

FLATIRONS COMMUNITY CHURCH  
FINANCIAL STATEMENTS  
DECEMBER 31, 2010 and 2009

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 statements of financial position of Flatirons Community Church (a not-for-profit organization) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity 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  
May 27, 2011

**FINANCIAL STATEMENTS**

FLATIRONS COMMUNITY CHURCH  
 Statements of Financial Position  
 December 31, 2010 and 2009

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ASSETS

	2010	2009
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 989,895	\$ 2,434,833
Prepaid expenses	71,806	142,866
Total current assets	1,061,701	2,577,699
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	16,823,280	2,469,201
Security deposits	48,675	48,675
Total noncurrent assets	16,871,955	2,517,876
 Total assets	 \$ 17,933,656	 \$ 5,095,575

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 763,003	\$ 57,518
Payroll liabilities	34,850	21,820
Taxes payable	66,812	-
Line of credit	6,712,663	-
Short term capital campaign loan	988,047	-
Short term land loan	880,000	-
Current portion of long-term debt	4,165	3,846
Total current liabilities	9,449,540	83,184
 LONG-TERM LIABILITIES	 196,560	 212,300
 COMMITMENTS AND CONTINGENCIES	 -	 -
 <b>NET ASSETS</b>		
Unrestricted	8,287,556	2,269,846
Temporarily restricted	-	2,530,245
Total net assets	8,287,556	4,800,091
 Total liabilities & net assets	 \$ 17,933,656	 \$ 5,095,575

See accompanying notes to financial statements

FLATIRONS COMMUNITY CHURCH  
 Statements of Activities and Changes in Net Assets  
 For the years ended December 31, 2010 and 2009

	2010	2009
Changes in unrestricted net assets:		
Support and Revenue		
Contributions	\$ 6,216,298	\$ 5,688,071
Interest income	5,279	5,461
Revenue	622,735	457,741
Total support and revenue	6,844,312	6,151,273
Net assets released from restriction	5,201,499	530,392
Total unrestricted support, revenue and net assets released	12,045,811	6,681,665
Expenses:		
General and administrative	406,035	477,725
Fundraising	38,564	79,201
Program services:		
Weekend services	2,132,490	1,942,726
Adult ministries	2,008,953	1,271,347
Children ministries	799,146	740,579
Student ministries	558,473	697,565
Total program services	5,499,062	4,652,217
Total expenses	5,943,661	5,209,143
Increase in unrestricted net assets	6,102,150	1,472,522
Changes in temporarily restricted net assets:		
Contributions	2,671,254	2,345,262
Net assets released from restrictions	(5,201,499)	(530,392)
Increase in temporarily restricted net assets	(2,530,245)	1,814,870
Increase in net assets before special charges	3,571,905	3,287,392
Special charges-write off of building project	(84,440)	(1,430,903)
Increase in net assets	3,487,465	1,856,489
Net assets beginning of year	4,800,091	2,943,602
Net assets end of year	\$ 8,287,556	\$ 4,800,091

See accompanying notes to financial statements

FLATIRONS COMMUNITY CHURCH  
 Statements of Cash Flows  
 For the years ended December 31, 2010 and 2009

	2010	2009
<b>OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,487,465	\$ 1,856,489
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	319,233	321,712
Changes in working capital items:		
Increase in prepaid expenses	71,060	(48,316)
Increase in other assets	-	550
Increase in accounts payable and accrued expenses	718,515	908
Increase in taxes payable	66,812	-
Net cash provided from operating activities	4,663,085	2,131,343
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(14,757,752)	(892,746)
Special charges-write off of building project	84,440	1,430,903
Net cash (used by) provided from investing activities	(14,673,312)	538,157
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short term financing	8,580,710	0
Principal payments on long-term debt	(15,421)	(946,457)
Net cash provided from (used by) investing activities	8,565,289	(946,457)
<b>NET (DECREASE) INCREASE IN CASH</b>	(1,444,938)	1,723,043
<b>CASH AT BEGINNING OF YEAR</b>	2,434,833	711,790
<b>CASH AT END OF YEAR</b>	\$ 989,895	\$ 2,434,833
 <b>Supplemental data:</b>		
Interest paid	\$ 85,840	\$ 27,488

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 nonprofit 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 No. 958-205-45-5, "Presentation of Financial Statements." Under FASB ASC No. 958-205-45-5, the Organization 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. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

Investments

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.

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 \$500 and with a useful life greater than one year are capitalized. Ordinary maintenance and repair expenses are expensed as incurred.

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 as net assets released from restriction.

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

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.

Income Taxes

The Church is exempt from income taxes under Internal Revenue Service Code Section 501 (c)(3).

**NOTE 2- CASH AND CASH EQUIVALENTS**

The Church has cash and money market funds which are considered cash equivalents as follows:

	2010	2009
Checking	\$ 989,895	\$ 229,439
Savings	-	2,205,394
Total cash and cash equivalents	\$ 989,895	\$ 2,434,833

**NOTE 3- PROPERTY AND EQUIPMENT**

The major components of property and equipment are:

	2010	2009
Land	\$ 2,271,126	\$ 1,582,990
Leasehold improvements	1,481,907	1,464,432
Furniture and equipment	2,675,351	1,212,983
Parsonage	270,636	266,720
Construction in progress	12,501,417	-
	19,200,437	4,527,125
Accumulated depreciation	(2,377,157)	(2,057,924)
Property and equipment, net	\$ 16,823,280	\$ 2,469,201

**NOTE 4- SHORT-TERM LOANS**

The Church obtained three short term loans to finance the construction of its new facilities

Construction line of credit – Compass Bank	\$ 6,712,663
Capital campaign loan	988,047
Land loan	880,000
Total	<u>\$ 8,580,710</u>

The construction line of credit has a limit of \$15,000,000 and an interest rate of 4.5%. Interest is due monthly. The maturity date of the line of credit is July 27, 2011, which was extended to January 27, 2012, with a \$5,000 extension fee. Upon maturity the line of credit will be converted to long-term permanent financing. The line of credit is collateralized by a Deed of Trust.

The capital campaign loan has a commitment amount of \$960,000 and an interest rate of 6.5%. Principal payments of \$16,000 are due monthly, plus accrued interest, beginning September 1, 2010. The loan matures on July 27, 2011 and is collateralized by a Deed of Trust. The Church is in discussions with the bank to extend the maturity date to July 27, 2012.

The land loan has a commitment amount of \$2,240,000 and an interest rate of 6.0%. Interest payments are due monthly beginning September 1, 2010. Principal payments are due weekly beginning August 12, 2010 and continuing each Thursday thereafter. The principal payment amount is equal to the capital campaign contributions for the week. In the event the weekly payments do not equal at least \$560,000 for each reporting period ending on October 15, 2010, January 15, 2011 and April 14, 2011, the Church shall pay the difference to the lender. The loan matures on July 27, 2011 and is collateralized by a Deed of Trust. The land loan was paid in full in April of 2011.

The Construction Loan Agreement and the Credit Agreement contain various restrictive covenants such as Fixed Charge Coverage ratios, audit, financial reporting and insurance requirements. As of December 31, 2010, the Church was in compliance with all covenants.

Interest on short-term debt in the amount of \$70,331 was capitalized during the year ended December 31, 2010.

**NOTE 5- 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 6- RETIREMENT EXPENSE**

The Church offers full-time staff employees the opportunity to participate in a 403(b) contributory retirement plan. The Church matches employee contributions up to 5% of their regular salary. Retirement expense for the years ended December 31, 2010 and 2009, was \$50,992 and \$45,018, respectively.

Flatirons Community Church  
Notes to Financial Statements  
December 31, 2010 and 2009

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**NOTE 7- NOTES PAYABLE**

Long-term debt consists of the following:

	2010	2009
Note payable with interest at 8%, monthly payments of \$1,746; maturity date of June 22, 2012, collateralized by Deed of Trust	\$ 212,130	\$ 216,146
Less current portion	(4,165)	(3,846)
	\$ 207,965	\$ 212,300

Maturities of long-term debt are as follows:

2011	\$ 4,165
2012	207,965
	\$ 212,130

Interest expense on long term debt for the years ended December 31, 2010 and 2009 was \$15,509 and 27,489, respectively.

**NOTE 8- RISKS AND UNCERTAINTIES**

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 \$1,224,219 at December 31, 2010.

**NOTE 9- COMMITMENTS AND CONTINGENCIES**

The Church leases facilities and office space under multiple 5-year leases which expire in May of 2011. The monthly lease payments are \$48,068. Rental expense for the years ended December 31, 2010 and 2009, was \$712,133 and \$656,048, respectively. The leases also require the Church to pay common area maintenance and property taxes. In 2010 and 2009, these expenses were \$261,222 and \$278,767, respectively.

The Church also leased a copier under a 5-year lease expiring May of 2009. The monthly lease payments were \$3,219. Rental expense for the year ended December 31, 2009, was \$9,657.

Annual facilities and office space lease payments are as follows:

2011	\$ 286,256
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**NOTE 10- FINANCIAL INSTRUMENTS**

The Church's financial instruments consist of cash, prepaid expenses, accounts payable and accrued liabilities. It is management's opinion that the Church is not exposed to significant interest rate or credit risk arising from these instruments. Unless otherwise noted, the fair values of these financial instruments are the market values of these financial instruments, and approximate their carrying values.

**NOTE 11- SPECIAL CHARGES**

In 2009, the Church abandoned its plans to build its new church facility on the land it had purchased in Lafayette, Colorado. The Church had planned to build an 117,000 sq. ft. facility at an estimated cost of \$22.5 million. Due to this abandonment, the Church has written off \$84,440 in 2010 and \$1,430,903 in 2009 in architectural and related expenses as a special charge to its Statements of Activities and Changes in Net Assets. The Church will sell the land it originally purchased as described above.

**NOTE 12- SUBSEQUENT EVENTS**

Date of Management Evaluation

The Church's management has evaluated subsequent events through May 27, 2011, 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, 2010.

Building Project

On April 16, 2011, the Church held its first worship services at its newly completed location. The Church's new facility is approximately 160,000 square feet and includes a 4,000 seat auditorium.

Also in April of 2011, the Church paid off its \$2,240,000 short term capital campaign loan that was due in June of 2011.

Finally, during 2010, the Church purchased 4.66 acres east of the new facility for overflow parking. As of the date of this report, the Church has exchanged this property for approximately four acres north of its current facilities. This land will provide additional Church parking and is a more favorable location as it provides better pedestrian access to the Church.