58,430	-	58,430
Miscellaneous Expense	837	-	837
Executive	66,890	-	66,890
Discipleship	23,789	-	23,789
Crucible Counseling Support	62,958	-	62,958
Great Banquet	30,755	-	30,755
Mortgage Interest	188,944	-	188,944
Total Expenses	<u>5,223,393</u>	<u>-</u>	<u>5,223,393</u>
<u>CHANGES IN NET ASSETS</u>	(662,835)	22,640	(640,195)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>19,631,406</u>	<u>167,858</u>	<u>19,799,264</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 18,968,571</u>	<u>\$ 190,498</u>	<u>\$ 19,159,069</u>

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

EAST 91ST STREET CHRISTIAN CHURCH

**STATEMENT OF SUPPORT, REVENUE, EXPENSES AND CHANGES IN NET ASSETS -
MODIFIED CASH BASIS**

YEAR ENDED AUGUST 31, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<u>SUPPORT AND REVENUE:</u>			
Contributions	\$ 4,259,427	126,264	4,385,691
God's Kids Early Learning Ministry Fees	635,542	-	635,542
Crucible Counseling Support	74,724	-	74,724
Great Banquet	-	28,120	28,120
Other Income	10,406	-	10,406
Donation of Land	-	-	-
Loss on Disposal of Assets	-	-	-
Realized and Unrealized Loss	(1,789)	-	(1,789)
Interest Income	103	14	117
Net Assets Released from Restriction	124,147	(124,147)	-
Total Support and Revenue	<u>5,102,560</u>	<u>30,251</u>	<u>5,132,811</u>
<u>EXPENSES</u>			
Salaries and Benefits	2,026,625	-	2,026,625
Ministry Support	1,388,259	-	1,388,259
Depreciation & Amortization	1,048,170	-	1,048,170
Outreach	435,151	-	435,151
God's Kids Early Learning Ministry Expenses	554,596	-	554,596
Worship	84,829	-	84,829
Family Ministry	39,431	-	39,431
Miscellaneous Expense	81,210	-	81,210
Executive	44,219	-	44,219
Discipleship	15,247	-	15,247
Crucible Counseling Support	46,587	-	46,587
Great Banquet	19,358	-	19,358
Mortgage Interest	127,246	-	127,246
Total Expenses	<u>5,910,928</u>	<u>-</u>	<u>5,910,928</u>
<u>CHANGES IN NET ASSETS</u>	(808,368)	30,251	(778,117)
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>20,439,774</u>	<u>137,607</u>	<u>20,577,381</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$ 19,631,406</u>	<u>\$ 167,858</u>	<u>\$ 19,799,264</u>

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

EAST 91ST STREET CHRISTIAN CHURCH

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ (640,195)	\$ (778,117)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	1,026,889	1,048,170
Loss on Disposal of Assets	19,419	-
Realized and Unrealized Loss on Investments	3,528	1,789
Actuarial Change of Post-Retirement Income Agreement	1,666	(370)
Donated Land	(55,000)	-
Donated Kitchen Flooring and Cabinetry	(9,455)	-
Donated Securities	(83,174)	(92,963)
Change in Operating Assets:		
Funds Due to Events and Classes	(4,827)	8,505
Payroll Withholdings	2,062	(7,945)
Net Cash Provided by Operating Activities	<u>260,913</u>	<u>179,069</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Property and Equipment	(73,406)	-
Proceeds from Sale of Investments	80,666	90,048
Net Cash Provided by Investing Activities	<u>7,260</u>	<u>90,048</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal Payments on Mortgage Note	(66,151)	(276,800)
Payments on Post-Retirement Income Agreement	(5,000)	(5,000)
Net Cash Used by Financing Activities	<u>(71,151)</u>	<u>(281,800)</u>
<u>CHANGE IN CASH AND CASH EQUIVALENTS</u>	197,022	(12,683)
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>484,097</u>	<u>496,780</u>
<u>CASH AND CASH EQUIVALENTS - ENDING OF YEAR</u>	<u>\$ 681,119</u>	<u>\$ 484,097</u>
<u>SUPPLEMENTAL DISCLOSURES:</u>		
Cash Paid for Interest	<u>\$ 188,944</u>	<u>\$ 127,246</u>
Cash Paid for Taxes	<u>\$ -</u>	<u>\$ -</u>

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

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

1. NATURE OF ORGANIZATION:

East 91st Street Christian Church (Church) is incorporated under the Indiana Not-For-Profit Act of 1971 and is statutorily exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (Code). The Church is classified as a publicly supported organization rather than a private foundation under section 509(a)(1) of the Code. Contributions to the Church are deductible for income tax purposes.

The Church is a multi-ministry outreach with ministry emphases in the areas of Christian education, missions, Christian outreach, nurturing and benevolence.

For the year ended August 31, 2015, the Church's financial statements include the activities of the Crucible Counseling Center (Center), which provides a low cost option for those that are seeking Christian counseling. The Center is statutorily exempt from federal income tax under section 501(c)(3) of the Code. As of September 1, 2015, the Church assumed the operations of the Center.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements have been prepared on the modified cash basis of accounting; consequently, certain revenue and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred, except provisions for property, payroll withholdings, agency funds due to events and classes, and mortgage payable are recorded.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence of any donor restrictions. Reclassifications represent net assets released when expenses have been incurred in satisfaction of donor restrictions.

Net Assets

Net assets are reported as follows:

Unrestricted net assets are those currently available for ministry purposes under the direction of the Board and those resources invested in property and equipment, net of related debt.

Temporarily restricted net assets are those stipulated by donors for specific operating purposes or those not currently available for use until commitments regarding their use have been fulfilled.

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents includes cash on hand and checking and savings accounts. The Church maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Church has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Investments

The Church's general policy is to liquidate donated investments upon receipt. Investments held for church planting were transferred to the Church by a court order resulting from the dissolution of a church in Pennsylvania. These investments are reported at fair value. These gifted funds are reported as temporarily restricted net assets for church planting ministries in Pennsylvania.

Property, Equipment and Depreciation

Donated and purchased property and equipment items greater than \$2,500, and items that substantially increase the useful lives of existing assets are capitalized at cost for purchased items and fair value for donated items. The Church also capitalizes all technology items. Property and equipment are depreciated on the straight-line method over their estimated useful lives ranging from 3 to 40 years.

Fair Value Measurements

The Church uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Church measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Support, Revenue and Reclassifications

Contributions are reported when received or ownership of donated assets to be used directly in the operations is transferred to the Church. Contributed investments and noncash items are reposted at fair value on the date of the gift. Bequests are reported as support at the time the Church receives the funds.

Concentration of Support Risk

Support for the Church comes primarily from tithes and offerings from constituents concentrated in the Indianapolis, Indiana geographical area.

Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to the Church. These contributed services are not reported as they do not meet the requirements under provisions of the modified cash basis of accounting.

Expenses, Advertising and Joint Costs

Expenses are reported when paid. All advertising costs are expensed when paid. Advertising costs were \$18,525 and \$1,991 for the years ended August 31, 2016 and 2015, respectively. The Church incurred no joint costs for the years ended August 31, 2016 and 2015.

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Uncertain Tax Positions

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of August 31, 2016 and 2015, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Date of Management's Review

Subsequent events have been evaluated through June 23, 2017, which is the date the financial statements were available to be issued.

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents as of August 31, 2016 and 2015 were as follows:

<u>2016</u>	<u>Operating Funds</u>	<u>Building Funds</u>	<u>Total</u>
Petty Cash	\$ 200	\$ 0	\$ 200
Checking	579,688	0	579,688
Savings	17,939	83,292	101,231
	<u>\$ 597,827</u>	<u>\$ 83,292</u>	<u>\$ 681,119</u>
<u>2015</u>	<u>Operating Funds</u>	<u>Building Funds</u>	<u>Total</u>
Petty Cash	\$ 200	\$ 0	\$ 200
Checking	374,685	0	374,685
Savings	26,041	83,171	109,212
	<u>\$ 400,923</u>	<u>\$ 83,171</u>	<u>\$ 484,097</u>

4. INVESTMENTS HELD FOR CHURCH PLANTING:

Investments held for Church planting as of August 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Money Funds	99,715	92,931
Certificates of Deposit with maturities three months or less	3,011	0
Certificates of Deposit with maturities over three months	0	3,103
	<u>\$ 102,726</u>	<u>\$ 96,034</u>

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

5. DEBT:

Mortgage Payable

In December 2015, the Church borrowed \$4,697,397 to refinance their long-term debt and the related interest rate swap agreement. This loan bears interest at 4.5% and requires monthly payments of interest-only through January 2019 and monthly principal and interest payments of \$29,718 through the maturity date of January 2023, when the remaining principal is required to be paid. The loan is secured by the first mortgage on the Church property. The loan balance at August 31, 2016 was \$4,697,397.

The Church had a \$5,536,000 term loan with Huntington Bank which was paid off with proceeds from a loan with Christian Financial Resources in December 2015. Principal payments of \$23,067 were due monthly, in addition to monthly interest payments. The interest rate on the term loan was the daily fluctuating LIBOR, rate plus 160 basis points. As of August 31, 2015 the interest rate was 1.79% and the loan principal balance was \$4,728,667. The loan was secured by the first mortgage on the Church property.

In 2015, the Church had two loan covenants associated with its Huntington mortgage payable. One loan covenant required that the Church present its financial statements in accordance with accounting principles generally accepted in the United States of America. The Church obtained a waiver letter from the bank concerning this loan covenant because it uses the modified cash basis of accounting. The other loan covenant requires a minimum debt service coverage ratio. The Church met the minimum debt service coverage ratio requirement.

Interest Rate Swap

In order to hedge the risk that future variable interest rates on the mortgage payable would increase, the Church entered into an interest rate swap agreement with Huntington Bank to fix the interest rate on a notional principal amount of \$3,500,000 at a rate of 3.04%. If the settlement rate of interest specified in the swap agreement exceeded the variable rate under the loan agreement, the Church paid the difference to the financial institution, and reflected additional interest expense in the financial statements. If the settlement rate of interest specified in the swap agreement is less than the variable rate under the mortgage payable agreement, then the financial institution repaid the Church the difference, and interest expense reflected in the financial statements was reduced. The swap agreement terminated in December 2016.

	<u>Fixed Rate Payor</u>	<u>Variable Rate Payor</u>	<u>Remaining Term of Contract in Years</u>
August 31, 2015	3.04%	1.79%	4

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

5. DEBT (continued):

Principal payments on the mortgage payable are due as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2017	\$ 0
2018	0
2019	85,679
2020	152,203
2021 and thereafter	<u>4,459,515</u>
	<u>\$ 4,697,397</u>

6. OPERATING LEASES:

Operating leases consist of leases for office equipment. Total operating lease expense was \$37,621 and \$39,484 for the years ended August 31, 2016 and 2015, respectively. Future minimum lease payments are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2017	\$ 13,763
2018	7,860
2019	<u>3,275</u>
	<u>\$ 24,898</u>

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes as of August 31, 2016 and 2015:

<u>August 31, 2016</u>	<u>Net Assets August 31, 2015</u>	<u>Temporarily Restricted Contributions and Interest</u>	<u>Reclassifications</u>	<u>Net Assets August 31, 2016</u>
Building Project Fund	\$ 0	\$ 15,100	\$ (15,100)	\$ 0
Missions	29,761	64,633	(32,303)	62,091
Mission Trips	11,015	32,504	(38,107)	5,412
Church Planting (Note 4)	96,034	109	6,583	102,726
Solomon's Wardrobe	5,268	852	(6,120)	0
Blessing Ranch	2,675	4,550	(7,225)	0
Great Banquet	20,405	72,231	(72,367)	20,269
Allendale Scholarships	2,700	0	(2,700)	0
	<u>\$ 167,858</u>	<u>\$ 189,979</u>	<u>\$ (167,339)</u>	<u>\$ 190,498</u>

<u>August 31, 2015</u>	<u>Net Assets August 31, 2014</u>	<u>Temporarily Restricted Contributions and Interest</u>	<u>Reclassifications</u>	<u>Net Assets August 31, 2015</u>
Building Project Fund	\$ 0	\$ 35,979	\$ (35,979)	\$ 0
Missions	0	70,328	(40,567)	29,761
Mission Trips	0	15,242	(4,227)	11,015
Church Planting (Note 4)	102,620	339	(6,925)	96,034
Austria Short-Term Mission Trip	1,456	0	(1,456)	0
Solomon's Wardrobe	6,120	0	(852)	5,268
Blessing Ranch	0	1,690	985	2,675
Rising Advent Conspiracy	256	0	(256)	0
Kenya Short-Term Mission Trip	1,887	0	(1,887)	0
Great Banquet	13,967	28,120	(21,682)	20,405
Germany Youth Trip	8,833	0	(8,833)	0
Thanksgiving Offering	560	0	(560)	0
Allendale Scholarships	0	2,700	0	2,700
Other	1,908	0	(1,908)	0
	<u>\$ 137,607</u>	<u>\$ 154,398</u>	<u>\$ (124,147)</u>	<u>\$ 167,858</u>

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

8. COMMITMENT:

Investments Restricted for Church Planting Ministries

As disclosed in Notes 2, 4 and 7, the Church received investments restricted for church planting ministries in Pennsylvania. Per the Planting Agreement signed in May 2003, the Church shall use the funds to assist in the planting of a New Testament Church in or near Cranberry Township, Pennsylvania. If remaining funds exist, those funds would be used to assist in the planting of a New Testament Church in Western Pennsylvania. The first church was planted in October 2006 in Pittsburg, Pennsylvania. A second Pennsylvania church was planted in April 2007. For the year ended August 31, 2010 a third Pennsylvania church was planted. During the year ended August 31, 2016 and 2015, funds of \$217 and \$6,925 were spent for these purposes, respectively.

9. RETIREMENT PLAN:

The Church sponsors a 403(b) retirement plan covering all employees who have satisfied certain age and service requirements. The Church contributes up to 10% of each eligible employee's salary to the plan based on the number of years of service. Plan contributions were suspended as of June 2014. For the years ended August 31, 2016 and 2015, the Church made no contributions.

10. FAIR VALUE MEASUREMENTS:

The modified cash basis of accounting defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Church has the ability to access.
- Level 2 - Inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Inputs are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the assets own data.)

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

10. FAIR VALUE MEASUREMENTS (continued):

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at August 31, 2016:

Certificates of Deposit: Valued at yields for securities of comparable maturity, quality, and type as obtained from market makers.

Post-Retirement Income Agreement: Valued at present value using discount rate of 2%, which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management 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 following tables present the Church's fair value hierarchy for those assets (liabilities) measured at fair value on a recurring basis as of August 31, 2016 and 2015.

Fair Value Measurements on a Recurring Basis
As of August 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ 0	\$ 3,011	\$ 0	\$ 3,011
Post-Retirement Income Agreement	<u>0</u>	<u>0</u>	<u>(3,333)</u>	<u>(3,333)</u>
	<u>\$ 0</u>	<u>\$ 3,011</u>	<u>\$ (3,333)</u>	<u>\$ (322)</u>

Fair Value Measurements on a Recurring Basis
As of August 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ 0	\$ 3,103	\$ 0	\$ 3,103
Post-Retirement Income Agreement	<u>0</u>	<u>0</u>	<u>(6,667)</u>	<u>(6,667)</u>
	<u>\$ 0</u>	<u>\$ 3,103</u>	<u>\$ (6,667)</u>	<u>\$ (3,564)</u>

EAST 91ST STREET CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016 AND 2015

10. FAIR VALUE MEASUREMENTS (continued):

The following table sets forth a summary of changes in the fair value of the Church's Level 3 liabilities for the years ended August 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Post-Retirement Income Agreement:		
Balance, beginning of year	\$ 6,667	\$ 12,037
Payments on Post-Retirement Income Agreement	(5,000)	(5,000)
Actuarial Change on Post-Retirement Income Agreement	<u>1,666</u>	<u>(370)</u>
Balance, end of year	<u>\$ 3,333</u>	<u>\$ 6,667</u>

11. SUPPLEMENTAL CASH FLOW INFORMATION:

	<u>2016</u>	<u>2015</u>
Noncash Financing Transactions		
Refinancing of Mortgage Payable including loan closing costs for the new mortgage payable	<u>\$4,697,397</u>	<u>\$ 0</u>