

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Financial Statements
With Independent Auditors' Report

August 31, 2016 and 2015

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cornerstone Fellowship of Livermore California
Livermore, California

We have audited the accompanying financial statements of Cornerstone Fellowship of Livermore California (the Church), which comprise the statements of financial position as of August 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Church'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 Church's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Cornerstone Fellowship of Livermore California
Livermore, California

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cornerstone Fellowship of Livermore California as of August 31, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Pleasanton, California
December 9, 2016

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Statements of Financial Position

	August 31,	
	2016	2015
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 2,002,163	\$ 2,404,184
Restricted cash	548,731	-
Prepaid loan costs	132,102	69,589
Prepaid expenses and other assets	188,407	257,166
Total current assets	2,871,403	2,730,939
Property and equipment-net	22,254,808	19,918,888
Total Assets	\$ 25,126,211	\$ 22,649,827
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 337,744	\$ 78,518
Accrued expenses	632,151	576,423
Deferred revenue	5,819	32,317
Long-term debt-current portion	394,295	350,108
Total current liabilities	1,370,009	1,037,366
Interest rate swap	1,228,553	-
Long-term debt-net of current portion	13,731,002	14,125,297
Total liabilities	16,329,564	15,162,663
Net Assets:		
Unrestricted	8,718,177	7,309,691
Temporarily restricted	78,470	177,473
Total net assets	8,796,647	7,487,164
Total Liabilities and Net Assets	\$ 25,126,211	\$ 22,649,827

See notes to financial statements

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Statements of Activities

	Year Ended August 31,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING ACTIVITIES:						
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Tithes and offerings	\$ 12,622,580	\$ 415,525	\$ 13,038,105	\$ 12,531,434	\$ 583,875	\$ 13,115,309
Noncash contributions	1,356,650	-	1,356,650	-	-	-
Registration fees	493,234	-	493,234	558,785	-	558,785
Parchments sales, net of cost of goods sold of \$92,763 and \$88,399, respectively	72,219	-	72,219	73,691	-	73,691
Contributed services	90,229	-	90,229	100,000	-	100,000
Other program income	9,623	-	9,623	28,136	-	28,136
Loss on sale of real property	(213,911)	-	(213,911)	-	-	-
Other income	42,721	-	42,721	12,273	-	12,273
Net assets released from restrictions:						
Satisfaction of program restrictions	514,528	(514,528)	-	756,152	(756,152)	-
Total Support, Revenue, and Reclassifications	14,987,873	(99,003)	14,888,870	14,060,471	(172,277)	13,888,194
EXPENSES:						
Salary and benefits	6,656,294	-	6,656,294	5,812,025	-	5,812,025
Ministry expenses	4,180,080	-	4,180,080	3,371,723	-	3,371,723
General and administrative	278,200	-	278,200	294,294	-	294,294
Depreciation and amortization	1,485,771	-	1,485,771	1,461,497	-	1,461,497
Interest	591,845	-	591,845	691,943	-	691,943
Facility expenses	1,358,644	-	1,358,644	1,198,929	-	1,198,929
Total Expenses	14,550,834	-	14,550,834	12,830,411	-	12,830,411
Change in Operating Net Assets	437,039	(99,003)	338,036	1,230,060	(172,277)	1,057,783

(continued)

See notes to financial statements

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Statements of Activities

(continued)

	Year Ended August 31,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
NONOPERATING ACTIVITIES:						
Contribution of assets from acquisition	2,200,000	-	2,200,000	-	-	-
Unrealized loss on interest rate swap	(1,228,553)	-	(1,228,553)	-	-	-
	971,447	-	971,447	-	-	-
Change in Net Assets	1,408,486	(99,003)	1,309,483	1,230,060	(172,277)	1,057,783
Net Assets, Beginning of Year	7,309,691	177,473	7,487,164	6,079,631	349,750	6,429,381
Net Assets, End of Year	\$ 8,718,177	\$ 78,470	\$ 8,796,647	\$ 7,309,691	\$ 177,473	\$ 7,487,164

See notes to financial statements

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Statements of Cash Flows

	Year ended August 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,309,483	\$ 1,057,783
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,485,771	1,461,497
Contribution of real property	(3,550,000)	-
Loss on sale of real property	213,911	-
Unrealized loss on interest rate swap	1,228,553	-
Prepaid loan costs	(69,764)	69,589
Contributed services	(90,229)	(100,000)
Net change in:		
Prepaid expenses and other assets	68,759	(205,147)
Accounts payable	259,226	(110,226)
Accrued expenses	55,728	(80,654)
Deferred revenue	(26,498)	4,547
Net Cash Provided by Operating Activities	884,940	2,097,389
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of real property	1,126,571	-
Purchases of property and equipment	(1,514,693)	(1,024,006)
Net Cash Used in Investing Activities	(388,122)	(1,024,006)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(350,108)	(218,666)
Net Cash Used in Financing Activities	(350,108)	(218,666)
Change in Cash and Cash Equivalents	146,710	854,717
Change in Restricted Cash	(548,731)	-
Cash and Cash Equivalents, Beginning of Year	2,404,184	1,549,467
Cash and Cash Equivalents, End of Year	\$ 2,002,163	\$ 2,404,184
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the year for interest (no interest capitalized)	\$ 544,326	\$ 755,703
Refinance of long-term debt	\$ -	\$ 14,350,000

See notes to financial statements

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

1. NATURE OF ORGANIZATION:

Cornerstone Fellowship of Livermore California (the Church) was organized on May 23, 1993, in California as a not-for-profit religious corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). As such, it is also exempt from state income taxes, and contributions by the public are deductible for income tax purposes. The Church has been classified as a publicly supported organization, which is not a private foundation, under Section 509(a) of the Code.

The Church is a nonprofit organization established for the purpose of providing religious services. The Church's main campus is located in Livermore, California, and it has additional campuses in Brentwood, California, Walnut Creek, California, and Hayward, California. During the year, the Church acquired LifeGate Church (LifeGate) in Walnut Creek. The assets received were reported at fair value in the financial statements and the financial transactions of LifeGate have been included in the financial statements since the date of acquisition. The Church's primary source of revenue consists of tax-deductible contributions from members and regular attendees. The Church also operates a small bookstore.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Church have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of the significant accounting policies is described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

For statements of financial position and cash flow purposes, cash and cash equivalents include cash on hand, cash on deposit, and money market accounts. These accounts may, at times, exceed federally insured limits. The Church has not experienced any losses in such accounts.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets consist primarily of inventory, deposits, and prepaid insurance. Inventory for the bookstore is valued at lower of market value or cost, measured using the average cost method. Inventory consists of books, Bibles, music cassettes and CDs, instructional material, and other items.

PROPERTY AND EQUIPMENT

Expenditures for property and equipment are capitalized at cost for expenditures over \$2,500. Donated items are recorded at the fair market value on the date of the gift. Depreciation is computed on the straight line method over the estimated useful lives of the assets. Useful lives range from 5-40 years.

DEFERRED REVENUE

Deferred revenue results primarily from deposits and advanced program fees received for future events.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS

The financial statements report amounts by class of net assets as follows:

Unrestricted net assets are those currently available at the discretion of the board of directors for use in the Church's operations and those resources invested in land, buildings, and equipment.

Temporarily restricted net assets are those that are stipulated by donors for specific operating purposes or for capital projects.

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to legal restrictions.

SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash or unconditional promises-to-give have been received, or ownership of donated assets is transferred to the Church. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met. The Church records contributions as temporarily restricted if they are received with donor stipulations that limit their use through purpose and/or time restrictions. Net assets are reclassified from temporarily restricted to unrestricted net assets and reported in the statements of activities as net assets released from restrictions when donor restrictions expire. Donor restrictions expire when the purpose restriction is fulfilled or the time restrictions are met. For contributions restricted by donors for the acquisition of property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is purchased or expenses are incurred to construct the asset.

Program income is recorded when earned and consists of fees for camps, retreats, and other ministry related activities. Other income is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

CONTRIBUTED SERVICES

Donated services are recognized as contributions if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. Many volunteers have contributed significant amounts of their time to activities of the Church; however, the value of these services is not reflected in the financial statements because they do not meet the necessary accounting criteria. During the years ended August 31, 2016 and 2015, the Church received approximately \$90,000 and \$100,000, respectively, of donated services on the construction of the Brentwood campus.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program services and supporting activities have been summarized on a functional basis in note 8. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program services and supporting activities. Currently, there are no joint costs that have been allocated among program, general and administrative, and fundraising functions.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ADVERTISING

Advertising costs are used to promote the Church's programs and are expensed as incurred. Advertising costs for each of the years ended August 31, 2016 and 2015, were immaterial to the financial statements.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of August 31, 2016 and 2015, the Church had no uncertain tax positions that qualify for recognition or disclosure in the financial statements. The Church files federal and state tax returns on unrelated business income. The Church is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

RECLASSIFICATIONS

Certain information has been reclassified to conform to the current year presentation. There was no change in net assets as a result of the reclassifications.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of:

	August 31,	
	2016	2015
Land	\$ 12,651,028	\$ 11,251,028
Buildings	18,148,703	17,154,952
Furniture and equipment	5,857,876	5,734,260
Vehicles	205,743	182,732
Land, buildings, and equipment - at cost	36,863,350	34,322,972
Less accumulated depreciation	(16,132,324)	(14,666,120)
	20,731,026	19,656,852
Construction in process	1,523,782	262,036
	22,254,808	19,918,888
Less prepaid loan costs	(132,102)	(69,589)
Less debt secured by land, buildings, and equipment	(14,125,297)	(14,475,405)
Net investment in land, buildings, and equipment	\$ 7,997,409	\$ 5,373,894

CAPITAL LEASES

For each of the years ended August 31, 2016 and 2015, furniture and equipment includes approximately \$220,000 of capitalized leases at cost. Accumulated depreciation includes capital lease accumulated amortization totaling approximately \$147,000 and \$104,000, for the years ended August 31, 2016 and 2015, respectively.

BRENTWOOD CAMPUS CONSTRUCTION

During the year ended August 31, 2016, the Church began construction on a new buildings for the Brentwood campus. The project is estimated at \$8.4 million with \$7.5 million being paid through debt financing. The project has incurred approximately \$1.5 million with an expected \$6.9 million remaining in construction contracts. The Church maintains a restricted cash account as collateral in addition to the Church's real property.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

4. NOTES PAYABLE:

Notes payable consist of:

	August 31,	
	2016	2015
Note payable to a financial institution, collateralized by all of the Church's assets, including real property, approximate monthly principal payment starting at \$28,000 and increasing to \$40,000 over the 10 year life of the loan. Interest rate is one-month Libor plus 1.75% fixed at 4.06% with an interest rate swap agreement. A balloon payment is due on September 1, 2025, in the amount of approximately \$10,341,000.	\$ 14,045,126	\$ 14,350,000
Capital lease obligations, collateralized by equipment, bearing interest from 7.25% to 10.88%, total monthly payments of approximately \$4,500, maturing in various years through 2018.	80,171	125,405
Less current portion	(394,295)	(350,108)
	\$ 13,731,002	\$ 14,125,297

Annual maturities are as follows:

Year Ending December 31,	
2017	\$ 394,295
2018	387,844
2019	383,888
2020	391,660
2021	409,448
Thereafter	12,158,162
	\$ 14,125,297

CONSTRUCTION LINE OF CREDIT

The Church has a construction line of credit totaling \$7.5 million. There were no borrowings, repayments, or balances for the years ended August 31, 2016 and 2015. Subsequent to year-end, the Church has drawn approximately \$1.1 million on the line of credit.

LOAN COVENANTS

In conjunction with its bank loan, the Church is required to comply with certain reporting covenants. The Church was in compliance with all of the covenants as of August 31, 2016 and 2015.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

5. INTEREST RATE SWAP:

On August 27, 2015, the Church entered into an interest rate swap to manage the economic effect of the variable interest obligation associated with the note payable described in note 4 so that the interest payable effectively becomes a fixed rate, thereby reducing the impact of future interest rate changes on future interest expense. The agreement is accounted for as a fair value hedge. Contractual terms are as follows:

	August 31,	
	2016	2015
Fixed rate	4.06%	4.06%
Variable rate - LIBOR plus 1.75%	2.00%	1.75%
Remaining term of contract in years	9	10
Original note payable balance covered by agreement (notional amount)	\$ 14,350,000	\$ 14,350,000
Notional amount outstanding at August 31	\$ 14,045,126	\$ 14,350,000

The effect of the derivative instrument on the financial statements were as follows at August 31, 2016 and 2015, and for the years then ended:

Fair Value of Derivative Instruments as reported in the Statements of Financial Position

	<u>Statement Location</u>	Fair Value	
		2016	2015
Interest rate swap	Liabilities	\$ 1,228,553	\$ -

Effects of Derivative Instruments on Income as reported in the Statements of Activities

	<u>Statement Location</u>	2016	2015
		Unrealized loss on interest rate swap	Nonoperating activities

Valuation of Interest Rate Swap

The interest rate swap is reported at fair value based on significant other observable inputs, which is Level 2 of the Fair Value hierarchy. The fair value of the interest rate swap agreement is the estimated amount that the financial institution would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

6. NET ASSETS:

Net assets consist of the following:

	August 31,	
	2016	2015
Unrestricted net asset are available for:		
Undesignated	\$ 720,768	\$ 1,793,407
Net investment in property and equipment	7,997,409	5,373,894
Board designated:		
Capital projects	-	106,656
Other	-	35,734
	<u>8,718,177</u>	<u>7,309,691</u>
Temporarily restricted net asset are available for:		
Missions and outreach	77,070	93,132
Scholarships for church programs	-	50,590
Benevolence	-	33,651
Other	1,400	100
	<u>78,470</u>	<u>177,473</u>
	<u>\$ 8,796,647</u>	<u>\$ 7,487,164</u>

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

7. LEASES:

The Church holds operating leases for satellite campuses and parking facilities, which leases expire at various times through the year ending August 31, 2021. For the years ended August 31, 2016 and 2015, the rent and lease expense was approximately \$510,000 and \$386,000, respectively.

Minimum lease payments under the leases are as follows:

<u>Year Ending August 31,</u>	
2017	\$ 189,516
2018	190,404
2019	93,356
2020	46,262
2021	12,099
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	\$ 531,637
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8. FUNCTIONAL EXPENSE ALLOCATION:

The following is an allocation of the Church's expenses by function:

	<u>August 31,</u>	
	<u>2016</u>	<u>2015</u>
Program services	\$ 10,305,053	\$ 8,786,904
Supporting activities:		
General and administrative	4,074,611	3,841,928
Fundraising	171,170	201,579
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	\$ 14,550,834	\$ 12,830,411
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9. PENSION EXPENSE:

The Church provides retirement benefits to its eligible full-time employees through a salary deferral plan under the Code section 403(b), with matching employer contributions. The Church also contributes to a retirement account established for the Senior Pastor. The expenses for the years ended August 31, 2016 and 2015, totaled approximately \$183,000 and \$189,000, respectively.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2016 and 2015

10. RELATED PARTY TRANSACTION:

During the year ending August 31, 2015, the Church contracted with a company to provide construction services to the Brentwood campus. The owner of the construction company is a board member of the Church. The Church paid approximately \$980,000 and \$36,000 for capital improvements for the years ended August 31, 2016 and 2015, respectively. The company provided approximately \$90,000 and \$100,000 in donated services for capital improvements for the years ended August 31, 2016 and 2015, respectively.

11. SUBSEQUENT EVENTS:

Draws on the construction line of credit are disclosed in Note 4.

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.