



**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2015**

# **SANDALS CHURCH**

## **FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2015**

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**Board of Directors**  
**Sandals Church**  
Riverside, CA

## INDEPENDENT AUDITORS' REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Sandals Church, which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, cash flows, and functional expenses 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 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 financial position of Sandals Church as of December 31, 2015, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

April 20, 2016

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## **FINANCIAL STATEMENTS**

**SANDALS CHURCH**  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2015

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**ASSETS**

**Current Assets:**

Cash	\$ 1,676,536
Cash restricted for building	1,761,158
Certificates of Deposit	253,624
<b>Total Cash</b>	<u>3,691,318</u>

Pledges receivable	109,404
Prepaid expenses	96,788
<b>Total Current Assets</b>	<u>3,897,510</u>

**Other Assets:**

Fixed assets (net)	22,837,177
Sinking fund	359,847
<b>Total Other Assets</b>	<u>23,197,024</u>

<b>TOTAL ASSETS</b>	<u><u>\$ 27,094,534</u></u>
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**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable and accrued liabilities	\$ 266,256
Accrued payroll and related taxes	353,111
Accrued interest payable	366,408
Current portion of notes payable	65,929
Current portion of bonds payable	178,000
<b>Total Current Liabilities</b>	<u>1,229,704</u>

**Non-Current Liabilities**

Notes payable	668,781
Bonds payable	15,497,000
Less unamortized bond issuance cost	(820,519)
<b>Total Non-Current Liabilities</b>	<u>15,345,262</u>
<b>Total Liabilities</b>	<u>16,574,966</u>

**Net Assets**

Unrestricted	8,758,410
Temporarily restricted	1,761,158
<b>Total Net Assets</b>	<u>10,519,568</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 27,094,534</u></u>
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**SANDALS CHURCH**  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015

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	<b>Temporarily Restricted</b>		
<b>SUPPORT AND REVENUE</b>	<b>Unrestricted</b>		<b>Total</b>
<b>SUPPORT</b>			
Tithes and offerings	\$ 7,101,829	\$ 370,544	\$ 7,472,373
Assets relieved from restrictions	374,833	(374,833)	-
<b>TOTAL SUPPORT</b>	<u>7,476,662</u>	<u>(4,289)</u>	<u>7,472,373</u>
 <b>REVENUE</b>			
Rental income	321,724	-	321,724
Other income	777,300	-	777,300
<b>TOTAL REVENUE</b>	<u>1,099,024</u>	<u>-</u>	<u>1,099,024</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>8,575,686</u>	<u>(4,289)</u>	<u>8,571,397</u>
 <b>EXPENSES:</b>			
Ministry expenses	6,674,429	-	6,674,429
Administrative expenses	2,234,505	-	2,234,505
Fundraising expenses	23,374	-	23,374
<b>TOTAL EXPENSES</b>	<u>8,932,308</u>	<u>-</u>	<u>8,932,308</u>
 Changes in Net Assets	(356,622)	(4,289)	(360,911)
 Net Assets at Beginning of Year	<u>9,115,032</u>	<u>1,765,447</u>	<u>10,880,479</u>
 <b>NET ASSETS AT END OF YEAR</b>	<u>\$ 8,758,410</u>	<u>\$ 1,761,158</u>	<u>\$ 10,519,568</u>

**SANDALS CHURCH**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ (360,911)
Adjustments to reconcile net income to net cash provided by operating activities	
<b>Noncash items:</b>	
Depreciation expense	731,911
Loss due to theft	12,750
<b>(Increase) decrease in:</b>	
Prepays	(46,495)
Pledges receivable - current	927,775
Unamortized bond issuance cost	(820,519)
<b>Increase (decrease) in:</b>	
Accounts payable	200,338
Accrued interest	345,808
Accrued liabilities	155,471
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>1,146,128</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of fixed assets	(4,998,203)
Consolidation with Amethyst Bible Church	(5,230)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(5,003,433)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Cash provided from bond issuance	15,675,000
Cash provided from notes payable	111,561
Payments on borrowings	(10,426,667)
Payments to sinking fund	(359,847)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>5,000,047</u>

Net Increase (Decrease) in Cash	1,142,742
Beginning Cash and Cash Equivalents	2,548,576
<b>Ending Cash and Cash Equivalents</b>	<u><u>\$ 3,691,318</u></u>

**SUPPLEMENTAL INFORMATION:**

Interest paid	<u>\$ 564,233</u>
Taxes paid	<u>\$ 51,581</u>

**SANDALS CHURCH****CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>EXPENSES</b>	<b>Ministry Expenses</b>	<b>Admin Expenses</b>	<b>Fundraising Expenses</b>	<b>Total</b>
Salaries	\$ 2,823,077	\$ 384,853	\$ -	\$ 3,207,930
Benefits	432,945	59,614	-	492,559
Payroll taxes	102,848	14,161	-	117,009
Café	95,463	-	-	95,463
Benevolence	168,033	-	-	168,033
Food, gifts and missions	490,104	11,143	-	501,247
Retreats and events	83,876	-	-	83,876
Bank and credit card fees	-	191,742	-	191,742
Depreciation	521,670	210,241	-	731,911
Equipment Rentals	248,902	50,200	-	299,102
Insurance	84,268	15,483	-	99,751
Legal and professional	46,374	44,142	-	90,516
Miscellaneous	15,411	-	-	15,411
Office expenses	50,845	28,690	-	79,535
Postage and printing	74,783	28,171	-	102,954
Rent	133,987	-	-	133,987
Repairs and maintenance	108,612	37,893	-	146,505
Supplies	380,746	20,422	23,374	424,542
Travel	64,441	2,346	-	66,787
Utilities	145,461	58,623	-	204,084
Other taxes	-	51,581	-	51,581
Outside services	265,257	29,289	-	294,546
Training and tuition	15,290	7,660	-	22,950
Marketing	7,147	-	-	7,147
Camp	252,199	-	-	252,199
Building security	12,590	5,074	-	17,664
Licenses, fees, permits	-	52,536	-	52,536
Computer expenses	50,100	-	-	50,100
Interest expense	-	930,641	-	930,641
Bad Debt Expense	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 6,674,429</b>	<b>\$ 2,234,505</b>	<b>\$ 23,374</b>	<b>\$ 8,932,308</b>

# **SANDALS CHURCH**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Activities**

Sandals Church (the Church) is a nonprofit organization incorporated on November 16, 1999 in the state of California. Sandals Church is dedicated to spreading the Gospel through establishing, developing, and promoting all aspects of church ministry within Riverside, California and the surrounding communities.

Sandals Church consolidated with Amethyst Bible Church (ABC) as of December 1<sup>st</sup>, 2015 as part of their strategic effort to reach communities in Southern California with their vision to be real with self, God, and others.

Amethyst Bible Church (ABC), located in Mentone, California, formally Redlands Bible Church, is a nonprofit organization incorporated on July 1, 1979 in the state of California. In a memorandum of understanding with the Church, ABC's Board of Directors has been re-seated to consist of seven people, five designated by the Church and two designated by ABC. On November 16, 2015 the Corporate Name of ABC was official changed to Sandals Church East Valley (SCEV).

#### **Basis of Accounting**

The financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

#### **Basis of Presentation**

The assets, liabilities, and net assets of the Church are reported in the following net asset groups:

*Unrestricted net assets* include these resources that are not temporarily or permanently restricted by donor and are available for operations of the Church without limitation. Unrestricted net assets also included resources restricted by donor-imposed criteria for which the restrictions are met within the same time period as the funds were received.

*Temporarily restricted net assets* included those resources whose use is restricted by donor-imposed criteria that either expires with the passage of time or by action of the Church.

*Permanently restricted net assets* included those resources whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Church.

#### **Principle of Consolidation**

The consolidated financial statements include the accounts of the Church and Amethyst Bible Church. Accounting principles generally accepted in the United States of America require all organizations over which the Church has both control and an economic interest to be accounted for as consolidated affiliates. All material inter-organizational accounts and transactions and have been eliminated.

#### **Support and Revenue**

Support and revenue include all resources over which the board of directors has discretionary control to use in carrying on the general operations of the Church. Support and revenue is considered unrestricted unless specifically restricted by the donor.

#### **Tax Status**

Sandals Church and Sandals Church East Valley are exempt from income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701d. The Church and SCEV have been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

In accordance with accounting standards, which provide accounting and disclosure guidance about uncertain tax positions taken by an organization, Management believes that all of the positions taken by Sandals Church and Sandals Church East Valley in its federal and state income tax status are more likely than not to be sustained upon examination.

Sandals Church and Sandals Church East Valley are not required to file income tax returns in the U.S. Federal jurisdiction or the state of California, except in some instances. Should The Church or SCEV file Federal income tax returns they would remain subject to examination by the Internal Revenue Service for the prior three tax years. Should the Church or SCEV file California income tax returns they would remain subject to examination by the Franchise Tax Board for the prior four tax years.

**Property and Equipment**

The Church follows the practice of capitalizing all expenses for equipment in excess of \$1,000; the fair market value of donated fixed assets is similarly capitalized. Depreciation is provided on equipment over the estimated useful lives of the assets using the straight-line method of depreciation. The estimated useful lives are as follows:

Vehicles	5	years
Equipment and Computers	5 – 10	years
Furniture and Fixtures	10	years
Building and Improvements	39 – 40	years

**Amortization**

Bond issuance cost is amortized on a straight line basis over the life of the bonds, 25 years.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense was \$7,147 for the year ended December 31, 2015

**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. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the statements 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.

**Cash Restricted to Building**

Cash restricted to build the new sanctuary has been restricted by donors and bond holders is not available for operating purposes. As of December 31, 2015, the Church had \$1,761,158 of restricted cash at year end.

**Sinking Fund**

Deposits held in the sinking fund represent funds held in accordance to the bond agreement for debt service associated with the repayment of bonds and are considered restricted and unavailable for operating purposes.

**Contributions**

Contributions are recognized when the donor makes a promise to give to the Church that is, in substance, unconditional. Unconditional promises to give are recorded at net realizable value. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires 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 (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 operations and changes in net assets as net assets released from restrictions.

**Rental Income**

The Church rents Church-owned property to outside entities for commercial use. Total rental revenue for the fiscal year ended December 31, 2015 was \$321,724. The Church's investment in property rented consisted of 38,991 square feet of building of \$3,445,043, less accumulated depreciation of \$317,145, which amounts are recorded in the Church's statement of financial position.

**Accounts Receivable**

Accounts receivable represent pledges and other outside receivables due to the Church. The allowance for uncollectible amounts is based on management's estimate upon review of outstanding balances and historical analysis of collections.

**2. FIXED ASSETS**

As of December 31, 2015 Sandals Church had the following balances for fixed assets:

	Balance @ 12/31/2014	Additions	Deletions	Balance @ 12/31/2015
<b>Assets</b>				
Land	\$ -	\$ 120,000	\$ -	\$ 120,000
Building - 150	12,976,126	3,965,643	-	16,941,769
Building - 250	5,300,760	-	-	5,300,760
SCEV Building	-	565,305	-	565,305
Sound and Video Equipment	1,135,524	900,638	-	2,036,162
Equipment and Computers	549,107	104,188	-	653,295
Furniture and Fixtures	358,880	12,734	-	371,614
Vehicles	99,366	15,000	(15,000)	99,366
Total Fixed Assets	<u>20,419,763</u>	<u>5,683,508</u>	<u>(15,000)</u>	<u>26,088,271</u>
<b>Accumulated Depreciation</b>	<u>(2,484,246)</u>	<u>(769,098)</u>	<u>2,250</u>	<u>(3,251,094)</u>
<b>Net Fixed Assets</b>	<u>\$ 17,935,517</u>	<u>\$ 4,914,410</u>	<u>\$ (12,750)</u>	<u>\$ 22,837,177</u>

Depreciation expense for the year ended amounted to: \$ 731,911

**3. PENSION PLAN**

The Church sponsors a 403(b) plan for all full time employees from the date of hire who agree to make contributions to the plan. The Church makes a matching contribution if the participant contributes more than \$52.50 per month and meets eligibility requirements, at various rates based on the employee's class of employment with The Church. The total payroll for the year was \$3,207,929 and the total covered payroll amounted to \$1,411,065. The matching employer contribution for the year ended December 31, 2015, was \$120,705.

**4. CASH**

Sandals Church places its temporary cash and investments with high quality financial institutions. At times, such investments may be in excess of the Federal Deposits Insurance Corporation and American Share Insurance insured limits. Sandals Church has not incurred losses related to this activity. As of December 31, 2015 balances in excess of insured amounts were \$1,531,117.

**5. ACCOUNTS AND PLEDGES RECEIVABLE**

In November 2013 the church began a pledge campaign (REACH) in which the church collected written commitments from the Church members for the construction and related expenses for a multi-functional complex adjacent to the current church building. The total commitment from Church members was \$5,145,540, over a two year period ending December 2015. All amounts of the REACH campaign for 2013-2015, less allowances for doubtful account, were collected. Prior to year end a new one-year REACH campaign was initiated by The Church in November, 2015. Church members pledged a total of \$119,395. All amounts were considered collectible and as such The Church did not establish an allowance for uncollectible pledge receivables. The Church had no other receivables at year end.

The balance outstanding as of December 31, 2015 is as follows:

	<b>Pledged Balance</b>	<b>Allowance</b>	<b>Net A/R</b>
Pledges Receivable - Current	\$ 109,404	\$ -	\$ 109,404
Other receivables	-	-	-
Total Current Receivables	<u>\$ 109,404</u>	<u>\$ -</u>	<u>\$ 109,404</u>
Pledges Receivable - Long term	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**6. NOTES PAYABLE**

During 2015 Sandals Church used funds from bond issuance to payoff its loan agreement with Christian Community Credit Union.

The Church entered into a loan agreement with RLC Funding for sanctuary seating on September 4<sup>th</sup>, 2015 for \$111,561. The Church is to pay \$5,447 for principal and interest on a monthly basis, for 24 months, beginning in October 2015. The interest rate for the loan is stated at 22.459%.

The Church assumed responsibility for a promissory note between Amethyst Bible Church and Christian Community Credit Union as of December 1<sup>st</sup>, 2015. The promissory note is for \$685,305 and was placed in effect on April 4<sup>th</sup>, 2012. The terms of the promissory note call for 59 monthly interest payments of \$ 4,053 beginning on May 20<sup>th</sup> 2012, with a final payment on April 20, 2017 for the principal balance plus monthly interest. The interest rate for the promissory note is stated at 5.500%.

The future maturities of notes payable as of December 31, 2015 are as follows:

Current portion	\$ 65,929
Long-Term	668,781
<b>Total</b>	<u>\$ 734,710</u>
 <b>Future Maturities</b>	
2016	\$ 65,929
2017	668,781
2018	-
2019	-
2020	-
Thereafter	-
<b>Total</b>	<u>\$ 734,710</u>

**7. BONDS PAYABLE**

The Church issued a series of bonds on February 1, 2015. The bonds are secured by all of the assets of the Church. The bonds issued totaled \$15,675,000 and have interest rates form 2.00% to 6.25% Interest on the bonds from February 1, 2015 will be payable on August 1, 2015 and semi-annually thereafter on February 1 and August 1 of each year and at maturity or redemption. The Church agreed to make weekly deposits to a sinking fund of \$17,880 commencing March 6, 2015, through and including July 31, 2015, and in the amount of \$17,130 commencing August 7, 2015, through and including January 29, 2016, and in the amount of \$23,985 commencing February 5, 2016, and each seven days thereafter while any bonds are outstanding and unpaid except that scheduled weekly deposits may be reduced in the event of redemption of outstanding bonds at the option of the Church, and certain weekly deposits may be reduced through prepayment of such weekly deposits or through the accumulation of investment income in the Sinking Fund Account.

Bonds payable at year end is as follows:

Current portion	\$ 178,000
Long-Term	15,497,000
<b>Total</b>	<b>\$ 15,675,000</b>

Future maturities of bonds payable is as follows:

<u>Future Maturities</u>	
2016	\$ 178,000
2017	362,000
2018	371,000
2019	383,000
2020	398,000
Thereafter	13,983,000
<b>Total</b>	<b>\$ 15,675,000</b>

Bond maturities is as follows:

	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>
	August 1, 2016	\$ 178,000	2.00%
	February 1, 2017	180,000	2.25%
	August 1, 2017	182,000	2.50%
	February 1, 2018	184,000	2.75%
	August 1, 2018	187,000	3.00%
	February 1, 2019	190,000	3.25%
	August 1, 2019	193,000	3.50%
	February 1, 2020	196,000	3.75%
August 1, 2020 -	February 1 2021	404,000	4.00%
August 1, 2021 -	February 1, 2022	420,000	4.25%
	February 1, 2024	901,000	5.00%
	February 1, 2027	1,539,000	5.50%
	February 1, 2033	3,999,000	6.00%
	February 1, 2040	6,922,000	6.25%
	<b>Total</b>	<b>\$ 15,675,000</b>	

**8. BOND ISSUANCE COST**

Bond issuance costs of \$851,750 are being amortized on the straight line method over the 25 year life of the bonds. The changes in bond issuance costs during the year are as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Bond issue cost	\$ -	\$ 851,750	\$ -	\$ 851,750
Accumulated Amortization	-	(31,231)	-	(31,231)
<b>Total</b>	<b>\$ -</b>	<b>\$ 820,519</b>	<b>\$ -</b>	<b>\$ 820,519</b>

**9. NET ASSETS**

Temporarily Restricted – funds restricted by the donor, grantor or other outside party for a particular operating purpose.

At year end the temporarily restricted net assets is comprised of the following:

Reach Offering	\$ 586,940
Bond issuance designated for building	1,174,218
<b>Total Temporarily Restricted Net Assets</b>	<b>\$ 1,761,158</b>

**10. NET ASSETS RELEASED FROM RESTRICTION**

Net assets were release from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Reach Offering	\$ 374,833
<b>Total restrictions released</b>	<b>\$ 374,833</b>

**11. SUBSEQUENT EVENTS**

Accounting standards require that Sandals Church assess and disclose the date and the basis for that date through which potential subsequent events have been evaluated. The date represents the date the financial statements were issued or were available to be issued. The Church evaluated all potential subsequent events as of April 20, 2016 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after the balance sheet date or as of April 20, 2016 that require disclosure in the financial statements.

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