FLATIRONS COMMUNITY CHURCH
FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

FLATIRONS COMMUNITY CHURCH

Table of Contents

December 31, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 P.C.
MIDDLEMIST, CROUCH & CO., CPA'S, P.C.

Boulder, Colorado
May 24, 2015

FINANCIAL STATEMENTS

FLATIRONS COMMUNITY CHURCH
Statements of Financial Position
December 31, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	$ 4,652,644	$ 3,388,983
Prepaid expenses	319,843	168,417
Receivables	33,731	9,478
Total current assets	5,006,218	3,566,878
NONCURRENT ASSETS		
Property and equipment, net	32,401,020	29,785,375
Total noncurrent assets	32,401,020	29,785,375
OTHER ASSETS		
Loan origination fees, net	75,298	-
Security deposits	86,764	-
Total other assets	162,062	-
Total assets	$ 37,569,300	$ 33,352,253

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 245,359	$ 290,114
Property taxes payable	132,535	55,229
Current portion of long-term debt	560,000	560,000
Deferred revenue	78,514	72,559
Total current liabilities	1,016,408	977,902
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	11,298,165	11,806,090
Total long-term liabilities	11,298,165	11,806,090
Total liabilities	$ 12,314,573	$ 12,783,992
NET ASSETS		
Unrestricted	$ 25,250,775	$ 20,537,219
Temporarily restricted	3,952	31,042
Total net assets	$ 25,254,727	$ 20,568,261
Total liabilities and net assets	$ 37,569,300	$ 33,352,253

See accompanying notes to financial statements

FLATIRONS COMMUNITY CHURCH
Statements of Activities and Changes in Net Assets
For the years ended December 31, 2015 and 2014

	2015	2014
Changes in unrestricted net assets:		
Support and Revenue:		
Contributions	$ 17,290,618	$ 14,828,534
Revenue	565,708	654,614
Total support and revenue	17,856,326	15,483,148
Net assets released from restrictions	788,716	824,449
Total unrestricted support, revenue and net assets released	18,645,042	16,307,597
Expenses:		
General and administrative	1,127,362	1,057,473
Program services:		
Weekend services	5,256,647	4,845,367
Missions	2,457,667	2,159,215
Children ministries	2,370,041	2,099,289
Adult ministries	1,848,046	1,564,693
Student ministries	762,188	798,918
Total program services	12,694,589	11,467,482
Total expenses	13,821,951	12,524,955
Net retail loss	109,535	-
Increase in unrestricted net assets	4,713,556	3,782,642
Changes in temporarily restricted net assets:		
Contributions	761,626	836,451
Net assets released from restrictions	(788,716)	(824,449)
Increase in temporarily restricted net assets	(27,090)	12,002
Increase in net assets	4,686,466	3,794,644
Net assets beginning of year	20,568,261	16,773,617
Net assets end of year	$ 25,254,727	$ 20,568,261

See accompanying notes to financial statements

FLATIRONS COMMUNITY CHURCH
Statements of Cash Flows
For the years ended December 31, 2015 and 2014

	2015	2014
OPERATING ACTIVITIES:		
Change in net assets	$ 4,686,466	$ 3,794,644
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,901,819	1,801,756
Loss on disposal of fixed assets	11,460	714
Changes in working capital items:		
(Increase) in prepaid expenses	(151,426)	(64,333)
(Increase) decrease in receivables	(24,253)	25,822
(Increase) in other assets	(162,062)	-
(Decrease) increase in accounts payable and accrued expenses	(44,755)	14,195
Increase in property taxes payable	77,306	926
Increase in deferred revenue	5,955	62,750
Net cash provided from operating activities	6,300,510	5,636,474
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,528,924)	(1,800,940)
Net cash used by investing activities	(4,528,924)	(1,800,940)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(507,925)	(2,376,666)
Net cash used by financing activities	(507,925)	(2,376,666)
NET INCREASE IN CASH	1,263,661	1,458,868
CASH AT BEGINNING OF YEAR	3,388,983	1,930,115
CASH AT END OF YEAR	$ 4,652,644	$ 3,388,983
Supplemental data:		
Interest paid	$ 611,436	$ 643,305

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, 2015 and 2014 totaled $73,304 and $63,356, 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 $1,000 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 members 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. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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, 2015 and 2014.

Deferred Revenue, Revenue and Interest Income

Cash received for event, camp and retreat registrations 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, 2015, deferred revenue primarily consists of student trip registrations and mission trip income. As of December 31, 2014, deferred revenue consisted primarily of mission trip income.

Income Taxes

The Church is exempt from income taxes under Internal Revenue Service Code Section 501 (c)(3). As of December 31, 2015 and 2014, 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 and 24887 Genesee Trail Rd. in Genesee, Colorado. For the year ended December 31, 2015, the Church was not exempt from property taxes at 400 W South Boulder Rd. in Lafayette, Colorado “Lafayette Marketplace”.

Advertising

The Church has $500 and $0, respectively, in advertising costs for the years ended December 31, 2015 and 2014.

NOTE 2- RECEIVABLES

As of December 31, 2015 and 2014, the Church’s receivables consist of miscellaneous advances.

NOTE 3- PROPERTY AND EQUIPMENT

The major components of property and equipment are:

	2015	2014
Land	$ 9,101,252	$ 7,302,191
Furniture and equipment	5,003,003	4,695,014
Parsonage	270,635	270,636
Construction in progress	205,208	47,529
Office Buildings	918,080	588,829
Retail Space	604,101	-
Building & Improvements	23,921,400	22,666,003
	40,023,679	35,570,202
Accumulated depreciation	(7,622,659)	(5,784,827)
Property and equipment, net	$ 32,401,020	$ 29,785,375

For the years ended December 31, 2015 and 2014, $75,447 and $185,699, respectively, of equipment, furniture and fixtures that were no longer in use, or disposed of, were retired from the Statements of Financial Position.

On February 28, 2013, the Church purchased a 51,000 square foot church facility in Genesee, Colorado, as well as two adjacent office buildings totaling 18,000 square feet. These facilities serve as the Church's second campus ("West Campus") which held its first services on February 16, 2014. The purchase price was approximately $5,000,000. The purchase price was broken out as follows: $1,700,000 of land, $500,000 for the office buildings, and $2,800,000 of buildings and improvements. Construction on the West Campus church facility's remodel began in August 2013. Construction for the remodel was completed in January, 2014 and totaled $1,223,318, not including audio, video and lighting equipment.

A one acre dirt parking lot adjacent to the Church's Lafayette campus, which the Church previously rented from a third party, was purchased in June, 2014 for $415,402. In August, 2014, the Church also purchased three acres of land in close proximity to the Church's Lafayette campus, for a second overflow parking lot. The total cost of this land was $737,366. As of December 31, 2014, $37,199 of architectural and survey fees were capitalized as part of construction in progress for the paving and construction of these parking lots. As of December 31, 2015, construction is complete on both parking lots, which totaled $1,249,275. The Church's overflow parking lot construction costs are included under "Building & Improvements", the land is included under "Land".

On February 16, 2015, the Church purchased 36,500 square feet of retail space, located at 400 W. South Boulder Rd in Lafayette, for $2,752,193. The Church made this purchase for the purpose of creating a space for the new Church offices, as well as for additional parking. This location was desirable due to its close proximity to the Church's Lafayette location. The Church offices will be relocated to 15,000 square feet of this location after remodel and construction is complete, which is expected in 2016. The remaining square footage houses several retail tenants. The Church honored the leases in place, and tenants began paying rent to the Church in March of 2015. Gross rents collected were $269,311, total expenses were $378,846 for a net loss of $109,535. The purchase price was broken out as follows: $1,799,061 of land, $391,398 of office space, and $561,734 of retail space. As of December 31, 2015, $83,279 of office remodel costs, and $83,276 of retail tenant improvements and remodel costs have been capitalized as part of construction in progress. As of December 31, 2014, $50,000 of earnest money and $38,829 of legal and surveying fees were capitalized as part of construction in progress.

NOTE 3- PROPERTY AND EQUIPMENT - continued

On March 2, 2015 the Church entered into an event license agreement with Paramount Holdings, LLC to hold services on Sundays at The Paramount Theatre, ("the Paramount") in Downtown Denver, Colorado. Starting in September, 2015, the Paramount serves as the Church's third campus. $100,000 was paid to Paramount Holdings, LLC on March 4, 2015, as prepaid rent and expenses. Monthly event license fees of $44,380 are paid to Paramount Holdings, LLC; $31,250 is for rent and $13,130 is for estimated expenses. The License term is one year. $183,614 of furniture and equipment was capitalized as part of this new campus for the year ended December 31, 2015. Future minimum lease payments for 2016 total $218,750.

NOTE 4- NOTES PAYABLE

Long-term debt consists of the following:

	2015	2014
Lafayette building & construction note payable, principal & interest payments paid monthly, maturity September 30, 2022. Secured by Deed of Trust. See below for interest terms.	$11,858,165	$12,366,090
Less current portion	(560,000)	(560,000)
	$11,298,165	$11,806,090

Maturities of long-term debt are as follows:

2016:	$ 560,000
2017:	590,050
2018:	615,576
2019:	649,797
2020:	681,334
2021:	717,226
2022:	8,044,182
	$11,858,165

Effective September 30, 2015, the Church amended the Lafayette long-term note payable with BBVA Compass Bank. The note was changed to a principal and interest structure. The interest rate was changed to the Short-Term LIBOR Index plus 231 basis points. The Derivative Contract was also amended along with the long-term note payable. The amount subject to a Derivative Contract as of December 31, 2015 and 2014 is $11,858,165 and $7,000,000, respectively, and the amount not subject to a Derivative Contract as of December 31, 2015 and 2014 is $0 and $5,366,090, respectively. See Note 5 – Derivative contract. $62,608 of loan origination fees related to the note payable refinance were capitalized as of December 31, 2015, and are amortizing over 77 months.

NOTE 4- NOTES PAYABLE – continued

On February 28, 2013, the Church purchased a 51,000 square foot church facility in Genesee, Colorado, as well as two adjacent office buildings totaling 18,000 square feet for approximately $5,000,000. These facilities serve as the Church's West Campus which opened in February, 2014. The purchase was made with approximately $2,000,000 of cash from operations and $3,000,000 from a bank loan. The $3,000,000 note payable had an interest rate of LIBOR plus 250 basis points and was scheduled to mature on May 28, 2016. Monthly interest payments began March 31, 2013. Monthly principal plus interest payments began June 30, 2013. The Church made additional principal payments during 2013 and as of March 31, 2014, the West Loan was paid in full.

On February 2, 2015, the Church executed a revolving line of credit with BBVA Compass Bank for $2,500,000. No funds have been drawn from the line of credit as of December 31, 2015. The interest rate on the revolving line of credit is 231 basis points over the LIBOR index. $17,154 of loan origination fees related to this line of credit were capitalized as of December 31, 2015, and are amortizing over 84 months.

Interest expense on long-term debt for the years ended December 31, 2015 and 2014 was $614,605 and $638,268, respectively. For the years ended December 31, 2015 and 2014, $209,870 and $182,607, respectively of interest expense was from net settlements on the interest rate swap, see Note 5 – Derivative Contract. Capitalized interest on long-term debt for the years ended December 31, 2015 and 2014 was $0 and $3,806, respectively.

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, 2015 and December 31, 2014, the Church was in compliance with all covenants.

NOTE 5- DERIVATIVE CONTRACT

The Church amended its interest rate swap with BBVA Compass Bank effective September 30, 2015. 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 loss as of December 31, 2015 and December 31, 2014 is $4,242 and $0, respectively. The fair value liability as of December 31, 2015 and December 31, 2014 is $19,793 and $15,551, 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, 2015 and 2014. Retirement expense for the years ended December 31, 2015 and 2014 was $247,209 and $207,775, 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 $3,797,617 and $2,712,053 as of December 31, 2015 and 2014, 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, 2015 and 2014 is below:

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$4,652,644	$4,652,644	$3,388,983	$3,388,983
Receivables	33,731	33,731	9,478	9,478
Financial Liabilities:				
Accounts payable, accrued expenses and property tax payable	358,101	358,101	329,792	329,792
Fair value of interest rate swap	19,793	19,793	15,551	15,551
Notes payable	11,858,165	11,858,165	12,366,090	12,366,090

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.

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

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, 2015

	Fair Value	**Level 1**	**Level 2**
Interest rate swap	$ 19,793	$ -	$ 19,793

December 31, 2014

	Fair Value	**Level 1**	**Level 2**
Interest rate swap	$ 15,551	$ -	$ 15,551

NOTE 10- SUBSEQUENT EVENTS

Date of Management Evaluation
The Church's management has evaluated subsequent events through May 24, 2016, 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, 2015.

Relocation of Offices
Due to growth at the Lafayette location, the Church plans to remodel the current office space at the Lafayette facility into kid's ministry classrooms. In addition, the Church plans to remodel the Lafayette lobby as an overflow area for the auditorium. As of December 31, 2015 and 2014, $10,059 and $7,159 of architectural and consulting expenses were capitalized as part of construction in progress for these projects.

Flatirons School
On May 8, 2016, it was announced that the Church intends to start a Classical Christian school in the fall of 2017. The first stage will have grades K-3, adding at least one grade each year. The school will initially be housed in the Lafayette campus.

Fourth Campus
On May 15, 2016, it was announced that the Church intends to build a fourth campus in the Northern Front Range area. No costs for this project have been incurred.