



Financial Statements
With Independent Auditors' Report

December 31, 2017 and 2016

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, 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.

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, 2017 and 2016, 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
May 25, 2018

RED ROCKS CHURCH

Statements of Financial Position

	December 31,	
	<u>2017</u>	<u>2016</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 6,995,708	\$ 4,627,555
Prepaid expenses and other assets	81,135	252,761
	<u>7,076,843</u>	<u>4,880,316</u>
Life insurance cash surrender value	673,111	535,669
Property and equipment—net	<u>21,799,476</u>	<u>19,467,184</u>
Total Assets	<u>\$ 29,549,430</u>	<u>\$ 24,883,169</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 429,546	\$ 288,926
Construction and retainage payable	455,292	-
Current portion of debt obligations	612,277	524,678
Accrued expenses	370,144	112,158
	<u>1,867,259</u>	<u>925,762</u>
Long-term portion of debt obligations—net	10,420,162	10,131,209
Deferred compensation liability	260,714	217,857
	<u>12,548,135</u>	<u>11,274,828</u>
Net assets:		
Unrestricted:		
Operating	6,689,550	4,797,044
Equity in property and equipment—net	10,311,745	8,811,297
	<u>17,001,295</u>	<u>13,608,341</u>
Total Liabilities and Net Assets	<u>\$ 29,549,430</u>	<u>\$ 24,883,169</u>

See notes to financial statements

RED ROCKS CHURCH

Statements of Activities

	Year Ended December 31,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$ 18,614,134	\$ 37,009	\$ 18,651,143	\$ 12,533,973	\$ 953,939	\$ 13,487,912
Program income	1,036,558	-	1,036,558	683,457	-	683,457
Gain on property held for sale	-	-	-	747,841	-	747,841
Gain on note payable refinance	-	-	-	230,750	-	230,750
Other income	70,006	-	70,006	171,092	-	171,092
Total Support and Revenue	19,720,698	37,009	19,757,707	14,367,113	953,939	15,321,052
NET ASSETS RELEASED:						
Purpose restrictions	37,009	(37,009)	-	953,939	(953,939)	-
EXPENSES:						
Salary and benefits	6,422,755	-	6,422,755	5,663,988	-	5,663,988
Ministry and worship	3,588,919	-	3,588,919	2,621,191	-	2,621,191
Administration	3,033,090	-	3,033,090	2,347,382	-	2,347,382
Depreciation and amortization	1,023,130	-	1,023,130	936,652	-	936,652
Facilities	949,500	-	949,500	866,020	-	866,020
Missions	941,784	-	941,784	832,028	-	832,028
Interest	405,575	-	405,575	563,423	-	563,423
Total Expenses	16,364,753	-	16,364,753	13,830,684	-	13,830,684
Change in Net Assets	3,392,954	-	3,392,954	1,490,368	-	1,490,368
Net Assets, Beginning of Year	13,608,341	-	13,608,341	12,117,973	-	12,117,973
Net Assets, End of Year	\$ 17,001,295	\$ -	\$ 17,001,295	\$ 13,608,341	\$ -	\$ 13,608,341

See notes to financial statements

RED ROCKS CHURCH

Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,392,954	\$ 1,490,368
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization of capitalized loan fees	20,164	15,318
Depreciation and amortization	1,023,130	936,652
Gain on disposal of property and equipment	-	(669,429)
Contributions restricted for long-term purposes	-	(819,970)
Change in life insurance cash surrender value	(137,442)	(239,592)
Gain on refinance of note payable	-	(230,750)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	171,626	(122,878)
Accounts payable	140,620	83,300
Accrued expenses	257,986	22,711
Deferred compensation liability	42,857	42,857
Net Cash Provided by Operating Activities	4,911,895	508,587
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,906,022)	(2,787,204)
Proceeds from disposal of property and equipment	-	2,716,821
Contributions restricted for long-term purposes	-	819,970
Net Cash Provided (Used) by Investing Activities	(1,906,022)	749,587
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on debt obligations	(637,720)	(1,392,399)
Net Cash Used by Financing Activities	(637,720)	(1,392,399)
Net Change in Cash and Cash Equivalents	2,368,153	(134,225)
Cash and Cash Equivalents, Beginning of Year	4,627,555	4,761,780
Cash and Cash Equivalents, End of Year	\$ 6,995,708	\$ 4,627,555
SUPPLEMENTAL DISCLOSURE AND NON-CASH ITEMS:		
Cash paid for interest	\$ 363,057	\$ 515,445
Capitalized loan fees acquired with debt obligations	\$ 22,038	\$ 28,538
Refinance of debt obligations	\$ 2,129,786	\$ 4,408,084
Property and equipment acquired and financed with:		
Construction and retainage payable	\$ 455,292	\$ -
Accounts payable	-	21,241
Debt obligations	994,108	-
	\$ 1,449,400	\$ 21,241

See notes to financial statements

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2017 and 2016

1. NATURE OF ORGANIZATION:

Red Rocks Church (the Church) is a not-for-profit corporation started for the purpose of making heaven more crowded. We are ONE church in multiple locations. We desire to be a home for the prodigal, an authentic people, humble, generous, and unified. We want everyone to know the only way, the truth, and the life found in Jesus. The Church currently operates six church locations. The churches are located in Littleton, Lakewood, Arvada and Evergreen, Colorado, Brussels, Belgium, and Austin, Texas.

The Church is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state law(s). However, the Church is subject to federal income tax on any unrelated business taxable income. In addition, the Church is not classified as a private foundation within the meaning of Section 509(a) of the IRC. The primary source of support and revenue is contributions from individuals.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Church maintains its accounts and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could vary from the estimates. 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. At December 31, 2017 and 2016, the Church's cash balances exceeded federally insured limits by approximately \$1,804,000 and \$444,000, respectively. 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.

PROPERTY HELD FOR SALE

During the year ended December 31, 2016, the Church sold a property for \$2,714,900, and recognized a gain of \$741,841 on the statements of activities.

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 and amortization 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.

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.

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, 2017 and 2016, of \$31,038 and \$48,909, respectively, are expensed as incurred and included in the statements of activities.

SUPPORT AND REVENUE

Contributions are recognized 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. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Donated assets are recorded as contributions as their estimated fair value on the date of donation. All donations postmarked by the end of the fiscal year are recognized as revenue in the fiscal year.

Program income consists of youth and event income and is recorded when earned. Other income is recorded when earned.

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2017 and 2016

3. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consist of:

	December 31,	
	2017	2016
Land	\$ 4,968,490	\$ 4,606,490
Buildings and improvements	13,848,745	12,466,880
Equipment	3,605,351	3,406,519
Furniture and fixtures	614,662	596,372
Website and technology	490,361	416,746
Vehicles	123,106	123,106
	<u>23,650,715</u>	<u>21,616,113</u>
Less accumulated depreciation and amortization	(3,415,134)	(2,392,004)
	<u>20,235,581</u>	<u>19,224,109</u>
Construction in process	1,563,895	243,075
	<u>\$ 21,799,476</u>	<u>\$ 19,467,184</u>

Equity in property and equipment–net consists of:

	December 31,	
	2017	2016
Property and equipment–net	\$ 21,799,476	\$ 19,467,184
Less construction and retainage payable	(455,292)	-
Less related debt obligations–net	<u>(11,032,439)</u>	<u>(10,655,887)</u>
	<u>\$ 10,311,745</u>	<u>\$ 8,811,297</u>

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2017 and 2016

4. DEBT OBLIGATIONS—NET:

Debt obligations—net consist of:

	December 31,	
	2017	2016
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 is collateralized by property and equipment and matures December 2023, at which time a balloon payment will be due.	\$ 4,105,175	\$ 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 3.5%. The note payable is collateralized by property and equipment and matures June 2020, at which time a balloon payment will be due.	3,819,227	4,070,914
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 3.5%. The note payable is collateralized by property and equipment and matures June 2020, at which time a balloon payment will be due. The note payable was refinanced and rolled into a construction loan during the year ended December 31, 2017.	-	2,257,470
Construction loan held with a financial institution, dated December 2017. Up to \$6,552,000 is available to complete construction on the Arvada church campus. Interest is due monthly at a fixed rate of 4.25%. The loan will be refinanced to permanent financing at the completion of construction or September 2018, when the loan matures. The loan is collateralized by property and equipment. Subsequent to year end an additional \$1,930,808 was borrowed as of May 25, 2018. Future minimum payments reflect the permanent financing terms agreed upon with the financial institution.	3,051,432	-

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2017 and 2016

4. DEBT OBLIGATIONS—NET, continued:

Debt obligations—net consist of, continued:

	December 31,	
	2017	2016
Two capital lease agreements obtained to finance various equipment purchases. Monthly payments total \$2,711 and the leases expire in February 2019 and January 2024, at which time the Church can purchase the equipment for a bargain purchase option. Cost related to these capital leases was \$154,783 and \$60,283 and accumulated amortization was \$30,006 and \$7,894 as of December 31, 2017 and 2016, respectively, which is recorded within property and equipment—net.	113,581	45,983
	11,089,415	10,710,989
Less current portion	(612,277)	(524,678)
Less capitalized loan fees-net	(56,976)	(55,102)
	\$ 10,420,162	\$ 10,131,209

Capitalized loan fees are being amortized over the terms of the related note payable using a straight-line basis. Accumulated amortization for capitalized loan fees was \$40,818 and \$20,654 as of December 31, 2017 and 2016, respectively.

Future minimum payments for debt obligations are:

<u>Year Ending December 31,</u>	
2018	\$ 612,277
2019	863,047
2020	3,890,286
2021	629,511
2022	654,149
Thereafter	4,440,145
	\$ 11,089,415

The Church is in compliance with all financial and reporting covenants related to notes payable and construction loans as of December 31, 2017.

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2017 and 2016

5. FUNCTIONAL EXPENSES:

The costs of providing program services and supporting activities have been summarized on a functional basis below. The major program activities of the Church consists of weekly church services, adult, youth, and children's ministry , and mission activities. 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,	
	2017	2016
Program services	\$ 14,142,441	\$ 11,662,605
Supporting activities:		
General and administrative	2,170,171	2,106,688
Fund-raising	52,141	61,391
	<u>\$ 16,364,753</u>	<u>\$ 13,830,684</u>

6. COMMITMENTS:

During the year ended December 31, 2017, the Church entered into a contract with a contractor for building additions. The total construction cost is estimated to be \$3,882,000. The amount completed and included in property and equipment in the statement of financial position as of December 31, 2017 was \$1,003,000 with related construction and retainage payable of \$455,292. The remaining estimated cost for the project as of December 31, 2017 is \$2,879,000. The project is expected to be completed during the year ended December 31, 2018.

7. 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, 2017 and 2016, the Church owns life insurance policies with a collective cash surrender value of \$673,111 and \$535,669, respectively, to fund this obligation which is accrued as vested by the participants. The deferred compensation liability as of December 31, 2017 and 2016 was \$260,714 and \$217,857, respectively.

8. 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 \$92,489 and \$65,828 for the years ended December 31, 2017 and 2016, respectively.

RED ROCKS CHURCH

Notes to Financial Statements

December 31, 2017 and 2016

9. SUBSEQUENT EVENTS:

Subsequent to the year ended December 31, 2017, the Church entered into an agreement to purchase a new church location in Highlands Ranch, Colorado. The purchase price is \$5,800,000, of which \$4,600,000 will be debt financed. The purchase is expected to finalize May 2018.

Subsequent events were evaluated through May 25, 2018, which is the date the financial statements were available to be issued.