

Community Christian Church and Affiliates

**Independent Auditor's Report and Consolidated
Financial Statements**

September 30, 2017

Community Christian Church and Affiliates
September 30, 2017

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Independent Auditor's Report

Leadership Commission
Community Christian Church
Naperville, Illinois

We have audited the accompanying consolidated financial statements of Community Christian Church and Affiliates (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Christian Church and Affiliates as of September 30, 2017, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Oakbrook Terrace, Illinois
March 26, 2018

Community Christian Church and Affiliates
Consolidated Statement of Financial Position
September 30, 2017

Assets

Current Assets

| | |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 1,307,192 |
| Certificates of deposit | 258,611 |
| Accounts receivable | 99,615 |
| Pledge receivable | 400,000 |
| Prepaid expenses | 63,638 |
| Held for sale assets | <u>525,000</u> |

Total current assets 2,654,056

Pledges Receivable

500,000

Property and Equipment

31,657,830

Total assets \$ 34,811,886

Liabilities and Net Assets

Current Liabilities

| | |
|---------------------------------------|---------------|
| Accounts payable and accrued expenses | \$ 174,589 |
| Current portion of long-term debt | 1,173,268 |
| Deferred revenue | <u>83,577</u> |

Total current liabilities 1,431,434

Line of Credit - Construction

7,671,636

Long-Term Debt

13,279,673

Total liabilities 22,382,743

Net Assets

Unrestricted

| | |
|--|------------------|
| Designated for improvements and acquisitions | 2,379,036 |
| Undesignated | <u>7,537,580</u> |

9,916,616

Temporarily restricted 2,512,527

Total net assets 12,429,143

Total liabilities and net assets \$ 34,811,886

Community Christian Church and Affiliates
Consolidated Statement of Activities and Changes in Net Assets
Year Ended September 30, 2017

| | Unrestricted | Temporarily Restricted | Total |
|--|---------------------|-----------------------------------|----------------------|
| Revenue and Support | | | |
| Offerings and fees | \$ 10,327,907 | \$ 262,626 | \$ 10,590,533 |
| Pledge revenue | 300,000 | 900,000 | 1,200,000 |
| Miscellaneous | 138,341 | - | 138,341 |
| Net assets released from restrictions | 108,908 | (108,908) | - |
| | <u>10,875,156</u> | <u>1,053,718</u> | <u>11,928,874</u> |
| Total revenue and support | | | |
| Expenses | | | |
| Program services | | | |
| Salaries and benefits | 4,147,309 | - | 4,147,309 |
| Ministry programs | 2,741,621 | - | 2,741,621 |
| Facilities | 1,754,163 | - | 1,754,163 |
| Repairs and maintenance | 554,651 | - | 554,651 |
| New initiatives | 95,470 | - | 95,470 |
| Depreciation and amortization | 1,324,253 | - | 1,324,253 |
| Miscellaneous | 92,567 | - | 92,567 |
| | <u>10,710,034</u> | <u>-</u> | <u>10,710,034</u> |
| Total program services | | | |
| Supporting services | | | |
| Administration | 818,530 | - | 818,530 |
| | <u>818,530</u> | <u>-</u> | <u>818,530</u> |
| Total expenses | | | |
| | <u>11,528,564</u> | <u>-</u> | <u>11,528,564</u> |
| Total expenses | | | |
| Impairment Loss From Pending Sale | <u>(882,298)</u> | <u>-</u> | <u>(882,298)</u> |
| Change in Net Assets | (1,535,706) | 1,053,718 | (481,988) |
| Net Assets, Beginning of Year | <u>11,452,322</u> | <u>1,458,809</u> | <u>12,911,131</u> |
| Net Assets, End of Year | <u>\$ 9,916,616</u> | <u>\$ 2,512,527</u> | <u>\$ 12,429,143</u> |

Community Christian Church and Affiliates
Consolidated Statement of Cash Flows
Year Ended September 30, 2017

Operating Activities

| | |
|--|--------------|
| Change in net assets | \$ (481,988) |
| Items not requiring cash | |
| Depreciation and amortization | 1,324,253 |
| Loss on sale and impairment of property and equipment | 927,798 |
| Interest expense - amortization of debt issuance costs | 13,702 |
| Increase in receivables | (99,615) |
| Increase in pledges receivable | (900,000) |
| Increase in prepaid expenses | (6,290) |
| Increase in accounts payable and accrued expenses | 31,899 |
| Increase in deferred revenue | 548 |
| | 810,307 |
| Net cash provided by operating activities | 810,307 |

Investing Activities

| | |
|---------------------------------------|-------------|
| Purchase of certificates of deposit | (258,611) |
| Purchase of property and equipment | (1,169,094) |
| | (1,427,705) |
| Net cash used in investing activities | (1,427,705) |

Financing Activities

| | |
|------------------------------|-----------|
| Repayments of long-term debt | (399,824) |
| | (399,824) |

Net Change in Cash and Cash Equivalents (1,017,222)

Cash and Cash Equivalents, Beginning of Year 2,324,414

Cash and Cash Equivalents, End of Year \$ 1,307,192

Supplemental Cash Flows Information

| | |
|---|--------------|
| Interest paid | \$ 1,173,822 |
| Decrease in accounts payable for purchase of capital assets | (993,631) |

Noncash Financing Activities

| | |
|--|--------------|
| Capital purchases from construction to term note payable | \$ 3,580,045 |
|--|--------------|

Community Christian Church and Affiliates

Notes to Consolidated Financial Statements

September 30, 2017

Note 1: Nature of Activities

Community Christian Church (Community) was established in 1989. Community's primary mission is to "help people find their way back to God" and is realized by reaching people who are far from God, restoring communities to the dream of God and reproducing that mission in others.

Community is a multi-site church and services are currently held at the following locations:

- In Naperville at two locations (Yellow Box facility at Ogden & Rickert and Wentz Hall at North Central College).
- In Plainfield at two locations (Commons facility at Riverwalk Ct. and Carillon Clubhouse).
- In Montgomery at 131 Montgomery Road.
- In Yorkville in the Yorkville Home Design Center.
- In Aurora at the Lighthouse on LaSalle Street.
- In Lemont at 102 Stephen Street.
- In Chicago in two locations (Gateway to Learning in Lincoln Square and Germania Place in Lincoln Park).

Oversight of the direction of Community is provided by a Leadership Commission selected from among the lay leaders which function as the elders of Community. Financial support for ministry comes solely from donor contributions and fees for services. Community is an independent, nondenominational church.

Note 2: Summary of Significant Accounting Policies

Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of Community, its affiliated not-for-profit organizations: Community 4:12 and Cars of Hope and NewThing, NFP, Community Sportsplex LLC and Community at Plainfield, LLC. Inter-organization transactions and balances have been eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of Community have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America (GAAP) for not-for-profit organizations, Community is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets,

Community Christian Church and Affiliates

Notes to Consolidated Financial Statements

September 30, 2017

temporarily restricted net assets and permanently restricted net assets. Community had no permanently restricted net assets at September 30, 2017.

Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Community considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets, in excess of \$2,500, are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

Long-Lived Asset Impairment

Community evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

An impairment loss of \$882,298 was recognized for the Romeoville property for the year ended September 30, 2017, based on the known fair market value due from a pending sale. The loss is included as impairment loss from pending sale in the accompanying consolidated statements of activities. Fair value was determined based on the actual sales price of the property.

Donated Assets

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

Designation of Unrestricted Net Assets

It is the policy of the Leadership Commission to review its plans for future property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to ensure adequate financing of such improvements and acquisitions.

Community Christian Church and Affiliates
Notes to Consolidated Financial Statements
September 30, 2017

Revenue Recognition and Deferred Revenue

Miscellaneous fee income is recognized as revenue in the period in which the activity or event occurs. Deferred revenue consists of amounts received in the current period which relate to future periods.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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 and changes in net assets as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets. (Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.)

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Community reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Community reclassifies temporarily restricted net assets to unrestricted net assets each year in the amount of the donated property and equipment's depreciation expense.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Donated Services

No amounts have been reflected in the consolidated financial statements for donated services since the services don't meet the criteria for recognition under GAAP. Community generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist Community with specific needs and various programs. During 2017, there were approximately 2,790 volunteers spending an estimated 290,000 hours in ministry including children's programming, youth work, music, drama, teaching, organization, food preparation and service, and other related tasks.

Community Christian Church and Affiliates
Notes to Consolidated Financial Statements
September 30, 2017

Income Taxes

Community is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Contributions by the public are tax deductible within the limitations prescribed by the Code. In addition, income from a regularly carried-on trade or business that does not further the organization's exempt purposes, as defined, is subject to federal and state income taxes. As a church, Community is also exempt from filing annual reports on Form 990 and is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for the years before the tax year ended September 30, 2014.

Restricted and Unrestricted Revenue

Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Note 3: Contributions Receivable

Contributions receivable consist of \$400,000 due within one year and \$500,000 due between one and five years. Community provides for an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. No allowance is deemed necessary as of September 30, 2017, and the impact of discounting of these future receivables was deemed to be immaterial to the overall financial statements.

Note 4: Property and Equipment

At September 30, 2017, property and equipment consist of the following:

| | Amount | Depreciable Lives |
|---|----------------------|------------------------------|
| Land | \$ 3,015,000 | |
| Construction in progress | 37,000 | |
| Buildings and improvements | 33,548,883 | 15 - 40 years |
| Leasehold improvements | 604,942 | Lease term |
| Furniture and equipment | 4,162,676 | 3 - 7 years |
| | 41,368,501 | |
| Less accumulated depreciation and amortization | 9,710,671 | |
| | <u>\$ 31,657,830</u> | |

Community Christian Church and Affiliates
Notes to Consolidated Financial Statements
September 30, 2017

Note 5: Assets Held for Sale

In the fall of 2016, Community Christian Church combined three of their campuses, Plainfield, Romeoville and Shorewood into one new location on Riverwalk Ct. in Plainfield. Following this decision in 2017, Community approved a plan to sell the facility known as the Children & Arts Center located at 174 South Highpoint Drive in Romeoville. This property is positioned in a residential neighborhood where the market is restricted and potential buyers are limited. As of September 30, 2017, the book value of the asset net of depreciation is \$1,407,298. Community has agreed to sell the property to a real estate developer in that community for a sales price of \$525,000 and recognize a loss of \$882,298 in 2017 for the impairment of the pending disposal. At September 30, 2017, the property is presented on the statement of financial position as held for sale assets of \$525,000. Community closed on the sale in October 2017.

Note 6: Restricted Net Assets

At September 30, 2017, temporarily restricted net assets are summarized by program restrictions are as follows:

| | |
|-------------------------------|----------------------------|
| Benevolence | \$ 29,446 |
| Cars for Hope | 27,204 |
| Celebration Generosity | 108,647 |
| Celebration Generosity Global | 96,258 |
| Chicago Expansion | 4,416 |
| Community 4:12 | 115,744 |
| Divine Back Nine | 5,676 |
| Epic Theatre | 4,493 |
| NewThing - Residents | 24,892 |
| NewThing - Networks | 213,599 |
| NewThing - Forge | 867 |
| NewThing | <u>1,881,285</u> |
| | <u><u>\$ 2,512,527</u></u> |

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Notes to Consolidated Financial Statements
September 30, 2017

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | |
|---------------------------------------|-------------------|
| Purpose restrictions accomplished | |
| Chicago Expansion program expenses | \$ 49,152 |
| Community 4:12 program expenses | 5,685 |
| Food Fight | 659 |
| NewThing - Residents program expenses | 36,983 |
| NewThing - 5k program expenses | 3,579 |
| NewThing - Networks program expenses | 12,345 |
| NewThing - Forge program expenses | 505 |
| | <hr/> |
| | <u>\$ 108,908</u> |

Note 7: Construction to Term Loan

Community at Plainfield, LLC obtained financing for renovations to a building, purchased in November 2015 in Plainfield, in the form of a Construction to Term Loan. The total amount available on this Construction to Term Loan is \$12,000,000 with an interest rate of 6.95%. The loan requires interest-only payments until construction is completed, at which point the principal will be amortized over a period of thirty years and repaid over a period of five years with a balloon payment in the fifth anniversary of the Term Date.

The balance drawn on the Construction to Term Loan was \$7,672,136 at September 30, 2017, and interest expense of \$435,356 was recorded for the year then ended.

Note 8: Long-Term Debt

At September 30, 2017, Community's obligations under its long-term debt consist of the following:

| | |
|--|--------------|
| 4.25% note payable, due in monthly installments of \$57,934, including interest; final payment due June 11, 2020; collateralized by a mortgage, assignment of rents on Naperville and Yorkville properties, a Commercial Security Agreement on all assets and a security interest in all deposit accounts. | \$ 8,645,351 |
| 4.39% note payable, due in monthly installments of \$5,274, including interest; final payment due July 28, 2018; collateralized by a mortgage and assignment of rents on Naperville and Yorkville properties and a security interest in all deposit accounts. | 777,609 |

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Notes to Consolidated Financial Statements
September 30, 2017

| | |
|---|-----------------------------|
| Note payable; due in monthly installments of \$34,752 including interest at 6.95% at December 31, 2017; with interest rates to be reviewed at 18 and 36 months for adjustment based on outstanding principal at date of review; final payment due December 1, 2020; collateralized by a mortgage and assignment of rents on Plainfield properties | <u>\$ 5,152,639</u> |
| | 14,575,599 |
| Less current portion | 1,173,268 |
| Less debt issuance costs | <u>122,658</u> |
| | <u><u>\$ 13,279,673</u></u> |

At September 30, 2017, the future scheduled annual maturities of long-term debt are as follows:

| Year Ending September 30, | Amount |
|--------------------------------------|-----------------------------|
| 2018 | \$ 1,173,268 |
| 2019 | 414,534 |
| 2020 | 8,030,924 |
| 2021 | <u>4,956,873</u> |
| | <u><u>\$ 14,575,599</u></u> |

Interest costs incurred during the current year totaled \$1,043,952 and are reported as facilities expense in the consolidated statement of activities and changes in net assets. Under the debt agreements, Community is required to maintain a minimum cash balance and certain debt service and net worth ratios.

As a result of the Community's adoption of ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs have been classified as an offset to long-term debt and the amortization is now presented as a component of interest expense. These reclassifications had no effect on earnings.

Note 9: Operating Leases

Community has several noncancelable operating leases for certain facilities and equipment that expire at various dates through 2021. Rental expenses for those leases totaled \$488,086 for the year ended September 30, 2017.

Community Christian Church and Affiliates
Notes to Consolidated Financial Statements
September 30, 2017

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of September 30, 2017, are as follows:

| Year Ending September 30, | Amount |
|------------------------------|------------|
| 2018 | \$ 335,554 |
| 2019 | 176,454 |
| 2020 | 26,385 |
| 2021 | 295 |
| | \$ 538,688 |

Community leases parking space to a tenant under a noncancelable operating lease with a term of one year. Annual lease payments received under this lease totaled \$9,000. This lease is renewable.

Community also leases building space to a tenant under a noncancelable operating lease with the term of three years. Annual lease payments received under this lease for the year ended September 2017 was \$42,000. Future minimum lease payments under the operating lease are \$48,260 in 2018 and \$44,558 in 2019.

Note 10: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Community had no assets subject to recurring fair value measurements as of September 30, 2017.

Community Christian Church and Affiliates
Notes to Consolidated Financial Statements
September 30, 2017

Nonrecurring Measurements

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017:

| | Fair Value | Fair Value Measurements Using | | |
|--------------------|------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| September 30, 2017 | | | | |
| Long-lived assets | \$ 525,000 | \$ - | \$ 525,000 | \$ - |

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Long-Lived Assets

Long-lived assets are valued at fair value on September 30, 2017, due to an impairment recorded. The fair value is estimated using recent market transactions that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. As disclosed in Note 5, Community entered into a contract to sell one of its facilities at a price below its carrying value, thus incurring an impairment charge and revaluation of this asset to fair value at September 30, 2017.

Note 11: Concentrations of Credit Risk Arising From Cash Deposits in Excess of Insured Limits

Community maintains the majority of its cash balances in one financial institution, which includes two certificates of deposit with carrying amounts of \$258,611. These balances sometimes exceed the Federal Deposit Insurance Corporation insurance limits. As of September 30, 2017, the total uninsured balance was approximately \$1,305,000.

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Notes to Consolidated Financial Statements
September 30, 2017

Note 12: Employee Benefit Plan

Community has a 401(k) plan covering all employees over 21 years of age who have gained and maintained eligibility by completing at least 1,000 hours of service during the plan year. Community matches employee contributions up to 5% of their annual salary. Employer contributions to the plan were \$142,946 for the year ended September 30, 2017.

Note 13: Payments to Recipient Organizations

During the year ended September 30, 2017, Community made the following cash payments to other nonprofit organizations which are shown as ministry programs and new initiatives expenses on the consolidated statement of activities and changes in net assets:

| | |
|---------------------------------|-------------------|
| Compassion International | \$ 154,000 |
| Philippine Frontline Ministries | 121,468 |
| Family Focus | 10,000 |
| World Relief | <u>10,000</u> |
| | <u>\$ 295,468</u> |

Note 14: Subsequent Events

In December 2017, Community Christian Church purchased an additional church located in Naperville, Illinois. The purchase price of the property is approximately \$1,720,000.

On March 1, 2018, Community entered into an agreement to refinance its Plainfield loans. On March 13, 2018, Community entered into a preliminary agreement to refinance its Naperville and Yorkville loans later in 2018. These agreements are contingent upon final approval of the most recent financial statements and other standard closing requirements. The new loans will carry a six year term with an interest rate of 4.95% and will be amortized over 25 and 20 years, respectively.

Subsequent events have been evaluated through March 26, 2018 which is the date the consolidated financial statements were available to be issued.