

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

Financial Statements  
With Independent Auditors' Report

August 31, 2017 and 2016

# 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, 2017 and 2016, 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, 2017 and 2016, 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 8, 2017

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Statements of Financial Position

	August 31,	
	2017	2016
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 1,787,012	\$ 2,002,163
Restricted cash	473	548,731
Prepaid expenses and other assets	335,017	188,407
Total current assets	2,122,502	2,739,301
Property and equipment-net	26,719,634	22,254,808
Total Assets	\$ 28,842,136	\$ 24,994,109
<b>LIABILITIES AND NET ASSETS:</b>		
Current liabilities:		
Accounts payable	\$ 247,630	\$ 337,744
Construction payable	628,000	-
Accrued expenses	789,124	632,151
Deferred revenue	147,995	5,819
Long-term debt	458,277	394,295
Total current liabilities	2,271,026	1,370,009
Interest rate swap liability	383,356	1,228,553
Long-term debt-net of current portion	17,234,249	13,598,900
	17,617,605	14,827,453
Total liabilities	19,888,631	16,197,462
Net assets:		
Unrestricted	8,761,514	8,718,177
Temporarily restricted	191,991	78,470
	8,953,505	8,796,647
Total Liabilities and Net Assets	\$ 28,842,136	\$ 24,994,109

See notes to financial statements

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Statements of Activities

	Year Ended August 31,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>OPERATING ACTIVITIES:</b>						
<b>SUPPORT, REVENUE, AND RECLASSIFICATIONS:</b>						
Tithes and offerings	\$ 12,885,669	\$ 502,459	\$ 13,388,128	\$ 12,622,580	\$ 415,525	\$ 13,038,105
Noncash contributions	-	-	-	1,356,650	-	1,356,650
Registration fees	504,462	-	504,462	493,234	-	493,234
Parchments sales—net of cost of goods sold of \$86,929 and \$92,763, respectively	55,188	-	55,188	72,219	-	72,219
Contributed services	28,704	-	28,704	90,229	-	90,229
Loss on sale of real property	-	-	-	(213,911)	-	(213,911)
Other income	10,499	-	10,499	52,344	-	52,344
Net assets released from restrictions	388,938	(388,938)	-	514,528	(514,528)	-
<b>Total Support, Revenue, and Reclassifications</b>	<b>13,873,460</b>	<b>113,521</b>	<b>13,986,981</b>	<b>14,987,873</b>	<b>(99,003)</b>	<b>14,888,870</b>
<b>EXPENSES:</b>						
Salary and benefits	7,171,898	-	7,171,898	6,656,294	-	6,656,294
Ministry expenses	3,729,302	-	3,729,302	4,180,080	-	4,180,080
Depreciation and amortization	1,510,157	-	1,510,157	1,485,771	-	1,485,771
Facility expenses	1,472,407	-	1,472,407	1,358,644	-	1,358,644
Interest	491,348	-	491,348	591,845	-	591,845
Other expenses	300,208	-	300,208	278,200	-	278,200
<b>Total Expenses</b>	<b>14,675,320</b>	<b>-</b>	<b>14,675,320</b>	<b>14,550,834</b>	<b>-</b>	<b>14,550,834</b>
<b>Change in Operating Net Assets</b>	<b>(801,860)</b>	<b>113,521</b>	<b>(688,339)</b>	<b>437,039</b>	<b>(99,003)</b>	<b>338,036</b>

(continued)

See notes to financial statements

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Statements of Activities

(continued)

	Year Ended August 31,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
NONOPERATING ACTIVITIES:						
Contribution of assets from acquisition	-	-	-	2,200,000	-	2,200,000
Unrealized gain (loss) on interest rate swap	845,197	-	845,197	(1,228,553)	-	(1,228,553)
	845,197	-	845,197	971,447	-	971,447
Change in Net Assets	43,337	113,521	156,858	1,408,486	(99,003)	1,309,483
Net Assets, Beginning of Year	8,718,177	78,470	8,796,647	7,309,691	177,473	7,487,164
Net Assets, End of Year	\$ 8,761,514	\$ 191,991	\$ 8,953,505	\$ 8,718,177	\$ 78,470	\$ 8,796,647

See notes to financial statements

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Statements of Cash Flows

	Year Ended August 31,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 156,858	\$ 1,309,483
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,524,093	1,485,771
Contribution of real property	-	(3,550,000)
Loss on sale of real property	17,978	213,911
Unrealized (gain) loss on interest rate swap	(845,197)	1,228,553
Prepaid loan costs	-	(69,764)
Contributed services	(28,704)	(90,229)
Net change in:		
Prepaid expenses and other assets	(146,610)	68,759
Accounts payable	(90,114)	259,226
Accrued expenses	156,973	55,728
Deferred revenue	142,176	(26,498)
<b>Net Cash Provided by Operating Activities</b>	<b>887,453</b>	<b>884,940</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the sale of real property	-	1,126,571
Purchases of property and equipment	(5,336,257)	(1,514,693)
<b>Net Cash Used in Investing Activities</b>	<b>(5,336,257)</b>	<b>(388,122)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term debt	4,081,878	-
Payments on long-term debt	(396,483)	(350,108)
Change in restricted cash	548,258	(548,731)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>4,233,653</b>	<b>(898,839)</b>
Change in Cash and Cash Equivalents	(215,151)	(402,021)
Cash and Cash Equivalents, Beginning of Year	2,002,163	2,404,184
Cash and Cash Equivalents, End of Year	<b>\$ 1,787,012</b>	<b>\$ 2,002,163</b>
<b>SUPPLEMENTAL AND NON-CASH DISCLOSURES:</b>		
Cash paid during the year for interest— (\$159,165 and \$0 capitalized, respectively)	<b>\$ 654,011</b>	<b>\$ 544,326</b>
Construction is process acquired through construction payables	<b>\$ 628,000</b>	<b>\$ -</b>

See notes to financial statements



# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Notes to Financial Statements

August 31, 2017 and 2016

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, and Hayward, California. During the previous fiscal year, the Church acquired LifeGate Church (LifeGate) in Walnut Creek. The assets received were reported at fair value in the financial statements. 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, 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, 2017 and 2016

### 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 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 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, 2017 and 2016, the Church received approximately \$29,000 and \$90,000, respectively, of donated services on the construction of the Brentwood campus.

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Notes to Financial Statements

August 31, 2017 and 2016

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.

### ADOPTION OF RECENTLY ISSUED PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance that replaces the existing accounting standards for debt issuance costs in Accounting Standard Update (ASU) 2015-03, Simplifying the Presentation of Debt Issuance Costs, with retrospective application required. The guidance is effective for fiscal years beginning after December 15, 2015, and requires debt issuance costs related to a recognized debt liability to be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts (i.e., a contra liability), rather than as an asset. The Church adopted the provisions of this guidance in the year ended August 31, 2017. See note 4 for the unamortized discount of prepaid loan costs.

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Notes to Financial Statements

August 31, 2017 and 2016

### 3. PROPERTY AND EQUIPMENT:

Property and equipment consist of:

	August 31,	
	<u>2017</u>	<u>2016</u>
Land	\$ 12,660,690	\$ 12,651,028
Buildings	18,190,531	18,148,703
Furniture and equipment	6,132,557	5,857,876
Vehicles	254,985	205,743
	<u>37,238,763</u>	<u>36,863,350</u>
Less accumulated depreciation and amortization	<u>(17,525,669)</u>	<u>(16,132,324)</u>
	19,713,094	20,731,026
Construction in process	<u>7,006,540</u>	<u>1,523,782</u>
	26,719,634	22,254,808
Less debt secured by property and equipment	<u>(18,320,526)</u>	<u>(14,125,297)</u>
	<u>\$ 8,399,108</u>	<u>\$ 8,129,511</u>

### CAPITAL LEASES

For each of the years ended August 31, 2017 and 2016, furniture and equipment includes approximately \$220,000 of capitalized leases at cost. Accumulated depreciation and amortization includes capital lease accumulated amortization totaling approximately \$85,000 and \$147,000, as of August 31, 2017 and 2016, 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 \$8.8 million with \$7.5 million being paid through debt financing. As of August 31, 2017, the project has incurred approximately \$6.0 million with an expected \$2.8 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, 2017 and 2016

4. LONG-TERM DEBT:

Long-term debt consist of:

	August 31,	
	2017	2016
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.	\$ 13,698,140	\$ 14,045,126
Construction line of credit with a financial institution, collateralized by all of the Church's assets, including real property. Total authorized amount is \$7,500,000, payments are interest only until maturity or conversion to a term note on February 1, 2018. Interest rate is one-month Libor plus 1.75%. Of the total authorized amount, \$3.0 million is fixed at 3.45% with an interest rate swap agreement.	3,921,662	-
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 2018. Approximately \$160,000 of current capital lease obligations were added in August 2017.	190,890	80,171
	17,810,692	14,125,297
Less prepaid loan costs	(118,166)	(132,102)
	17,692,526	13,993,195
Less current portion	(458,277)	(394,295)
	\$ 17,234,249	\$ 13,598,900

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Notes to Financial Statements

August 31, 2017 and 2016

4. LONG-TERM DEBT, continued:

Annual maturities are as follows:

<u>Year Ending December 31,</u>	<u>Notes Payable</u>	<u>Prepaid Loan Costs</u>	<u>Total</u>
2018	\$ 472,212	\$ (13,935)	\$ 458,277
2019	526,774	(13,935)	512,839
2020	539,640	(13,935)	525,705
2021	562,857	(13,935)	548,922
2022	583,298	(13,935)	569,363
Thereafter	<u>15,125,911</u>	<u>(48,491)</u>	<u>15,077,420</u>
	<u>\$ 17,810,692</u>	<u>\$ (118,166)</u>	<u>\$ 17,692,526</u>

### CONSTRUCTION LINE OF CREDIT

The construction line of credit has a maturity date in February 2018. Based upon the terms of the agreement, the Church has the ability and intent to convert the construction line of credit into a term loan on or before the maturity date. The future minimum payments for the construction line of credit have been amortized based upon the amount as of August 31, 2017.

### 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, 2017 and 2016. 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, 2017 and 2016.

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Notes to Financial Statements

August 31, 2017 and 2016

5. INTEREST RATE SWAP:

The Church has entered into fixed-rate interest swaps 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 agreement is accounted for as a fair value hedge. Contractual terms are as follows:

	August 31,	
	2017	2016
2015 Swap:		
Fixed rate	4.06%	4.06%
Variable rate - LIBOR plus 1.75%	1.95%	2.00%
Remaining term of contract in years	8	9
Original note payable balance covered by agreement (notional amount)	\$ 14,350,000	\$ 14,350,000
Notional amount outstanding at August 31	\$ 13,698,140	\$ 14,045,126
2017 Swap:		
Fixed rate	3.45%	N/A
Variable rate - LIBOR plus 1.75%	1.95%	N/A
Remaining term of contract in years	11	N/A
Original note payable balance covered by agreement (notional amount)	\$ 3,000,000	N/A
Notional amount outstanding at August 31	\$ 3,000,000	N/A

The effect of the derivative instruments on the financial statements were as follows at August 31, 2017 and 2016, and for the years then ended:

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

		Fair Value	
	<u>Statement Location</u>	2017	2016
Interest rate swap liability	Liabilities	\$ 383,357	\$ 1,228,553

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

	<u>Statement Location</u>	2017	2016
Unrealized gain (loss) on interest rate swap	Nonoperating activities	\$ 845,196	\$ (1,228,553)

# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Notes to Financial Statements

August 31, 2017 and 2016

6. NET ASSETS:

Net assets consist of the following:

	August 31,	
	2017	2016
Unrestricted net asset are available for:		
Undesignated	\$ 362,406	\$ 720,768
Net investment in property and equipment	8,399,108	7,997,409
	8,761,514	8,718,177
Temporarily restricted net asset are available for:		
Missions and outreach	147,847	77,070
Other	44,144	1,400
	191,991	78,470
	\$ 8,953,505	\$ 8,796,647

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, 2017 and 2016, the rent and lease expense was approximately \$602,000 and \$510,000, respectively.

Minimum lease payments under the leases are as follows:

Year Ending August 31,	
2018	\$ 251,145
2019	257,680
2020	112,847
2021	80,630
2022	54,775
	\$ 757,077



# CORNERSTONE FELLOWSHIP OF LIVERMORE CALIFORNIA

## Notes to Financial Statements

August 31, 2017 and 2016

8. FUNCTIONAL EXPENSE ALLOCATION:

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

	August 31,	
	2017	2016
Program services	\$ 12,382,587	\$ 10,305,053
Supporting activities:		
General and administrative	2,132,755	4,074,611
Fundraising	159,978	171,170
	<u>\$ 14,675,320</u>	<u>\$ 14,550,834</u>

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, 2017 and 2016, totaled approximately \$203,000 and \$183,000, 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 and \$980,000 for capital improvements for the years ended August 31, 2017 and 2016, respectively. The company provided approximately \$28,000 and \$90,000 in donated services for capital improvements for the years ended August 31, 2017 and 2016, respectively.

The Church also paid approximately \$94,000 and \$0 to a company for capital improvements that is owned by a Church employee for the years ended August 31, 2017 and 2016, respectively.

11. SUBSEQUENT EVENTS:

Subsequent to year-end, the Church drew approximately \$2,390,600 on the line of credit for the construction of the Brentwood campus.

Subsequent events were evaluated through December 8, 2017, which is the date the financial statement were available to be issued. Subsequent events after that date have not been evaluated.