FLATIRONS COMMUNITY CHURCH
FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

MIDDLEMIST CROUCH
& COMPANY, CPA's PC

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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, 2016 and 2015, 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, 2016 and 2015, 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
May 26, 2017

FLATIRONS COMMUNITY CHURCH

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FINANCIAL STATEMENTS

FLATIRONS COMMUNITY CHURCH
Statements of Financial Position
December 31, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 6,104,280	$ 4,652,644
Prepaid expenses	173,804	319,843
Receivables	15,187	33,731
Total current assets	6,293,271	5,006,218
NONCURRENT ASSETS		
Property and equipment, net	36,178,581	32,401,020
Total noncurrent assets	36,178,581	32,401,020
OTHER ASSETS		
Loan origination fees, net	63,681	75,298
Security deposits	2,495	86,764
Note Receivable - Long Term	60,000	-
Investment in Other Companies	400,000	-
Total other assets	526,176	162,062
Total assets	$ 42,998,028	$ 37,569,300

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 632,914	$ 245,359
Property taxes payable	107,734	132,535
Current portion of long-term debt	590,050	560,000
Deferred revenue	113,622	78,514
Total current liabilities	1,444,320	1,016,408
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	10,707,843	11,298,165
Total long-term liabilities	10,707,843	11,298,165
Total liabilities	$ 12,152,164	$ 12,314,573
NET ASSETS		
Unrestricted	$ 30,842,924	$ 25,250,775
Temporarily restricted	2,941	3,952
Total net assets	$ 30,845,865	$ 25,254,727
Total liabilities and net assets	$ 42,998,028	$ 37,569,300

See accompanying notes to financial statements

FLATIRONS COMMUNITY CHURCH
Statements of Activities and Changes in Net Assets
For the years ended December 31, 2016 and 2015

	2016	2015
Changes in unrestricted net assets:		
Support and Revenue:		
Contributions	$ 20,167,424	$ 17,290,618
Revenue	581,894	565,708
Total support and revenue	20,749,318	17,856,326
Net assets released from restrictions	829,115	788,716
Total unrestricted support, revenue and net assets released	21,578,433	18,645,042
Expenses:		
General and administrative	882,338	805,840
Program services:		
Weekend services	6,161,691	5,389,347
Missions	2,942,648	2,481,349
Children ministries	2,684,090	2,446,507
Adult ministries	2,286,196	1,909,824
Student ministries	826,376	785,449
Flatirons Academy	89,519	-
Total program services	14,990,520	13,012,476
Total expenses	15,872,858	13,818,316
Net retail loss	113,426	113,170
Increase in unrestricted net assets	5,592,149	4,713,556
Changes in temporarily restricted net assets:		
Contributions	828,104	761,626
Net assets released from restrictions	(829,115)	(788,716)
Increase in temporarily restricted net assets	(1,011)	(27,090)
Increase in net assets	5,591,138	4,686,466
Net assets beginning of year	25,254,727	20,568,261
Net assets end of year	$ 30,845,865	$ 25,254,727

See accompanying notes to financial statements

FLATIRONS COMMUNITY CHURCH
Statements of Cash Flows
For the years ended December 31, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES:		
Change in net assets	$ 5,591,138	$ 4,686,466
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,005,997	1,901,819
Loss on disposal of fixed assets	4,033	11,460
Changes in working capital items:		
Decrease (increase) in prepaid expenses	146,039	(151,426)
Decrease (increase) in receivables	18,544	(24,253)
(Increase) in other assets	(364,114)	(162,062)
Increase (decrease) in accounts payable and accrued expenses	415,354	(44,755)
Decrease (increase) in property taxes payable	(24,801)	77,306
Increase in deferred revenue	7,308	5,955
Net cash provided from operating activities	7,799,498	6,300,510
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,787,590)	(4,528,924)
Net cash used by investing activities	(5,787,590)	(4,528,924)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(560,272)	(507,925)
Net cash used by financing activities	(560,272)	(507,925)
NET INCREASE IN CASH	1,451,636	1,263,661
CASH AT BEGINNING OF YEAR	4,652,644	3,388,983
CASH AT END OF YEAR	$ 6,104,280	$ 4,652,644
Supplemental data:		
Interest paid	$ 574,875	$ 611,436

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, 2016 and 2015 totaled $160,900 and $73,304, 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. In 2016, the Church changed the policy for capitalizable value to $2,500 from $1,000. 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, 2016 and 2015.

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, 2016, deferred revenue primarily consists of student trip registrations, mission trip income and school tuition deposits. As of December 31, 2015, deferred revenue primarily consisted of student trip registrations and 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, 2016 and 2015, 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 is not exempt from property taxes on the vacant land held at 120th Street in Lafayette, Colorado. For the year ended December 31, 2016, the Church has applied for exemption from a portion of property taxes for the property at 400 W. South Boulder Rd. in Lafayette, Colorado, which houses retail establishments, however, the application is still pending. See Note 3 – Property and Equipment.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Advertising

The Church has $1,620 and $500, respectively, in advertising costs for the years ended December 31, 2016 and 2015.

NOTE 2- RECEIVABLES

As of December 31, 2016 and 2015, the Church's current receivables consist of miscellaneous advances.

As of December 31, 2016, the Church's long term receivables consist of a $60,000 note receivable from a tenant due in full on September 15, 2019. The note bears no interest.

NOTE 3- PROPERTY AND EQUIPMENT

The major components of property and equipment are:

	2016	2015
Land	$9,526,161	$9,101,252
Building & Improvements	25,015,118	23,921,399
Furniture and equipment	5,806,825	5,003,003
Office Buildings	3,766,772	918,080
Retail Space	719,680	604,101
Construction in progress	623,780	205,208
Parsonage	270,636	270,636
	45,728,973	40,023,679
Accumulated depreciation	(9,550,392)	(7,622,659)
Property and equipment, net	$36,178,581	$32,401,020

For the years ended December 31, 2016 and 2015, $82,297 and $75,447, 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 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 District"). The purchase price was broken out as follows: $1,799,061 of land, $391,398 of office space, and $561,734 of retail space. The Church made this purchase for the purpose of creating a space for the new Church offices, as well as for additional parking. The Church offices relocated to 15,000 square feet of this location on October 17, 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. As of December 31, 2016, $2,838,312 of office remodel costs were capitalized and $385,777 of retail tenant improvement and remodel costs were capitalized as part of construction in progress.

Gross rents collected from both The District and the Church's Genesse property in 2016 were $232,476, total expenses were $348,302 for a net loss of $113,426.

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 Church invested $200,000 in Fate Lafayette, LLC for a 20% membership interest in lieu of rent. 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 both of these investments using the cost method. As of December 31, 2016, build-out of the spaces had not been completed and the tenants had not taken occupancy.

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. The lease with Paramount expired on December 4, 2016.

On October 24, 2016 the Church purchased a 18,232 square feet church facility, located at 2700 S. Downing St, in Denver, Colorado. These facilities serve as the Church's third campus ("Denver Campus") which held its first services at this location on December 11, 2016. The purchase price was approximately $1,250,000. The purchase price was broken out as follows: $425,000 of land, $825,000 of buildings and improvements.

On May 8, 2016, it was announced that the Church intends to start a Classical Christian school in the fall of 2017, "Flatirons Academy". The first stage will have grades K-3, adding at least one grade each year. The school will initially be housed in the former offices of the Lafayette campus. As of December 31, 2016, $93,746 of school remodel costs were capitalized to construction in progress. Total expenses of $89,519 consisted primarily of personnel and information technology expenditures. The Church has entered into a contract to purchase property located in Broomfield for the future school and church campus. As of December 31, 2016, $75,000 of earnest money and $44,829 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:

	2016	2015
Lafayette building & construction note payable, principal & interest payments paid monthly, maturity September 30, 2022. Secured by Deed of Trust. See below for interest terms.	$11,297,893	11,858,165
	11,297,893	11,858,165
Less current portion	(590,050)	(560,000)
	$10,707,843	$11,298,165

Maturities of long-term debt are as follows:

2017	$590,050
2018	615,576
2019	649,797
2020	681,334
2021	717,226
2022	8,043,910
	$11,297,893

NOTE 4- NOTES PAYABLE – continued

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, 2016 and 2015 is $11,297,893 and $11,858,165, 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 84 months. The balance of these fees at December 31, 2016 is $51,428.

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, 2016 and 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 77 months. The balance of these fees at December 31, 2016 is $12,253. The line of credit was closed on February 1, 2017.

Interest expense on long-term debt for the years ended December 31, 2016 and 2015 was $575,298 and $614,605, respectively. For the years ended December 31, 2016 and 2015, $205,378 and $209,870, 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, 2016 and December 31, 2015, 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 gain as of December 31, 2016 is $2,847. The unrealized loss as of December 31, 2015 was $4,242. The fair value liability as of December 31, 2016 and December 31, 2015 is $16,947 and $19,793, 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, 2016 and 2015. Retirement expense for the years ended December 31, 2016 and 2015 was $273,145 and $247,209, 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 $4,951,973 and $3,797,617 as of December 31, 2016 and 2015, 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, 2016 and 2015 is below:

	December 31, 2016		December 31, 2015	
Financial Assets:	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$6,104,280	$6,104,280	$4,652,644	$4,652,644
Receivables	15,187	15,187	33,731	33,731
Financial Liabilities:				
Accounts payable, accrued expenses and property tax payable	723,701	723,701	358,101	358,101
Fair value of interest rate swap	16,947	16,947	19,793	19,793
Notes payable	11,297,893	11,297,893	11,858,165	11,858,165

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.

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

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, 2016

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

December 31, 2015

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

NOTE 10- SUBSEQUENT EVENTS

Date of Management Evaluation
The Church's management has evaluated subsequent events through May 26, 2017, 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, 2016.

Sale of Property
As of the date of this report, the Church is in negotiations with the City of Lafayette to sell the vacant land at 120th and Emma, in Lafayette, Colorado, for approximately $3,500,000.