

**CHRIST THE ROCK
COMMUNITY CHURCH, INC.**

FINANCIAL STATEMENTS

Year Ended December 31, 2017

CONTENTS

	<u>Page</u>
INDEPENDENT ACCOUNTANTS' REVIEW REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 13

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Christ the Rock Community Church, Inc.
Menasha, Wisconsin

We have reviewed the accompanying financial statements of Christ the Rock Community Church, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously reviewed Christ the Rock Community Church, Inc.'s 2016 financial statements and in our conclusion dated April 27, 2017, stated that based on our review, we were not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 31, 2016, for it to be consistent with the reviewed financial statements from which it has been derived.

A handwritten signature in black ink that reads "Schenck SC". The signature is written in a cursive, slightly slanted style.

Certified Public Accountants

Appleton, Wisconsin
April 25, 2018

CHRIST THE ROCK COMMUNITY CHURCH, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

With Summarized Financial Information as of December 31, 2016

See Independent Accountants' Review Report

ASSETS	<u>2017</u>	<u>2016</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 1,545,701	\$ 1,519,601
Scrip inventory	20,662	15,667
Other current assets	<u>9,460</u>	<u>-</u>
Total current assets	<u>1,575,823</u>	<u>1,535,268</u>
<u>Property and equipment</u>		
Land and improvements	1,427,187	1,442,146
Building and improvements	12,582,114	8,435,041
Equipment	963,184	864,504
Furniture and fixtures	329,750	331,138
Construction in progress	<u>-</u>	<u>4,138,907</u>
	15,302,235	15,211,736
Less accumulated depreciation	<u>6,145,398</u>	<u>5,743,172</u>
Net property and equipment	<u>9,156,837</u>	<u>9,468,564</u>
Beneficial interest in assets held by Community Foundation	<u>31,754</u>	<u>27,426</u>
Total assets	<u>\$ 10,764,414</u>	<u>\$ 11,031,258</u>
LIABILITIES AND NET ASSETS		
<u>Current liabilities</u>		
Current maturities of long-term debt	\$ 186,968	\$ 761,244
Current portion of capital lease obligation	<u>5,662</u>	<u>5,481</u>
Total current liabilities	192,630	766,725
Construction payable	-	340,105
Long-term debt less current maturities	4,646,470	4,493,869
Capital lease obligation less current portion	<u>16,029</u>	<u>21,691</u>
Total liabilities	<u>4,855,129</u>	<u>5,622,390</u>
<u>Net assets</u>		
Unrestricted	5,870,958	5,378,524
Temporarily restricted	<u>38,327</u>	<u>30,344</u>
Total net assets	<u>5,909,285</u>	<u>5,408,868</u>
Total liabilities and net assets	<u>\$ 10,764,414</u>	<u>\$ 11,031,258</u>

See notes to financial statements.

CHRIST THE ROCK COMMUNITY CHURCH, INC.

STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

With Summarized Financial Information for the Year Ended December 31, 2016
See Independent Accountants' Review Report

	2017			2016
	Unrestricted	Temporarily Restricted	Total	
<u>Contributions and other revenues</u>				
Contributions:				
Menasha	\$ 3,787,947	\$ 28,609	\$ 3,816,556	\$ 3,776,383
Adult ministries	23,474	-	23,474	18,083
Youth ministries	2,962	-	2,962	5,922
Missions	145,027	6,417	151,444	211,805
Oshkosh	-	-	-	83,543
Fond du Lac	96,960	-	96,960	69,333
Scrip rebates	<u>17,941</u>	<u>-</u>	<u>17,941</u>	<u>6,706</u>
Total contributions	4,074,311	35,026	4,109,337	4,171,775
Other revenues:				
Adult ministries	110,210	-	110,210	72,528
Youth ministries	21,916	-	21,916	18,433
Missions	32,004	-	32,004	30,881
Interest and dividends	3,130	-	3,130	4,392
Return on beneficial interest in assets held by Community Foundation	4,328	-	4,328	1,616
Life insurance proceeds	500,000	-	500,000	-
Other	10,693	-	10,693	4,371
Net assets released from restriction	<u>27,043</u>	<u>(27,043)</u>	<u>-</u>	<u>-</u>
Total contributions and other revenues	<u>4,783,635</u>	<u>7,983</u>	<u>4,791,618</u>	<u>4,303,996</u>
<u>Expenses</u>				
Administration and building	1,046,381	-	1,046,381	1,010,391
Adult ministries	1,501,767	-	1,501,767	1,362,714
Youth ministries	456,094	-	456,094	385,904
Missions	705,874	-	705,874	736,293
Depreciation	462,260	-	462,260	355,915
Oshkosh	-	-	-	92,508
Fond du Lac	<u>118,825</u>	<u>-</u>	<u>118,825</u>	<u>135,822</u>
Total expenses	<u>4,291,201</u>	<u>-</u>	<u>4,291,201</u>	<u>4,079,547</u>
Change in net assets	492,434	7,983	500,417	224,449
<u>Net assets</u>				
Beginning of year	<u>5,378,524</u>	<u>30,344</u>	<u>5,408,868</u>	<u>5,184,419</u>
End of year	<u>\$ 5,870,958</u>	<u>\$ 38,327</u>	<u>\$ 5,909,285</u>	<u>\$ 5,408,868</u>

See notes to financial statements.

CHRIST THE ROCK COMMUNITY CHURCH, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

With Summarized Financial Information for the Year Ended December 31, 2016

See Independent Accountants' Review Report

	<u>2017</u>	<u>2016</u>
<u>Operating activities</u>		
Change in net assets	\$ 500,417	\$ 224,449
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Return on beneficial interest in assets held by Community Foundation	(4,328)	(1,616)
Depreciation	462,260	355,915
Non-cash grant of Oshkosh property and equipment	25,806	-
Non-cash contributions	(9,460)	-
Decrease (increase) in scrip inventory	(4,995)	12,295
Decrease in accounts payable	<u>-</u>	<u>(1,918)</u>
Net cash provided by operating activities	<u>969,700</u>	<u>589,125</u>
<u>Investing activities</u>		
Purchase of property and equipment	<u>(516,444)</u>	<u>(3,911,245)</u>
<u>Financing activities</u>		
Proceeds from long-term debt	340,105	3,865,170
Payments on long-term debt	(761,780)	(682)
Repayment of capital lease obligation	<u>(5,481)</u>	<u>(1,866)</u>
Net cash provided by (used for) financing activities	<u>(427,156)</u>	<u>3,862,622</u>
<u>Cash and cash equivalents</u>		
Net increase	26,100	540,502
Beginning of year	<u>1,519,601</u>	<u>979,099</u>
End of year	<u>\$ 1,545,701</u>	<u>\$ 1,519,601</u>
<u>Supplemental disclosures of cash flow information</u>		
Cash paid for interest (net of capitalized interest of \$11,735 and \$40,309 in 2017 and 2016, respectively)	\$ 150,756	\$ 43,538
<u>Non-cash investing and financing activities</u>		
Property and equipment purchases in construction payable	\$ -	\$ 340,105
Property and equipment acquired through a capital lease	-	29,038

See notes to financial statements.

CHRIST THE ROCK COMMUNITY CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

See Independent Accountants' Review Report

Note 1 - Nature of activities and significant accounting policies

A. Nature of activities

Christ the Rock Community Church, Inc. (the Church), located in Menasha and Fond du Lac Wisconsin, is a not-for-profit religious organization. Its primary source of revenue is contributions from church attendees. In 2017 the former Oshkosh location began operating as an independent organization. The Church recognized grant expense of \$52,626 in 2017 when the former Oshkosh location assets were transferred to the new organization.

B. 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. The Church had no significant receivables or payables as of December 31, 2017.

C. Basis of presentation

The Church is required to report information regarding its financial position and its activities in the following three classes of net assets:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets - net assets that result from contributions whose use by the Church is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Church pursuant to those stipulations.

Permanently restricted net assets - net assets resulting from contributions whose use by the Church is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Church.

The Church had no permanently restricted net assets as of December 31, 2017.

D. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

E. Cash and cash equivalents

For purposes of the statement of cash flows, the Church considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

CHRIST THE ROCK COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017
See Independent Accountants' Review Report

Note 1 - Nature of activities and significant accounting policies, continued

F. Inventories

Inventories of scrip rebate cards are stated at cost.

G. Property and equipment and depreciation

All acquisitions and improvements of property and equipment in excess of \$1,000 are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is recorded at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of the assets.

H. Contribution recognition

Unconditional contributions are recognized as revenue when they are promised or received, as applicable, and are available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Church.

I. Other revenue recognition

Other revenue for adult and youth ministries and missions consists primarily of registration and event fees and product sales. Registration and event fees revenue is recognized in the year the activity is held and product sales revenue is recognized at the point of sale.

J. Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in Note 6. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

CHRIST THE ROCK COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017
See Independent Accountants' Review Report

Note 1 - Nature of activities and significant accounting policies, continued

K. Income taxes

Christ the Rock Community Church, Inc. is a religious organization. Policy decisions and approvals for expenditure of funds are made by the Board of Elders which serves without compensation. As such, the Church presently qualifies as an organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Church is also exempt from Wisconsin income taxes. However, income from certain activities not directly related to the Church's tax-exempt purpose is subject to taxation as unrelated business income. The Church had no unrelated business taxable income for the year ended December 31, 2017.

L. Summarized financial information

The financial statements include certain prior-year summarized financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Church's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

M. Recent accounting pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which amends current financial statements presentation and disclosure requirements. This ASU was presented to simplify the net asset classification requirements and improve the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The standard reduces the number of classes of net assets from three to two, requires the presentation of expenses in both natural and functional classifications, and eliminates the requirement to prepare a reconciliation in the statement of cash flows when applying the direct method. This standard is effective for annual reporting periods beginning after December 15, 2017, with early application permitted. The Church is currently evaluating the impact of ASU 2016-14 on the Church's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard supersedes all existing U.S. GAAP guidance on revenue recognition and is expected to require the use of more judgment and result in additional disclosures. The FASB has issued several amendments to the original standard, which is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. Adoption is to be applied retrospectively. The Church is currently evaluating the impact of ASU 2014-09 on the Church's financial statements and has not yet determined its method of adoption.

CHRIST THE ROCK COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017
See Independent Accountants' Review Report

Note 1 - Nature of activities and significant accounting policies, continued

M. Recent accounting pronouncements, continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is expected to increase transparency and comparability among organizations. The core principle of this guidance is that a lessee should recognize the assets and liabilities that arise from leases. The standard requires lessees to reflect most leases on their statement of financial position as lease liabilities with a corresponding right-of-use asset, while leaving presentation of lease expense in the statement of activities largely unchanged. The standard also eliminates the real-estate specific provisions that exist under current U.S. GAAP and modifies the classification criteria and accounting which lessors must apply to sales-type and direct financing leases. The standard is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Church is currently evaluating the impact of ASU 2016-02 on the Church's financial statements.

N. Subsequent events

The Church has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 25, 2018, the date on which the financial statements were available to be issued.

Note 2 - Concentration of credit risk

The Church maintains its cash balances at a bank and two credit unions. Aggregate deposits are insured by the Federal Deposit Insurance Corporation or National Credit Union Share Insurance Fund up to \$250,000. The Church's cash balances may exceed these insured limits at times during the year. The Church has not experienced any losses on these accounts. Management believes the Church is not exposed to any significant credit risk on cash.

Note 3 - Beneficial interest in assets held by Community Foundation

Beneficial interest in assets held by Community Foundation represents an endowment held at the Community Foundation for the Fox Valley Region, Inc. (Foundation) called the Christ the Rock Community Church Fund (Fund). It was established to provide a permanent source of support for the Church. The Fund is the result of an internal designation and is not donor-restricted; therefore, it is classified and reported as unrestricted net assets. The endowment fund is the legal asset of the Foundation. The agreement governing the assets includes a variance power allowing the Foundation to modify the restrictions on distributions from the Fund. Distributions from the Fund are ordinarily made annually to the Church following the Foundation's spending policy. The Foundation's spending policy of appropriating distributions each year is calculated to be 5% (changing to 4.5% in 2018) of the market value of the fund, which is based on the previous three-year average market value. Over the long term, the Church expects the current spending policy to allow its fund to grow. This is consistent with the Church's objective to maintain the purchasing power of the assets as well as to provide additional real growth through investment return.

CHRIST THE ROCK COMMUNITY CHURCH, INC.
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 December 31, 2017
 See Independent Accountants' Review Report

Note 3 - Beneficial interest in assets held by Community Foundation, continued

To achieve that objective, the Church works with the Foundation to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5% (changing to 4.5% in 2018), while growing the fund if possible. Accordingly, the Church expects its endowment assets, over time, to produce an average rate of return of approximately 7% - 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed by the Foundation to not expose the fund to unacceptable levels of risk.

Composition and changes in the Fund net assets for the year ended December 31, 2017 were as follows:

Board-designated endowment fund net assets, beginning of year	\$ 27,426
Net appreciation	<u>4,328</u>
Board-designated endowment fund net assets, end of year	<u>\$ 31,754</u>

Note 4 - Long-term debt

Long-term debt at December 31, 2017 consists of a note payable to Community First Credit Union with a balance of \$4,833,438. The note payable is due in monthly installments of \$28,442 including interest at 3.25%, with a final payment of unpaid principal and interest due in June 2021, secured by a general assignment of all business assets and real estate.

The future scheduled maturities of the note payable are as follows:

<u>Year ending December 31,</u>	
2018	\$ 186,968
2019	193,136
2020	199,507
2021	<u>4,253,827</u>
	<u>\$ 4,833,438</u>

Interest expense for the year ended December 31, 2017 totaled \$150,756. Interest costs capitalized and included in building and improvements during the year ended December 31, 2017 totaled \$11,735.

CHRIST THE ROCK COMMUNITY CHURCH, INC.
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 December 31, 2017
 See Independent Accountants' Review Report

Note 5 - Capital lease obligation

During the year ended December 31, 2017 the Church leased certain equipment under a capital lease. The following balances are included in the statement of financial position for this lease at December 31, 2017:

Equipment	\$ 29,038
Accumulated depreciation	<u>(8,711)</u>
Net equipment	<u>\$ 20,327</u>
Capital lease obligation	<u>\$ 21,691</u>

For the year ended December 31, 2017, depreciation and interest expense related to the capital lease amounted to \$5,807 and \$802, respectively.

Future minimum lease payments under the capital lease as of December 31, 2017 are as follows:

<u>Year ending December 31,</u>	
2018	\$ 6,283
2019	6,283
2020	6,283
2021	<u>4,189</u>
Total minimum lease payments	23,038
Less amount representing interest	<u>1,347</u>
Present value of minimum lease payments	<u>\$ 21,691</u>

Note 6 - Functional classification of expenses

Expenses by function for the year ended December 31, 2017 were as follows:

Program services	\$ 3,600,559
Supporting services	
Management and general	659,624
Fundraising	<u>31,018</u>
Total	<u>\$ 4,291,201</u>

CHRIST THE ROCK COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017
See Independent Accountants' Review Report

Note 7 - Nature and amount of temporarily restricted net assets

Temporarily restricted net assets at December 31, 2017 are for the following purposes:

Thanksgiving meal	\$ 2,938
Food pantry	848
Missionary donations	5,107
Mortgage reduction	4,925
Women's retreat scholarship	825
Rockman memorial for music ministry	204
Lenz memorial	<u>23,480</u>
Total	<u>\$ 38,327</u>

Note 8 - Operating leases

The Church leases certain office equipment and building space under various operating leases and month-to-month leases. Rent expense for all operating leases amounted to \$43,324 for the year ended December 31, 2017.

Future minimum lease payments as of December 31, 2017 under non-cancelable operating leases with terms of one year or more are as follows:

<u>Year ending December 31,</u>	
2018	\$ 32,839
2019	30,793
2020	<u>23,727</u>
	<u>\$ 87,359</u>

Note 9 - Employee benefit plan

The Church has a 401(k) defined contribution plan (the plan) for substantially all employees of the Church who are at least 18 years old and who have worked at least six months for the Church. Employees may make before-tax contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Employer contributions are not allowed under the plan.

Note 10 - Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards have established a hierarchy of valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets, Level 2 consists of inputs observable in the marketplace other than quoted prices in active markets for identical assets, and Level 3 consists of significant inputs unobservable in the marketplace.

CHRIST THE ROCK COMMUNITY CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2017
See Independent Accountants' Review Report

Note 10 - Fair value measurements, continued

The Church's beneficial interest in assets held by Community Foundation is carried at fair value. The fair value is provided by the Foundation and consists of the right to receive cash flows from the Foundation. The fair value provided by the Foundation is considered a Level 3 input. Fair value is determined by allocating a portion of the Foundation's investment pools.

The following is a reconciliation of beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2017:

Beginning balance - January 1, 2017	\$ 27,426
Net gains, realized and unrealized, included in change in net assets	<u>4,328</u>
Ending balance - December 31, 2017	<u>\$ 31,754</u>
Change in unrealized gains related to Level 3 assets still held at December 31, 2017	<u>\$ 4,328</u>