



Financial Statements
With Independent Auditors' Report

December 31, 2016 and 2015

RED ROCKS CHURCH

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Red Rocks Church
Littleton, Colorado

We have audited the accompanying financial statements of Red Rocks Church, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows 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 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 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 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.

Board of Directors
Red Rocks Church
Littleton, Colorado

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Red Rocks Church as of December 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Centennial, Colorado
March 3, 2017

RED ROCKS CHURCH

Statements of Financial Position

	December 31,	
	2016	2015
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 4,627,555	\$ 4,761,780
Prepaid expenses and other assets	252,761	129,883
	<u>4,880,316</u>	<u>4,891,663</u>
Life insurance cash surrender value	535,669	296,077
Property held for sale	-	1,967,059
Property and equipment–net	<u>19,467,184</u>	<u>17,675,724</u>
Total Assets	<u>\$ 24,883,169</u>	<u>\$ 24,830,523</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 334,909	\$ 230,368
Current portion of notes payable	524,678	400,591
Accrued expenses	112,158	89,447
	<u>971,745</u>	<u>720,406</u>
Long-term portion of notes payable–net	10,085,226	11,817,144
Deferred compensation liability	217,857	175,000
	<u>11,274,828</u>	<u>12,712,550</u>
Net assets:		
Unrestricted:		
Operating	4,751,061	5,664,591
Equity in property held for sale	-	995,393
Equity in property and equipment–net	8,857,280	5,457,989
	<u>13,608,341</u>	<u>12,117,973</u>
Total Liabilities and Net Assets	<u>\$ 24,883,169</u>	<u>\$ 24,830,523</u>

See notes to financial statements

RED ROCKS CHURCH

Statements of Activities

	Year Ended December 31,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$ 12,533,973	\$ 953,939	\$ 13,487,912	\$ 10,953,768	\$ 1,834,037	\$ 12,787,805
Program income	683,457	-	683,457	520,059	-	520,059
Gain on property held for sale	747,841	-	747,841	-	-	-
Gain on note payable refinance	230,750	-	230,750	-	-	-
Other income	171,092	-	171,092	24,575	-	24,575
Total Support and Revenue	14,367,113	953,939	15,321,052	11,498,402	1,834,037	13,332,439
NET ASSETS RELEASED:						
Purpose restrictions	953,939	(953,939)	-	1,834,037	(1,834,037)	-
EXPENSES:						
Salary and benefits	5,663,988	-	5,663,988	4,910,834	-	4,910,834
Ministry	2,621,191	-	2,621,191	1,698,887	-	1,698,887
Administration	2,347,382	-	2,347,382	1,857,444	-	1,857,444
Depreciation	936,652	-	936,652	765,910	-	765,910
Facilities	866,020	-	866,020	1,189,184	-	1,189,184
Missions	832,028	-	832,028	995,192	-	995,192
Interest	563,423	-	563,423	351,272	-	351,272
Total Expenses	13,830,684	-	13,830,684	11,768,723	-	11,768,723
Change in Net Assets	1,490,368	-	1,490,368	1,563,716	-	1,563,716
Net Assets, Beginning of Year	12,117,973	-	12,117,973	10,554,257	-	10,554,257
Net Assets, End of Year	\$ 13,608,341	\$ -	\$ 13,608,341	\$ 12,117,973	\$ -	\$ 12,117,973

See notes to financial statements

RED ROCKS CHURCH

Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,490,368	\$ 1,563,716
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization of capitalized loan fees	15,318	5,336
Depreciation	936,652	765,910
Gain on disposal of property and equipment	(669,429)	-
Contributions restricted for long-term purposes	(819,970)	(1,732,786)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	(122,878)	45,591
Accounts payable	83,300	44,493
Accrued expenses	22,711	22,003
Deferred compensation liability	42,857	(10,000)
Net Cash Provided by Operating Activities	978,929	704,263
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,787,204)	(5,669,106)
Change in life insurance cash surrender value	(239,592)	(91,025)
Proceeds from disposal of property and equipment	2,716,821	-
Contributions restricted for long-term purposes	819,970	1,732,786
Net Cash Provided (Used) by Investing Activities	509,995	(4,027,345)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capitalized loan fees incurred	-	(16,718)
Proceeds from issuance of notes payable	4,408,084	2,584,524
Principal payments on notes payable	(5,800,483)	(199,883)
Gain on refinance of loan	(230,750)	-
Net Cash Provided (Used) by Financing Activities	(1,623,149)	2,367,923
Net Change in Cash and Cash Equivalents	(134,225)	(955,159)
Cash and Cash Equivalents, Beginning of Year	4,761,780	5,716,939
Cash and Cash Equivalents, End of Year	\$ 4,627,555	\$ 4,761,780
SUPPLEMENTAL DISCLOSURE AND NON-CASH ITEMS:		
Cash paid for interest (\$0 and \$64,153 capitalized during the years ended December 31, 2016 and 2015, respectively)	\$ 515,445	\$ 401,889
Property and equipment acquired with accounts payable	\$ 21,241	\$ -
Capitalized loan fees acquired with notes payable	\$ 28,538	\$ -
Property and equipment acquired with notes payable	\$ -	\$ 4,615,000
Construction costs relieved with notes payable proceeds	\$ -	\$ 1,233,519

See notes to financial statements

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2016 and 2015

1. NATURE OF ORGANIZATION:

Red Rocks Church (the Church) is a not-for-profit corporation started for the purpose of making heaven more crowded.

The Church is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and comparable state law. Contributions to the Church are tax deductible within the limitations prescribed by the Code. They have been classified as a publicly supported organization which is not a private foundation under section 509(a) of the Code. The primary source of support and revenue is contributions from individuals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Church uses estimates and assumptions in preparing financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND OTHER CASH EQUIVALENTS

Cash and other cash equivalents consist of cash held in checking and savings accounts, money market accounts, and other cash equivalents. These accounts may, at times, 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.

LIFE INSURANCE CASH SURRENDER VALUE

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. The life insurance cash surrender value for these assets is Level 2 based on significant other observable inputs. Fair value for the cash surrender value of life insurance policies is based on the Church's share of the cash surrender value of the respective life insurance policy as represented by the insurance company.

CAPITALIZED LOAN FEES

Capitalized loan fees are being amortized over the terms of the related note payable using a straight-line basis. Amortization expense was \$15,318 and \$5,336 for the years ended December 31, 2016 and 2015, respectively. Accumulated amortization for capitalized loan fees was \$20,654 and \$5,336 as of December 31, 2016 and 2015, respectively.

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY HELD FOR SALE

As of December 31, 2015, a piece of property was actively being marketed by the Church. The land and building was reflected as property held for sale on the statements of financial position and was reported at the lower of carrying value or estimated fair value. During the year ended December 31, 2016, the Church sold the property for \$2,714,900, and recognized a gain of \$741,841.

Equity in property held for sale consists of:

	December 31,	
	2016	2015
Property held for sale	\$ -	\$ 1,967,059
Less related note payable	-	(971,666)
	<u>\$ -</u>	<u>\$ 995,393</u>

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, or if donated, at the fair market value on the date of the gift. It is the policy of the Church to capitalize all individual fixed assets greater than \$2,500 and expense lesser amounts in the period purchased. Depreciation is computed on the straight-line basis over estimated useful lives, which range from three to thirty years. Leasehold improvements are depreciated over the lesser of the useful life or term of the lease.

DEFERRED COMPENSATION PLAN

The Church adopted a non-qualified deferred compensation plan in December 2011. Under the terms of the plan, certain employees of the Church are eligible to receive distributions of their vested account on or after November 30, 2018. As of December 31, 2016 and 2015, the Church owns life insurance policies with a collective cash surrender value of \$535,669 and \$296,077, respectively, to fund this obligation which is accrued as vested by the participants. The deferred compensation liability as of December 31, 2016 and 2015 was \$217,857 and \$175,000, respectively.

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS

The financial statements report amounts separately by net asset class:

Unrestricted net assets are available at the discretion of the board of directors for use in the operations of the Church and those resources invested in property and equipment—net and property held for sale.

Temporarily restricted net assets are comprised of donor-restricted contributions for the support of Church ministries that have not yet been spent.

ADVERTISING COSTS

Advertising costs for the years ended December 31, 2016 and 2015, of \$48,909 and \$47,726, respectively, are expensed as incurred and included in the statements of activities.

SUPPORT AND REVENUE

Contributions are recorded when made, which may be when cash is received, unconditional promises are made, or when ownership of donated assets is transferred to the Church. Contributions restricted by the donor for a specific purpose are recorded as temporarily restricted support. Upon satisfaction of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donated materials are recorded at estimated fair value.

Program and other income is recorded when earned.

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 December 31, 2016, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified in order to conform with current year presentation.

ADOPTION OF RECENTLY ISSUED PRONOUNCEMENTS

During the year ended December 31, 2016, the Church adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 was issued in April 2015 and is effective for years beginning after December 15, 2015 with early implementation permitted and retrospective application required. ASU 2015-03 requires debt issuance costs to be reported as a direct reduction of the carrying value of the debt (i.e., a contra liability), rather than as an asset. See note 4 for disclosure of debt issuance costs.

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2016 and 2015

3. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consist of:

	December 31,	
	2016	2015
Land	\$ 4,606,490	\$ 4,603,000
Buildings and improvements	12,466,880	11,517,881
Equipment	3,406,519	2,598,216
Furniture and fixtures	596,372	531,089
Website and technology	416,746	325,894
Vehicles	123,106	88,835
	<u>21,616,113</u>	<u>19,664,915</u>
Less accumulated depreciation	(2,392,004)	(1,989,191)
	<u>19,224,109</u>	<u>17,675,724</u>
Construction in process	243,075	-
	<u>\$ 19,467,184</u>	<u>\$ 17,675,724</u>

Equity in property and equipment–net consists of:

	December 31,	
	2016	2015
Property and equipment–net	\$ 19,467,184	\$ 17,675,724
Less related notes payable - net	(10,609,904)	(12,217,735)
	<u>\$ 8,857,280</u>	<u>\$ 5,457,989</u>

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2016 and 2015

4. NOTES PAYABLE–NET:

Notes payable–net consist of:

	December 31,	
	2016	2015
Note payable to a financial institution, dated December 2016. Principal and interest payments for \$31,826 are due monthly, with a fixed interest rate of 3.5%. The note payable collateralized by property and equipment matures December 2023, at which time a balloon payment will be due.	\$ 4,336,622	\$ -
Note payable to a financial institution, dated June 2015. Principal and interest payments of \$32,677 are due monthly, with a fixed interest rate of 4%. The note payable collateralized by property and equipment matures June 2020, at which time a balloon payment will be due. The note payable was refinanced in December 2016 to a lower interest rate of 3.5%.	4,070,914	4,292,563
Note payable to a financial institution, dated January 2015. Principal and interest payments for \$18,121 are due monthly, with a fixed interest rate of 4%. The note payable collateralized by property and equipment matures June 2020, at which time a balloon payment will be due. The note payable was refinanced in December 2016 to a lower interest rate of 3.5%.	2,257,470	2,380,388
Seller-financed note payable, collateralized by property and equipment, dated August 2015, with a 6% fixed interest rate. Interest-only payments were due the first day of each month until maturity of the note in August 2022. Principal payments of \$100,000 began semi-annually February 2016, with additional varied payments due until the remaining principal is due at maturity. During the year ended December 31, 2016, the note payable was paid in full resulting in a gain of \$230,750 for early payment.	-	4,615,000

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2016 and 2015

4. NOTES PAYABLE–NET, continued:
 Notes payable–net consist of, continued:

	December 31,	
	2016	2015
Interest-only construction note payable to a financial institution, dated March 2014, with an approved amount of \$1,004,500, secured by property and equipment. The loan was converted to permanent financing April 2015, when construction draws were finished. Principal and interest payments of \$7,450 are due monthly, with a fixed rate of 4%. The refinanced note payable, collateralized by property and equipment, matures April 2020, at which time a balloon payment will be due. During the year ended December 31, 2016, the note payable was paid off with proceeds from the sale of the property held for sale.	-	971,666
	10,665,006	12,259,617
Less current portion	(524,678)	(400,591)
Less capitalized loan fees-net	(55,102)	(41,882)
	\$ 10,085,226	\$ 11,817,144

Future minimum payments for notes payable are:

<u>Year Ending December 31,</u>	
2017	\$ 524,678
2018	646,896
2019	669,904
2020	5,358,450
2021	264,860
Thereafter	3,200,218
	\$ 10,665,006

The Church is currently in compliance with all financial and reporting covenants related to the notes payable as of December 31, 2016.

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2016 and 2015

5. FUNCTIONAL EXPENSES:

The costs of providing program services and supporting activities have been summarized on a functional basis below. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the program services and supporting activities. Functional expenses are:

	Year Ended December 31,	
	2016	2015
Program services	\$ 11,662,605	\$ 10,035,126
Supporting activities:		
General and administrative	2,106,688	1,680,989
Fund-raising	61,391	52,608
	<u>\$ 13,830,684</u>	<u>\$ 11,768,723</u>

6. EMPLOYEE BENEFIT PLAN:

The Church sponsors a 403(b) plan (the Plan) covering employees working over 1,000 hours who have been with the Church more than one calendar year. Participants in the Plan vest immediately upon initial contribution. The Church matches 3% of employee contributions. Employer contributions to the Plan totaled \$65,828 and \$84,213 for the years ended December 31, 2016 and 2015, respectively.

7. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.