FLATIRONS COMMUNITY CHURCH
FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

FLATIRONS COMMUNITY CHURCH

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MIDDLEMIST
CROUCH
& COMPANY, CPA's PC

303·449·4025
Fax: 303·449·2120
2960 Center Green Court
Boulder, Colorado 80301

INDEPENDENT AUDITORS' REPORT

To the Board of Elders
Flatirons Community Church
Lafayette, Colorado

We have audited the accompanying financial statements of Flatirons Community Church (a nonprofit organization), which comprise the statements of financial position as of December, 31, 2017 and 2016, 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.

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 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 opinions.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flatirons Community Church as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Middlemist Crouch & Company, CPA's PC

MIDDLEMIST, CROUCH & CO., CPA's, P.C.

Boulder, Colorado
September 28, 2018

FINANCIAL STATEMENTS

FLATIRONS COMMUNITY CHURCH
Statements of Financial Position
December 31, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	$ 10,326,695	$ 6,104,280
Prepaid expenses	144,944	173,804
Receivables	90,704	15,187
Total current assets	10,562,343	6,293,271
NONCURRENT ASSETS		
Property and equipment, net	37,839,842	36,178,581
Total noncurrent assets	37,839,842	36,178,581
OTHER ASSETS		
Loan origination fees, net	42,484	63,681
Security deposits	2,495	2,495
Note Receivable - Long Term	260,000	60,000
Investment in Other Companies	200,000	400,000
Total other assets	504,979	526,176
Total assets	$ 48,907,164	$ 42,998,028

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 701,350	$ 632,914
Property taxes payable	106,329	107,734
Current portion of long-term debt	615,576	590,050
Deferred revenue	461,952	113,622
Total current liabilities	1,885,207	1,444,320
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	10,092,267	10,707,843
Total long-term liabilities	10,092,267	10,707,843
Total liabilities	$ 11,977,474	$ 12,152,164
NET ASSETS		
Unrestricted	$ 36,924,319	$ 30,842,924
Temporarily restricted	5,371	2,941
Total net assets	$ 36,929,690	$ 30,845,865
Total liabilities and net assets	$ 48,907,164	$ 42,998,028

See accompanying notes to financial statements

FLATIRONS COMMUNITY CHURCH
Statements of Activities and Changes in Net Assets
For the years ended December 31, 2017 and 2016

	2017	2016
Changes in unrestricted net assets:		
Support and Revenue:		
Contributions	$ 20,058,628	$ 20,167,424
Revenue	2,789,316	581,894
Total support and revenue	22,847,944	20,749,318
Net assets released from restrictions	687,774	829,115
Total unrestricted support, revenue and net assets released	23,535,718	21,578,433
Expenses:		
General and administrative	1,156,916	882,338
Program services:		
Weekend services	6,933,965	6,161,691
Missions	2,636,589	2,942,648
Children ministries	2,770,683	2,684,090
Adult ministries	2,268,982	2,286,196
Student ministries	852,605	826,376
Flatirons Academy	737,702	89,519
Total program services	16,200,526	14,990,520
Total expenses	17,357,442	15,872,858
Net retail loss	96,881	113,426
Increase in unrestricted net assets	6,081,395	5,592,149
Changes in temporarily restricted net assets:		
Contributions	690,204	828,104
Net assets released from restrictions	(687,774)	(829,115)
Increase (decrease) in temporarily restricted net assets	2,430	(1,011)
Increase in net assets	6,083,825	5,591,138
Net assets beginning of year	30,845,865	25,254,727
Net assets end of year	$ 36,929,690	$ 30,845,865

See accompanying notes to financial statements

FLATIRONS COMMUNITY CHURCH
Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	2017	2016
OPERATING ACTIVITIES:		
Change in net assets	$ 6,083,825	$ 5,591,138
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,465,337	2,005,997
Gain on disposal of fixed assets	1,569,958	4,033
Changes in working capital items:		
Decrease in prepaid expenses	28,860	146,039
Increase (decrease) in receivables	(75,517)	18,544
Decrease (increase) in other assets	21,197	(364,114)
Increase in accounts payable and accrued expenses	68,436	415,354
Decrease in property taxes payable	(1,405)	(24,801)
Increase in deferred revenue	348,330	7,308
Net cash provided from operating activities	10,509,021	7,799,498
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,696,556)	(5,787,590)
Net cash used by investing activities	(5,696,556)	(5,787,590)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(590,050)	(560,272)
Net cash used by financing activities	(590,050)	(560,272)
NET INCREASE IN CASH	4,222,415	1,451,636
CASH AT BEGINNING OF YEAR	6,104,280	4,652,644
CASH AT END OF YEAR	$ 10,326,695	$ 6,104,280
Supplemental data:		
Interest paid	$ 542,976	$ 574,875

See accompanying notes to financial statements

NOTE 1- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Flatirons Community Church, "the Church", was incorporated as a not-for-profit corporation in Colorado. The Church is supported primarily through contributions from its attendees.

Basis of Accounting

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

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its statement FASB Accounting Standards Codification ("ASC") No. 958-205-45-5, "Presentation of Financial Statements." Under FASB ASC No. 958-205-45-5, the Church is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted or permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months.

Noncash Gifts

The Church receives donations of stock. It is the policy of the Church to sell the stock immediately and record a contribution equal to the sales proceeds. Noncash gifts, primarily unrestricted stock donations, for the years ending December 31, 2017 and 2016 totaled $192,381 and $160,900, respectively.

Property and Equipment

Property and equipment are carried at cost, or if donated, at the approximate fair value at the date of donation. Donations are reported as unrestricted income 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. Absent donor stipulations regarding how long those donated assets must be maintained, the Church reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Depreciation is computed using the straight-line method over the estimated useful life. Additions and improvements over $2,500 and with a useful life greater than one year are capitalized. Ordinary maintenance and repair expenses are expensed as incurred.

Contributed Services

The Church receives a substantial amount of donated services by its attendees in carrying out the Church's ministry. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under FASB ASC 958-605-50-1. Under FASB ASC 958-605-50-1, contributions of services are recognized if the services (a) create or enhance nonfinancial assets or (b) require specialized skills and are provided by individuals possessing those skills, and (c) would typically be purchased if not provided by donation.

NOTE 1- NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All 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 is satisfied, 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. Revenue is recognized as donations are received. The Church has no pledges receivable as of December 31, 2017 and 2016.

Deferred Revenue, Revenue and Interest Income

Cash received for event, camp, retreat registrations and school tuition is recognized as a liability under deferred revenue until the event occurs, and then revenue is recognized. Interest income, as well as revenue for event, camp, and retreat registrations is included under revenue in the Statements of Activities and Changes in Net Assets. Donations made in exchange for Church apparel, books, and media are also included under revenue in the Statements of Activities and Changes in Net Assets. As of December 31, 2017, deferred revenue primarily consists of local missions funds, student trip registrations, mission trip income and school tuition deposits. As of December 31, 2016, deferred revenue primarily consisted of student trip registrations and mission trip income and school tuition deposits.

Income Taxes

The Church is exempt from income taxes under Internal Revenue Service Code Section 501 (c)(3). As of December 31, 2017 and 2016, the Church has taken no uncertain tax positions that qualify for recognition and disclosure in the financial statements.

Property Taxes

The Church is exempt from property taxes for certain property owned by the Church, including the land, building and parking lots located at 355 W South Boulder Rd. in Lafayette, Colorado, 24887 Genesee Trail Rd. in Genesee, Colorado, and 2700 S. Downing St. in Denver, Colorado, all of which are owned in support of the Church's not for profit purposes. The Church has received a partial tax exemption of property taxes for the property at 400 W. South Boulder Rd. in Lafayette, Colorado, which houses the Church offices and retail establishments. See Note 3 – Property and Equipment.

Advertising

The Church has $3,411 and $1,620, respectively, in advertising costs for the years ended December 31, 2017 and 2016.

NOTE 2- RECEIVABLES

As of December 31, 2017 and 2016, the Church's current receivables consist of miscellaneous advances.

The Church has $260,000 and $60,000, respectively, in long term receivables from tenants for the years ended December 31, 2017 and 2016. $60,000 is due in full on September 15, 2019, the note bears no interest. $200,000 is due in full on January 1, 2027 and bears interest at 3% per annum.

NOTE 3- PROPERTY AND EQUIPMENT

The major components of property and equipment are:

	2017	2016
Land	$ 7,966,255	$ 9,526,161
Building & Improvements	26,456,284	25,015,118
Furniture and equipment	6,728,212	5,806,825
Office Buildings	3,775,996	3,766,772
Retail Space	3,351,703	719,680
Construction in progress	1,106,055	623,780
Parsonage	270,636	270,636
	49,655,141	45,728,973
Accumulated depreciation	(11,815,299)	(9,550,392)
Property and equipment, net	$ 37,839,842	$ 36,178,581

For the years ended December 31, 2017 and 2016, $1,773,868 and $82,297, respectively, of equipment, furniture and fixtures that were no longer in use, or disposed of, were retired from the Statements of Financial Position.

As of December 31, 2017, $2,667,241 of retail tenant improvement and remodel costs were capitalized as part of construction in progress for the Retail Space located at 400 W. South Boulder Rd in Lafayette ("The District").

Gross rents collected from both The District and the Church's Genesse property in 2017 were $266,968, total expenses were $363,849 for a net loss of $96,881.

On July 25, 2016 the Church entered into a lease agreement with Fate Lafayette, LLC for 5,380 square feet of tenant space in The District; the lease agreement was modified to include variable rent of 20% net profit, effective January 1, 2017. On July 25, 2016, the Church invested $200,000 in Fate Lafayette, LLC for a 20% membership interest in lieu of rent; this membership was sold back to Fate Lafayette, LLC effective January 1, 2017. Effective January 1, 2017, the Church and Fate Lafayette, LLC entered into a promissory note for $200,000, see Note 2 – Receivables. In October 2017, Fate Lafayette, LLC opened for business.

On December 12, 2016 the Church entered into a lease agreement with Fate District, LLC for 6,599 square feet of tenant space in the District. The Church invested $200,000 in Fate District, LLC for a 20% membership interest in lieu of rent. The Church has recorded this investment using the cost method. As of December 31, 2017, build-out of the Fate District, LLC space had not been completed and the tenant had not taken occupancy.

On July 13, 2017, The Church sold the vacant land held at 120th Street in Lafayette, Colorado, to the City of Lafayette for $3,495,150.

In September 2017 the Church entered into a Facilities Agreement with Cherry Creek Public School District to hold services on Sundays at Cherokee Trail High School, in Aurora, Colorado. Starting September 3, 2017, Cherokee Trail High School serves as the Church's forth campus. Monthly rental fees are approximately $7,600. The Church has dates reserved through November 2018, however, rental fees are a weekly rental with no future obligation.

NOTE 3- PROPERTY AND EQUIPMENT – continued

On September 21, 2017 the Church entered into an Event Agreement with Best Western Plus Hotel Plaza Convention Center to hold services on Sundays at the Convention Center, in Longmont, Colorado. Starting January 21, 2018, the Convention Center will serve as the Church's fifth campus. $30,750 was paid to Best Western Plus Hotel Plaza Convention Center on September 25, 2017 as prepaid rent. Monthly rental fees are approximately $8,400. The contract term is one year. Future minimum rental payments for 2017 are $95,950.

On August 16, 2017, the Church opened Flatirons Academy, a Classical Christian school. The school began with grades K-3, and will add one grade each year. The school is housed in the former offices of the Lafayette campus. As of December 31, 2017, $1,381,579 of school remodel costs were capitalized. The Church has entered into a contract to purchase property located in Broomfield for the future school and church campus. As of December 31, 2017, $125,000 of earnest money and $94,146 in legal, surveying and architectural fees were capitalized as part of construction in progress.

NOTE 4- NOTES PAYABLE

Long-term debt consists of the following:.

	2017	2016
Lafayette building & construction note payable, principal & interest payments paid monthly, maturity September 30, 2022. Secured by Deed of Trust. See below for interest terms.	$ 10,707,843	$ 11,297,893
Less current portion	(615,576)	(590,050)
	$ 10,092,267	$ 10,707,843

Maturities of long-term debt are as follows:

2018	615,576
2019	649,797
2020	681,334
2021	717,226
2022	8,043,910
	$10,707,843

The Church has a long-term note payable with BBVA Compass Bank. The interest rate is the Short-Term LIBOR Index plus 231 basis points. The amount subject to a Derivative Contract as of December 31, 2017 and 2016 is $10,707,843 and $11,297,893, respectively. See Note 5 – Derivative contract. $62,608 of loan origination fees were capitalized as of December 31, 2015, and are amortizing over 84 months. The balance of these fees at December 31, 2017 is $42,484.

On February 2, 2015, the Church executed a revolving line of credit with BBVA Compass Bank for $2,500,000. The line of credit was closed on February 1, 2017. The balance of capitalized loan origination fees totaling $12,253 were expensed.

NOTE 4- NOTES PAYABLE – continued

Interest expense on long-term debt for the years ended December 31, 2017 and 2016 was $543,869 and $575,298, respectively. For the years ended December 31, 2017 and 2016, $167,124 and $205,378, respectively of interest expense was from net settlements on the interest rate Swap, See Note 5 – Derivative Contract.

The long-term notes payable contain various restrictive covenants such as Fixed Charge Coverage ratios, audit, financial reporting and insurance requirements. As of December 31, 2017 and December 31, 2016, the Church was in compliance with all covenants.

NOTE 5- DERIVATIVE CONTRACT

The Church has an interest rate swap with BBVA Compass Bank. BBVA Compass Bank pays floating at short-term LIBOR Index plus 231 basis points. The Church pays fixed at 4.88%. The swap is net settled monthly, and terminates on September 30, 2022. The notional amount was also changed to the full amount of the long-term note payable with BBVA Compass Bank.

The interest rate swap agreement was entered into in order to manage the interest rate exposure associated with the floating rate on the long-term note payable, and to achieve a desired proportion of variable and fixed rate debt. The agreement is not accounted for as a hedging instrument; unrealized gains and losses on the swap agreement are included in program services on the Statements of Activities and Changes in Net Assets. The corresponding fair value liability is included in accounts payable and accrued expenses on the Statements of Financial Position. The unrealized gain as of December 31, 2017 is $7,122. The unrealized loss as of December 31, 2016 was $2,847. The fair value liability as of December 31, 2017 and December 31, 2016 is $9,825 and $16,947, respectively.

NOTE 6- NET ASSETS

Unrestricted net assets consist of all net assets without donor restrictions. Temporarily restricted net assets are assets that contain donor-imposed restrictions. These funds are subject to specific restrictions as to their use and are satisfied either by the passage of time or by actions of the Church. The Church currently has no permanently restricted net assets.

NOTE 7- RETIREMENT EXPENSE

The Church offers full-time staff employees the opportunity to participate in a 403(b) contributory retirement plan. The Church matched employee contributions up to 10% of their regular salary for the fiscal years ended December 31, 2017 and 2016. Retirement expense for the years ended December 31, 2017 and 2016 was $325,642 and $273,145, respectively.

NOTE 8- COMMITMENTS AND CONTINGENCIES

Cash is a financial instrument which potentially subjects the Church to a concentration of credit risk. The Church has cash deposits in financial institutions in excess of the amounts insured by the Federal Depository Insurance Corporation in the amount of $8,960,913 and $4,951,973 as of December 31, 2017 and 2016, respectively.

NOTE 9- FAIR VALUE OF FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

A summary of the Church's estimated fair value of financial instruments as of December 31, 2017 and 2016 is below:

	December 31, 2017		December 31, 2016	
Financial Assets:	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$10,326,695	$10,326,695	$ 6,104,280	$ 6,104,280
Receivables	90,704	90,704	15,187	15,187
Financial Liabilities:				
Accounts payable, accrued expenses and property tax payable	807,679	807,679	723,701	723,701
Fair value of interest rate swap	9,825	9,825	16,947	16,947
Notes payable	10,707,843	10,707,843	11,297,893	11,297,893

Methods and assumptions used by the Church in estimating fair values are as follows:

Cash and cash equivalents, receivables, accounts payable and accrued expenses: The carrying amounts approximate fair value due to the short-term maturity of these instruments.

Fair value of interest rate swap: The interest rate swap is settled monthly; therefore the counterparty valuation is used as the carrying value. Management deemed it impractical to estimate risk premiums that market participants might demand if the contract were transferred, due to immateriality of the agreement.

Notes payable: The notes payable are subject to floating interest rates that adjust to market value. The carrying amounts approximate fair value.

It is management's opinion that the Church is not exposed to significant interest rate or credit risk arising from these instruments.

Fair value is defined as 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. Fair value measurement accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Inputs that are derived principally from or corroborated by observable market data;
Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

The following table presents the fair value measurements of assets and liabilities recognized in the Statements of Financial Position and categorizes them within the fair value hierarchy:

December 31, 2017	Fair Value	Level 1	Level 2
Interest rate swap	$ 9,825	$ -	$ 9,825

December 31, 2016	Fair Value	Level 1	Level 2
Interest rate swap	$ 16,947	$ -	$ 16,947

NOTE 10- SUBSEQUENT EVENTS

Date of Management Evaluation
The Church's management has evaluated subsequent events through September 28, 2018, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2017.

Longmont Campus
As of June 7, 2018, The Church issued a letter of intent for the purchase of a building, in Longmont, as a permanent fifth campus location. No costs have been incurred.

Effective September 30, 2018, the Church's Event Agreement with Best Western Plus Hotel Plaza Convention Center was terminated.

On September 17, 2018, the Church entered into a lease agreement, effective October 1, 2018, with 1850 Industrial Circle, LLC, for the Convention Center in Longmont, Colorado, serving as the Church's fifth campus. $50,000 was paid to 1850 Industrial Circle, LLC, on September 19, 2018, as prepaid rent. The Church will pay base rent plus operating expenses of approximately $38,397 per month. The initial contract term is seven months.

Loss on Investment
As of July 1, 2018, The Church has recorded a loss on the Fate District, LLC investment of $200,000. The Church has terminated the lease agreement with Fate District, LLC and believes there is substantial doubt that The Church will recover its investment.

Sixth Campus
On July 28, 2018, it was announced that the Church intends to start a sixth campus in the Brighton area. No costs have been incurred.