

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Financial Statements
With Independent Auditors' Report

August 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 18, 2018

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Statements of Financial Position

	August 31,	
	2018	2017
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 568,092	\$ 1,787,012
Restricted cash	251,455	473
Prepaid expenses and other assets	321,674	335,017
Total current assets	1,141,221	2,122,502
Property and equipment-net	29,794,811	26,719,634
Interest rate swap agreement	576,851	-
	30,371,662	26,719,634
Total Assets	\$ 31,512,883	\$ 28,842,136
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 188,258	\$ 247,630
Construction payable	-	628,000
Accrued expenses	573,485	789,124
Deferred revenue	188,693	147,995
Long-term debt	512,839	458,277
Total current liabilities	1,463,275	2,271,026
Interest rate swap agreement	-	383,356
Long-term debt-net	20,255,740	17,234,249
	20,255,740	17,617,605
Total liabilities	21,719,015	19,888,631
Net assets:		
Unrestricted	9,414,408	8,761,514
Temporarily restricted	379,460	191,991
	9,793,868	8,953,505
Total Liabilities and Net Assets	\$ 31,512,883	\$ 28,842,136

See notes to financial statements

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Statements of Activities

	Year Ended August 31,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING ACTIVITIES:						
SUPPORT, REVENUE, AND RECLASSIFICATIONS:						
Tithes and offerings	\$ 12,462,049	\$ 680,964	\$ 13,143,013	\$ 12,885,669	\$ 502,459	\$ 13,388,128
Registration fees	646,506	-	646,506	504,462	-	504,462
Parchments sales—net of cost of goods sold of \$42,572 and \$86,929, respectively	48,945	-	48,945	55,188	-	55,188
Contributed services	279,461	-	279,461	28,704	-	28,704
Other income	28,613	-	28,613	10,499	-	10,499
Net assets released from restrictions	493,495	(493,495)	-	388,938	(388,938)	-
Total Support, Revenue, and Reclassifications	13,959,069	187,469	14,146,538	13,873,460	113,521	13,986,981
EXPENSES:						
Salary and benefits	6,911,425	-	6,911,425	7,171,898	-	7,171,898
Ministry expenses	3,266,104	-	3,266,104	3,729,302	-	3,729,302
Depreciation and amortization	1,628,523	-	1,628,523	1,510,157	-	1,510,157
Facility expenses	1,614,017	-	1,614,017	1,472,407	-	1,472,407
Interest	560,720	-	560,720	491,348	-	491,348
Other expenses	285,594	-	285,594	300,208	-	300,208
Total Expenses	14,266,383	-	14,266,383	14,675,320	-	14,675,320
Change in Net Assets from Operations	(307,314)	187,469	(119,845)	(801,860)	113,521	(688,339)

(continued)

See notes to financial statements

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Statements of Activities

(continued)

	Year Ended August 31,					
	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
NONOPERATING ACTIVITIES:						
Unrealized gain on interest rate swap	960,208	-	960,208	845,197	-	845,197
	960,208	-	960,208	845,197	-	845,197
Change in Net Assets	652,894	187,469	840,363	43,337	113,521	156,858
Net Assets, Beginning of Year	8,761,514	191,991	8,953,505	8,718,177	78,470	8,796,647
Net Assets, End of Year	\$ 9,414,408	\$ 379,460	\$ 9,793,868	\$ 8,761,514	\$ 191,991	\$ 8,953,505

See notes to financial statements

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Statements of Cash Flows

	Year Ended August 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 840,363	\$ 156,858
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,642,459	1,524,093
Loss on sale of real property	-	17,978
Unrealized gain on interest rate swap	(960,208)	(845,197)
Contributed services	(279,461)	(28,704)
Contributions restricted for long-term purposes	(175,595)	(83,888)
Net change in:		
Prepaid expenses and other assets	13,343	(146,610)
Accounts payable	(59,372)	(90,114)
Accrued expenses	(215,639)	156,973
Deferred revenue	40,698	142,176
Net Cash Provided by Operating Activities	846,588	803,565
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,052,238)	(5,336,257)
Net Cash Used in Investing Activities	(5,052,238)	(5,336,257)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	3,578,338	4,081,878
Payments on long-term debt	(516,221)	(396,483)
Change in restricted cash	(250,982)	548,258
Contributions restricted for long-term purposes	175,595	83,888
Net Cash Provided by Financing Activities	2,986,730	4,317,541
Change in Cash and Cash Equivalents	(1,218,920)	(215,151)
Cash and Cash Equivalents, Beginning of Year	1,787,012	2,002,163
Cash and Cash Equivalents, End of Year	\$ 568,092	\$ 1,787,012
SUPPLEMENTAL AND NON-CASH DISCLOSURES:		
Cash paid during the year for interest	\$ 783,828	\$ 654,011
Construction in process acquired through construction payables	\$ -	\$ 628,000

See notes to financial statements

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2018 and 2017

1. NATURE OF ORGANIZATION:

Cornerstone Fellowship of Livermore California (the Church) was organized on May 23, 1993, in California as a nonprofit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code (IRC) and comparable state laws. However, the Church is subject to federal income tax on any unrelated business taxable income. In addition, the Church is not classified as a private foundation within the meaning of Section 509(a) of the IRC.

The Church's main campus is located in Livermore, California, and it has additional campuses in Brentwood, California, Walnut Creek, California, Hayward, California, and Danville, California. 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. At August 31, 2018 and 2017, the Church's cash balances exceeded federally insured limits by approximately \$568,000 and \$1,536,000, respectively. 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, 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, 2018 and 2017

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 net property and equipment.

Temporarily restricted net assets are those that are stipulated by donors for buildings and specific operating purposes.

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 placed into service.

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, 2018 and 2017, the Church received approximately \$276,000 and \$29,000, respectively, of donated services on the construction of the Brentwood campus.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2018 and 2017

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.

RECLASSIFICATION

Certain aspects of these financial statements have been modified to conform to current year presentation. Specifically, approximately \$84,000 from collections of contributions was included in the financing activities section of the statement of cash flows in the prior year, and in the current year that has been included in the operating activities section.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of:

	August 31,	
	2018	2017
Land	\$ 14,745,185	\$ 12,660,690
Buildings	27,566,837	18,190,531
Furniture and equipment	6,281,431	6,132,557
Vehicles	246,401	254,985
	<u>48,839,854</u>	<u>37,238,763</u>
Less accumulated depreciation and amortization	(19,142,058)	(17,525,669)
	<u>29,697,796</u>	<u>19,713,094</u>
Construction in process	97,015	7,006,540
	<u>29,794,811</u>	<u>26,719,634</u>
Less debt secured by property and equipment	(20,768,579)	(18,320,526)
	<u>\$ 9,026,232</u>	<u>\$ 8,399,108</u>

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2018 and 2017

3. PROPERTY AND EQUIPMENT, continued:

CAPITAL LEASES

For each of the years ended August 31, 2018 and 2017, furniture and equipment includes approximately \$220,000 of capitalized leases at cost. Accumulated depreciation and amortization includes capital lease accumulated amortization totaling approximately \$141,000 and \$85,000, as of August 31, 2018 and 2017, respectively.

BRENTWOOD CAMPUS CONSTRUCTION

During the year ended August 31, 2016, the Church began construction on new buildings for the Brentwood campus. Construction of the building was completed in April 2018. Interest capitalized was approximately \$230,000 and \$159,000 for the years ended August 31, 2018 and 2017, respectively.

4. LONG-TERM DEBT:

Long-term debt consists of:

	August 31,	
	2018	2017
Note payable to a financial institution, collateralized by all of the Church's assets, including real property, approximate monthly principal payments 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.	\$ 13,336,350	\$ 13,698,140
Note payable to a financial institution, collateralized by all of the Church's assets, including real property, approximate monthly payments of \$6,000. Loan was converted from a construction line of credit on February 1, 2018. Interest rate is 3.45% by virtue of an interest rate swap. The note is due February 1, 2028.	2,962,039	3,000,000
Note payable to a financial institution, collateralized by all of the Church's assets, including real property, approximate monthly payments of \$10,000. Loan was converted from a construction line of credit on February 1, 2018. Interest rate is 2.93%. The note is due August 1, 2026.	4,438,914	921,662

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2018 and 2017

4. LONG-TERM DEBT, continued:

	August 31,	
	2018	2017
Capital lease obligations, collateralized by equipment, bearing interest from 4.51% to 10.88%, total monthly payments of approximately \$4,500, maturing in various years through 2022.	135,507	190,890
	20,872,810	17,810,692
Less prepaid loan costs	(104,231)	(118,166)
	20,768,579	17,692,526
Less current portion	(512,839)	(458,277)
	\$ 20,255,740	\$ 17,234,249

Annual maturities are as follows:

<u>Year Ending August 31,</u>	<u>Notes Payable</u>
2019	\$ 526,774
2020	539,640
2021	562,857
2022	583,298
2023	573,218
Thereafter	18,087,023
	\$ 20,872,810

PREPAID LOAN COSTS

The Church paid loan costs of approximately \$139,000 between June 2015 and June 2017 related to the refinance of the note payable and the issuance of the construction line of credit. The prepaid loan costs are amortized on a straight-line basis over the terms of the notes. Amortization expense was approximately \$14,000 for both years ended August 31, 2018 and 2017. Loan costs amortization is included with interest expense on the statements of activities and included with depreciation and amortization on the statements of cash flows.

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, 2018 and 2017.

RESTRICTED CASH

The Church maintains a restricted cash account as collateral related to the Brentwood campus construction of approximately \$251,000 and \$473 for the years ended August 31, 2018 and 2017, respectively.

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2018 and 2017

5. INTEREST RATE SWAP:

The Church has entered into fixed-rate interest swaps related to several of its notes payable. The swaps 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 agreements are accounted for as fair value hedges. Contractual terms are as follows:

	August 31,	
	2018	2017
2015 Swap:		
Fixed rate	4.06%	4.06%
Variable rate - LIBOR plus 1.75%	3.85%	1.95%
Remaining term of contract in years	7	8
Original note payable balance covered by agreement (notional amount)	\$ 14,350,000	\$ 14,350,000
Notional amount outstanding at August 31	\$ 13,336,350	\$ 13,698,140
2017 Swap:		
Fixed rate	3.45%	3.45%
Variable rate - LIBOR plus 1.75%	3.85%	1.95%
Remaining term of contract in years	10	11
Original note payable balance covered by agreement (notional amount)	\$ 3,000,000	\$ 3,000,000
Notional amount outstanding at August 31	\$ 2,962,039	\$ 3,000,000

The effect of the derivative instruments on the financial statements were as follows at August 31, 2018 and 2017, 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	
		2018	2017
Interest rate swap agreement	Asset	\$ 576,851	\$ -
Interest rate swap agreement	Liability	\$ -	\$ 383,357

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

	<u>Statement Location</u>	2018	2017
Unrealized gain on interest rate swap	Nonoperating activities	\$ 960,208	\$ 845,197

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2018 and 2017

6. NET ASSETS:

Net assets consist of the following:

	August 31,	
	2018	2017
Unrestricted net assets are available for:		
Undesignated	\$ 388,176	\$ 362,406
Net investment in property and equipment	9,026,232	8,399,108
	9,414,408	8,761,514
Temporarily restricted net assets are available for:		
Missions and outreach	159,721	147,847
Other	219,739	44,144
	379,460	191,991
	\$ 9,793,868	\$ 8,953,505

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, 2022. For the years ended August 31, 2018 and 2017, the rent and lease expense was approximately \$613,000 and \$602,000, respectively.

Minimum lease payments under the leases are as follows:

Year Ending August 31,	
2019	\$ 272,030
2020	112,847
2021	80,630
2022	54,775
	\$ 520,282

CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Notes to Financial Statements

August 31, 2018 and 2017

8. FUNCTIONAL EXPENSE ALLOCATION:

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

	August 31,	
	2018	2017
Program services	\$ 12,138,298	\$ 12,382,587
Supporting activities:		
General and administrative	1,979,658	2,132,755
Fundraising	148,427	159,978
	<u>\$ 14,266,383</u>	<u>\$ 14,675,320</u>

9. PENSION EXPENSE:

The Church provides retirement benefits to its eligible full-time employees through a salary deferral plan under 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, 2018 and 2017, totaled approximately \$193,000 and \$203,000, respectively.

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 became a board member of the Church after the construction project had begun. The Church paid approximately \$4,600,000 for capital improvements for each of the years ended August 31, 2018 and 2017. The company provided approximately \$276,000 and \$29,000 in donated services for capital improvements for the years ended August 31, 2018 and 2017, respectively.

The Church also paid approximately \$86,000 and \$94,000 for capital improvements to a company that is owned by a Church employee during the years ended August 31, 2018 and 2017, respectively.

11. SUBSEQUENT EVENTS:

Subsequent events were evaluated through December 18, 2018, which is the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.