



RED ROCKS CHURCH AND AFFILIATE

Consolidated Financial Statements  
With Independent Auditors' Report

December 31, 2018 and 2017

# RED ROCKS CHURCH AND AFFILIATE

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Red Rocks Church and Affiliate  
Littleton, Colorado

We have audited the accompanying consolidated financial statements of Red Rocks Church and Affiliate, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended December 31, 2018, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 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.

Board of Directors  
Red Rocks Church and Affiliate  
Littleton, Colorado

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Red Rocks Church and Affiliate as of December 31, 2018 and 2017, 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.

***Emphasis of Matter***

Red Rocks Church and Affiliate has adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in note 2. This has had a material effect on the presentation of the December 31, 2018 and 2017 consolidated financial statements.

*Capin Crouse LLP*

Centennial, Colorado  
April 18, 2019

# RED ROCKS CHURCH AND AFFILIATE

## Consolidated Statements of Financial Position

	December 31,	
	2018	2017
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 4,159,422	\$ 6,995,708
Prepaid expenses and other assets	192,903	81,135
	<u>4,352,325</u>	<u>7,076,843</u>
Life insurance cash surrender value	828,731	673,111
Property and equipment—net	<u>32,902,417</u>	<u>21,799,476</u>
Total Assets	<u>\$ 38,083,473</u>	<u>\$ 29,549,430</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 401,560	\$ 429,546
Construction and retainage payable	115,937	455,292
Current portion of debt obligations	937,931	612,277
Deferred compensation liability	-	260,714
Accrued expenses	535,446	370,144
	<u>1,990,874</u>	<u>2,127,973</u>
Long-term portion of debt obligations—net	<u>16,904,082</u>	<u>10,420,162</u>
	<u>18,894,956</u>	<u>12,548,135</u>
Net assets:		
Without donor restrictions:		
Operating	4,244,050	6,689,550
Equity in property and equipment—net	14,944,467	10,311,745
	<u>19,188,517</u>	<u>17,001,295</u>
Total Liabilities and Net Assets	<u>\$ 38,083,473</u>	<u>\$ 29,549,430</u>

See notes to consolidated financial statements

## RED ROCKS CHURCH AND AFFILIATE

### Consolidated Statements of Activities

	Year Ended December 31,					
	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE:</b>						
Contributions	\$ 19,727,747	\$ -	\$ 19,727,747	\$ 18,651,143	\$ -	\$ 18,651,143
Program income	931,300	-	931,300	1,036,558	-	1,036,558
Rental and other income	100,598	-	100,598	70,006	-	70,006
<b>Total Support and Revenue</b>	<b>20,759,645</b>	<b>-</b>	<b>20,759,645</b>	<b>19,757,707</b>	<b>-</b>	<b>19,757,707</b>
<b>EXPENSES:</b>						
Salaries and benefits	8,619,801	-	8,619,801	7,160,032	-	7,160,032
Office and professional services	2,514,115	-	2,514,115	2,614,030	-	2,614,030
Events and supplies	1,750,760	-	1,750,760	1,625,614	-	1,625,614
Travel and conferences	1,286,578	-	1,286,578	1,012,245	-	1,012,245
Contributions to others	1,175,160	-	1,175,160	943,897	-	943,897
Depreciation	1,173,282	-	1,173,282	1,023,130	-	1,023,130
Facilities and maintenance	1,001,763	-	1,001,763	964,686	-	964,686
Worship production	608,084	-	608,084	615,544	-	615,544
Interest	442,880	-	442,880	405,575	-	405,575
<b>Total Expenses</b>	<b>18,572,423</b>	<b>-</b>	<b>18,572,423</b>	<b>16,364,753</b>	<b>-</b>	<b>16,364,753</b>
Change in Net Assets	2,187,222	-	2,187,222	3,392,954	-	3,392,954
Net Assets, Beginning of Year	17,001,295	-	17,001,295	13,608,341	-	13,608,341
Net Assets, End of Year	<b>\$ 19,188,517</b>	<b>\$ -</b>	<b>\$ 19,188,517</b>	<b>\$ 17,001,295</b>	<b>\$ -</b>	<b>\$ 17,001,295</b>

See notes to consolidated financial statements

# RED ROCKS CHURCH AND AFFILIATE

## Consolidated Statement of Functional Expenses

Year Ended December 31, 2018  
(with comparable information for the year ended December 31, 2017)

	Program Activities	Supporting Activities:		Total	2017
		General and Administrative	Fund-raising		
Salaries and benefits	\$ 7,594,991	\$ 987,366	\$ 37,444	\$ 8,619,801	\$ 7,160,032
Office and professional services	1,371,507	1,142,290	318	2,514,115	2,614,030
Events and supplies	1,744,391	6,369	-	1,750,760	1,625,614
Travel and conferences	1,234,851	51,727	-	1,286,578	1,012,245
Contributions to others	1,175,160	-	-	1,175,160	943,897
Depreciation	1,102,885	58,664	11,733	1,173,282	1,023,130
Facilities and maintenance	942,491	49,393	9,879	1,001,763	964,686
Worship production	608,084	-	-	608,084	615,544
Interest	416,392	22,144	4,344	442,880	405,575
	<u>\$ 16,190,752</u>	<u>\$ 2,317,953</u>	<u>\$ 63,718</u>	<u>\$ 18,572,423</u>	<u>\$ 16,364,753</u>
2017:					
Total expenses	<u>\$ 14,142,441</u>	<u>\$ 2,170,171</u>	<u>\$ 52,141</u>	<u>\$ 16,364,753</u>	<u>\$ 16,364,753</u>

See notes to consolidated financial statements

# RED ROCKS CHURCH AND AFFILIATE

## Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 2,187,222	\$ 3,392,954
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization of capitalized loan fees	8,477	20,164
Depreciation and amortization	1,173,282	1,023,130
Change in life insurance cash surrender value	(155,620)	(137,442)
Change in operating assets and liabilities:		
Prepaid expenses and other assets	(111,768)	171,626
Accounts payable	(101,911)	140,620
Construction and retainage payable	(455,292)	-
Accrued expenses	165,302	257,986
Deferred compensation liability	(260,714)	42,857
Net Cash Provided by Operating Activities	2,448,978	4,911,895
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(4,672,894)	(1,906,022)
Net Cash Used by Investing Activities	(4,672,894)	(1,906,022)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on debt obligations	(570,370)	(637,720)
Payments of capitalized loan fees	(42,000)	-
Net Cash Used by Financing Activities	(612,370)	(637,720)
Net Change in Cash and Cash Equivalents	(2,836,286)	2,368,153
Cash and Cash Equivalents, Beginning of Year	6,995,708	4,627,555
Cash and Cash Equivalents, End of Year	\$ 4,159,422	\$ 6,995,708
<b>SUPPLEMENTAL DISCLOSURE AND NON-CASH ITEMS:</b>		
Cash paid for interest	\$ 602,612	\$ 383,221
Capitalized loan fees acquired with debt obligations	\$ -	\$ 22,038
Refinance of debt obligations	\$ -	\$ 2,129,786
Property and equipment acquired and financed with:		
Construction and retainage payable	\$ 115,937	\$ 455,292
Accounts payable	73,925	-
Debt obligations	7,413,467	994,108
	\$ 7,603,329	\$ 1,449,400

See notes to consolidated financial statements



# RED ROCKS CHURCH AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

### 1. NATURE OF ORGANIZATION:

Red Rocks Church (RRC) 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. RRC currently operates five locations which are located in Littleton, Lakewood and Arvada, Colorado, Brussels, Belgium, and Austin, Texas.

RRC 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, RRC is subject to federal income tax on any unrelated business taxable income. In addition, RRC 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.

During the year ended December 31, 2015, RRC opened a church location in Brussels, Belgium and formed a non-profit organization under Belgium law, which is referred to as the Brussels Campus.

Collectively, RRC and the Brussels Campus are referred to as the Church in these consolidated financial statements.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Church maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of consolidated 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 consolidated 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 consolidated financial statements to the reader.

#### PRINCIPLES OF CONSOLIDATION

Due to financial and board control, the Brussels Campus is a consolidated affiliate of RRC. The consolidated financial statements include the consolidated financial resources and activities of RRC and the Brussels Campus. All significant intercompany balances and transactions have been eliminated.

#### 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, 2018 and 2017, the Church's cash balances exceeded federally insured limits by approximately \$1,636,000 and \$1,821,000, 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.

# RED ROCKS CHURCH AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### 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 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 consolidated financial statements report amounts separately by net asset class:

*Net assets without donor restrictions* are those resources 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.

*Net assets with donor restrictions* are those resources contributed with donor stipulations for the support of Church ministries.

#### ADVERTISING COSTS

Advertising costs for the years ended December 31, 2018 and 2017, of \$28,117 and \$31,038, respectively, are expensed as incurred and included in the consolidated 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 are reported as restricted contributions if they are received with donor stipulations that limit the use of the donated amounts. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. If a restricted gift is received and subsequently released in the same year, the Church considers the donation as without donor restrictions for consolidated financial statement recording purposes. 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.

# RED ROCKS CHURCH AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### SUPPORT AND REVENUE, continued

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

#### FUNCTIONAL ALLOCATION OF EXPENSES

The consolidated statement of functional expenses report certain categories of expenses that are attributable to program or support activities of the Church. These expenses include depreciation, interest, and facilities, which are allocated based on square footage occupancy. Costs of other categories were allocated on estimates of time and effort.

#### ADOPTION OF NEW ACCOUNTING STANDARD AND CHANGE IN ACCOUNTING POLICY

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Church adopted the provisions of this new standard during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the consolidated financial statements, new disclosures were added including liquidity and the availability of resources (note 3), and disclosures related to functional allocation of expenses were expanded (note 2, above). Adoption of this standard had no effect on the change in net assets by class of net assets or in total.

The Church has adopted a new accounting policy related to donor restricted gifts. Specifically, if a restricted gift is received and subsequently released in the same year, the Church considers the donation as without donor restrictions for consolidated financial statement recording purposes. The change in accounting policy has been retrospectively applied to the consolidated statements of activities for the year ended December 31, 2017.

### 3. LIQUIDITY AND FUNDS AVAILABLE:

The Church has approximately \$4,988,000 and \$7,669,000 of financial assets available within one year of the consolidated statements of financial position date as of December 31, 2018 and 2017, respectively. These amounts consists of cash and cash equivalents and life insurance cash surrender value. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated statements of financial position date.

The Church structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Church's goal is to have a minimum of three months operating expenses on hand at any given time. Management monitors cash flows closely through finance committee meetings and detailed financial analysis.

# RED ROCKS CHURCH AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

4. PROPERTY AND EQUIPMENT–NET:

Property and equipment–net consist of:

	December 31,	
	2018	2017
Land	\$ 6,192,846	\$ 4,968,490
Buildings and improvements	19,888,008	13,848,745
Equipment	5,064,881	3,605,351
Furniture and fixtures	701,454	614,662
Website and technology	583,853	490,361
Vehicles	189,120	123,106
	32,620,162	23,650,715
Less accumulated depreciation and amortization	(4,588,416)	(3,415,134)
	28,031,746	20,235,581
Construction in process	4,870,671	1,563,895
	\$ 32,902,417	\$ 21,799,476

Equity in property and equipment–net consists of:

	December 31,	
	2018	2017
Property and equipment–net	\$ 32,902,417	\$ 21,799,476
Less construction and retainage payable	(115,937)	(455,292)
Less related debt obligations–net	(17,842,013)	(11,032,439)
	\$ 14,944,467	\$ 10,311,745

Interest costs capitalized during the years ended December 31, 2018 and 2017 are \$186,306 and \$0, respectively.

# RED ROCKS CHURCH AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

5. DEBT OBLIGATIONS—NET:

Debt obligations—net consist of:

	December 31,	
	2018	2017
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.	\$ 3,865,073	\$ 4,105,175
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.	3,558,427	3,819,227
Construction loan held with a financial institution, dated May 2018. Up to \$8,400,000 is available to complete construction on the Park Meadows campus. Interest is due monthly at a fixed rate of 4.75% until construction is complete or May 2019 at which time the loan will be refinanced to permanent financing. The loan is collateralized by property and equipment. Subsequent to year end an additional \$413,071 was borrowed. Future minimum payments reflect the permanent financing terms agreed upon with the financial institution, which includes a four year term, 15 year amortization, and 4.75% fixed interest rate.	3,800,000	-
Construction loan held with a financial institution up to \$6,552,000, dated December 2017, to complete construction on the Arvada church campus. Interest is due monthly at a fixed rate of 4.25%. The loan was refinanced subsequent to the year ended December 31, 2018 after construction was completed with a maturity of February 2024 and a fixed interest rate of 5%. The loan is collateralized by property and equipment. Future minimum payments reflect the permanent financing terms agreed upon with the financial institution.	6,552,000	3,051,432

# RED ROCKS CHURCH AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

5. DEBT OBLIGATIONS—NET, continued:

Debt obligations—net consist of, continued:

	December 31,	
	2018	2017
Multiple capital lease agreements obtained to finance various equipment purchases. Monthly payments total \$5,829 and the leases expire between April 2020 and January 2024. Cost related to these capital leases was \$224,054 and \$154,783 and accumulated amortization was \$35,467 and \$30,006 as of December 31, 2018 and 2017, respectively, which is recorded within property and equipment—net.	157,012	113,581
	17,932,512	11,089,415
Less current portion	(937,931)	(612,277)
Less capitalized loan fees-net	(90,499)	(56,976)
	\$ 16,904,082	\$ 10,420,162

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 \$24,077 and \$15,600 as of December 31, 2018 and 2017, respectively.

Future minimum payments for debt obligations are:

Year Ending December 31,	
2019	\$ 937,931
2020	4,056,915
2021	788,058
2022	823,054
2023	6,620,832
Thereafter	4,705,722
	\$ 17,932,512

The Church is in compliance with all financial and reporting covenants related to notes payable and construction loans as of December 31, 2018.

# RED ROCKS CHURCH AND AFFILIATE

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

6. COMMITMENTS:

During the year ended December 31, 2018, the Church entered into a construction agreement for their new Park Meadows campus. The estimated cost is \$3,218,000, which will be funded with a construction line of credit. Construction will begin in early 2019 and is expected to be completed at the end of 2019.

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. During the year ended December 31, 2018, the deferred compensation liability was paid in full. The deferred compensation liability, reported within accrued liabilities on the consolidated statements of financial position, as of December 31, 2018 and 2017 was \$0 and \$260,714, 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 4% of employee contributions, which was increased from 3% during the year ended December 31, 2018. Employer contributions to the Plan totaled \$171,152 and \$92,489 for the years ended December 31, 2018 and 2017, respectively.

9. RELATED PARTY TRANSACTION:

The Church has partners with a separate not-for-profit organization to provide bikes to pastors in India. A member of the Church's board of directors is also on the board of directors at the related organization. During the year ended December 31, 2018, the Church paid the related organization \$224,045. Due to the lack of board control, the related organization is not consolidated within these consolidated financial statements.

10. SUBSEQUENT EVENTS:

Subsequent to the year ended December 31, 2018, \$312,000 was paid off from the Arvada campus construction loan upon it being converted to permanent financing. Subsequently, the Church borrowed an additional \$812,000, which is secured by property and equipment and matures April 2024, at which time a balloon payment will be due.

Subsequent events were evaluated through April 18, 2019, which is the date the consolidated financial statements were available to be issued.