

AUSTIN STONE COMMUNITY CHURCH
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
JULY 31, 2016 AND 2015

AUSTIN STONE COMMUNITY CHURCH

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INDEPENDENT AUDITORS' REPORT

Austin Stone Community Church
500 E. St. John's Avenue
Austin, Texas 78752

Report on the Financial Statements

We have audited the accompanying financial statements of Austin Stone Community Church (the Church) which comprise the statements of financial position as of July 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 audits 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Austin Stone Community Church as of July 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Atchley & Associates, LLP

Austin, Texas

November 22, 2016

AUSTIN STONE COMMUNITY CHURCH
STATEMENTS OF FINANCIAL POSITION
JULY 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents	\$ 2,196,450	\$ 2,832,641
Accounts receivable	226,255	203,134
Prepaid expenses and other assets	<u>70,745</u>	<u>12,143</u>
Total current assets	2,493,450	3,047,918
Property and equipment, net	<u>18,869,643</u>	<u>18,335,545</u>
Total assets	<u><u>\$21,363,093</u></u>	<u><u>\$21,383,463</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 145,183	\$ 732,094
Capital leases, current portion	48,750	46,711
Long-term debt, current portion	<u>170,843</u>	<u>162,986</u>
Total current liabilities	364,776	941,791
Long-term liabilities		
Capital leases	43,382	92,132
Long-term debt	<u>8,849,221</u>	<u>7,983,454</u>
Total long-term liabilities	<u>8,892,603</u>	<u>8,075,586</u>
Total liabilities	<u>9,257,379</u>	<u>9,017,377</u>
Net assets		
Unrestricted	10,598,646	10,873,795
Temporarily restricted	<u>1,507,068</u>	<u>1,492,291</u>
Total net assets	<u>12,105,714</u>	<u>12,366,086</u>
Total liabilities and net assets	<u><u>\$21,363,093</u></u>	<u><u>\$21,383,463</u></u>

The accompanying notes are an integral part of the financial statements.

AUSTIN STONE COMMUNITY CHURCH
STATEMENTS OF ACTIVITIES
YEARS ENDED JULY 31, 2015 and 2014

Unrestricted net assets		
Revenues	2016	2015
Tithes and offerings	\$14,141,690	\$13,446,420
Other revenue	1,649,767	1,204,041
Interest income	483	368
Total revenues	<u>15,791,940</u>	<u>14,650,829</u>
Net assets released from restrictions		
Restrictions satisfied by payments	<u>3,399,116</u>	<u>3,293,810</u>
Total unrestricted revenues and reclassifications	<u>19,191,056</u>	<u>17,944,639</u>
Expenses		
Ministry Support & Facilities	4,857,309	4,348,809
Equipping	2,733,009	2,711,772
Community & Connection	2,475,377	2,379,491
Worship	2,185,387	1,846,721
International Missions	1,833,795	1,678,976
Strategic Leadership	1,506,447	1,331,476
Family Ministries	1,326,170	1,193,093
Campus Launch	778,655	324,783
Counseling Center	559,607	447,522
National Missions	528,724	799,409
Care & Counseling	372,858	120,152
For the City Network	<u>308,867</u>	<u>865,832</u>
Total expenses	<u>19,466,205</u>	<u>18,048,036</u>
Increase (decrease) in unrestricted net assets	(275,149)	(103,397)
Temporarily restricted net assets		
Contributions	3,413,893	3,382,911
Net assets released from restrictions	<u>(3,399,116)</u>	<u>(3,293,810)</u>
Increase (decrease) in temporarily restricted net assets	<u>14,777</u>	<u>89,101</u>
Change in net assets	(260,372)	(14,296)
Net assets at beginning of year	<u>12,366,086</u>	<u>12,380,382</u>
Net assets at end of year	<u><u>\$12,105,714</u></u>	<u><u>\$12,366,086</u></u>

The accompanying notes are an integral part of the financial statements.

AUSTIN STONE COMMUNITY CHURCH
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2015 and 2014

	2016	2015
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (260,372)	\$ (14,296)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	957,342	821,345
(Increase) Decrease in accounts receivable	(23,121)	(168,604)
(Increase) Decrease in prepaid expenses and other assets	(58,602)	-
Increase (Decrease) in accounts payable	(586,911)	247,540
Net cash provided (used) by operating activities	28,336	885,985
<u>Cash flows from investing activities</u>		
Payments received on note receivable	-	51,454
Proceeds from sale of property	14,500	187,142
Purchase of property and equipment	(1,505,940)	(3,485,009)
Net cash provided (used) by investing activities	(1,491,440)	(3,246,413)
<u>Cash flows from financing activities</u>		
Payments on capital lease obligations	(46,711)	(41,637)
Proceeds from long-term debt	1,036,610	1,463,390
Payments on long-term debt	(162,986)	(156,950)
Net cash provided (used) by financing activities	826,913	1,264,803
Increase (decrease) in cash and cash equivalents	(636,191)	(1,095,625)
Cash and cash equivalents - beginning of year	2,832,641	3,928,266
Cash and cash equivalents - end of year	\$ 2,196,450	\$ 2,832,641
<u>Supplemental Disclosure</u>		
Interest paid	\$ 339,766	\$ 277,673
Assets acquired through capital lease	\$ -	\$ 65,352

The accompanying notes are an integral part of the financial statements.

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Austin Stone Community Church (the Church) is a non-profit corporation established in October 2002. The Church is non-denominational and is supported primarily through contributions from the congregation.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, other assets, payables, and other liabilities.

Basis of Presentation

The Church has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities-Presentation of Financial Statements*. Under FASB ASC 958-205, the Church is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Church is required to present a statement of cash flows. The Church did not have any permanently restricted assets at July 31, 2016 and 2015.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Property and Equipment

Acquisition of property and equipment in excess of \$1,000 is capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation and are depreciated using the straight-line method. Estimated useful lives are as follows.

Buildings	Thirty years
Furniture and equipment	Five to seven years

Repair and maintenance items are charged to expense as incurred. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. For contributions restricted to a purpose of construction of long-lived assets, the restriction is considered released when the asset is placed in service.

Contributed Services

The Church receives a substantial amount of services donated by its members in carrying out the Church's ministry. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under FASB ASC 958-605-25, *Contributions Received*.

Income Taxes

Austin Stone Community Church is a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Church and recognize a tax liability if the Church has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Reclassifications

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

Subsequent Events

Management of the Church has evaluated subsequent events for disclosure through the date of the Independent Auditors' Report, the date the financial statements were available to be issued.

NOTE B - CASH

The total cash held by the Church at July 31, 2016, includes \$1,947,343 in monies exceeding insurance provided by the Federal Deposit Insurance Corporation. It is the opinion of management that the solvency of the financial institutions is not of particular concern at this time.

NOTE C - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, at cost less accumulated depreciation, as of July 31:

	2016	2015
Land	\$ 4,173,017	\$ 4,173,017
Building	14,297,051	11,650,183
Furniture & fixtures	2,511,561	2,458,397
Equipment	1,785,967	1,196,254
Construction in progress	-	1,798,306
	22,767,596	21,276,157
Less: accumulated depreciation	(3,897,953)	(2,940,612)
Total property and equipment	\$18,869,643	\$18,335,545

Depreciation of property and equipment amounted to \$957,342 and \$821,345, for the years ended July 31, 2016 and 2015, respectively.

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015

NOTE D - LONG-TERM DEBT

Long-term debt includes the following as of July 31:

	2016	2015
<p>Note payable to Frost Bank with initial balance of \$4,540,000 and an interest rate of 2.25% above the LIBOR rate, adjusted monthly (2.786% at July 31, 2016); secured by a deed of trust on the Church's property; principal and interest payments due monthly. The note matures on July 21, 2024.</p>	\$ 4,327,645	\$ 4,435,826
<p>Note payable to Frost Bank with initial balance of \$2,300,000 and an interest rate of 2.25% above the LIBOR rate, adjusted monthly (2.786% at July 31, 2016); secured by a deed of trust on the Church's property; interest and principal payments due monthly. The note matures on July 21, 2024.</p>	2,192,419	2,247,224
<p>Construction line of credit from Frost Bank with available credit of \$2,500,000 and an interest rate of 2.25% above the LIBOR rate, adjusted monthly (2.904% at July 31, 2016); secured by the Church's assets; interest due quarterly with all unpaid interest and principal due upon maturity. The note matures on March 23, 2018.</p>	<u>2,500,000</u>	<u>1,463,390</u>
	\$ 9,020,064	\$ 8,146,440

Interest expense amounted to \$339,766 and \$277,673 for the years ended July 31, 2016 and 2015, respectively.

Effective August 21, 2014, the Church entered into two interest rate swap agreements in connection with the notes payable with Frost Bank. Under the agreements, the Church receives variable rate interest payments, based on the 1 month LIBOR plus 2.25%, and makes fixed interest rate payments, at 4.13% until the agreements terminate on July 21, 2019.

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015

NOTE D - LONG-TERM DEBT (Continued)

Expected maturities of long-term debt by year are as follows:

<u>Year ending July 31,</u>	
2017	170,843
2018	2,678,262
2019	186,003
2020	193,385
2021	202,477
Thereafter	<u>5,589,094</u>
	<u><u>\$ 9,020,064</u></u>

The Church believes that it was in compliance with the covenants of the loan agreements at the end of year.

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Missions fund	\$ 903,389	\$ 965,883
Austin Stone Institute	<u>603,679</u>	<u>526,408</u>
	<u><u>\$ 1,507,068</u></u>	<u><u>\$ 1,492,291</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

	<u>2016</u>	<u>2015</u>
Mission fund activities	\$ 1,436,664	\$ 1,595,747
Building fund activities	3,900	15,096
Austin Stone Institute activities	<u>1,958,552</u>	<u>1,682,967</u>
	<u><u>\$ 3,399,116</u></u>	<u><u>\$ 3,293,810</u></u>

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015

NOTE F - COMMITMENTS

Leases

During 2013, the Church entered into a 5-year capital lease agreement with an independent third party, expiring in December 2017. Monthly payments under the lease are \$3,105, with an implicit interest rate of 4.5%. Total payments under the agreement were \$37,258 during each of the years ended July 31, 2016 and 2015. Assets under the capital lease agreement consist of equipment with an original cost of \$167,166 and accumulated depreciation of \$92,371 as of July 31, 2016.

During 2015, the Church entered into a 5-year capital lease agreement with an independent third party, expiring in October 2019. Monthly payments under the lease are \$1,194, with an implicit interest rate of 3.68%. Total payments under the agreement were \$14,330 and \$10,747 during the years ended July 31, 2016 and 2015, respectively. Assets under the capital lease agreement consist of equipment with an original cost of \$65,352 and accumulated depreciation of \$9,336 as of July 31, 2016.

The Church also leases office space and audio/video and copier equipment under noncancelable operating leases with terms expiring through September 2020. The total remaining lease payments under noncancelable leases with lease terms in excess of one year are as follows for the next five years:

<u>Year Ending July 31:</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2017	\$ 51,588	\$ 1,087,470
2018	26,749	747,566
2019	14,330	639,480
2020	3,582	654,410
2021	-	109,483
Less: Imputed Interest	<u>(4,117)</u>	<u>-</u>
	<u>\$ 92,132</u>	<u>\$ 3,238,409</u>

In addition to the long-term leases above, the Church leases facilities on a month-to-month basis for holding weekly services. Total lease expense, from all leases, for the years ended July 31, 2016 and 2015, were \$1,376,197 and \$1,295,261, respectively.

AUSTIN STONE COMMUNITY CHURCH
 NOTES TO FINANCIAL STATEMENTS
 JULY 31, 2016 AND 2015

NOTE F - COMMITMENTS (Continued)

The Church leases excess space to local non-profits whose missions align with the mission of the Church, with terms expiring through September 2020. Rental rates are typically below market as the Church utilizes these relationships to further its programs and overall mission. Revenue is recognized based on the rental agreements, which have varying rates of modest escalation. The total remaining lease receipts under noncancelable leases with lease terms in excess of one year for the next four years are as follows:

<u>Year ending July 31,</u>	
2017	\$ 207,591
2018	184,000
2019	131,975
2020	111,264
Thereafter	<u>18,076</u>
	<u><u>\$ 652,906</u></u>

NOTE G - PERSONNEL EXPENSES

The Church paid salaries and related payroll benefits and taxes in the years ended July 31, 2016 and 2015 in the amount of \$9,210,339 and \$8,235,967, respectively. The Church also offers full-time staff employees the opportunity to participate in a 403(b) retirement plan. The employees have the option to contribute a portion of their salary to the plan, subject to annual deferral limits. In addition, the Church made employer contributions of \$149,775 and \$304,013 to the plan for the years ended July 31, 2016 and 2015, respectively.

NOTE H - RELATED PARTIES

The Church provides administrative and accounting services for two related parties, For the City Network and its wholly owned subsidiary, Unison Development, LLC. The Church, in turn, also contracts with these related parties for services including repairs and maintenance of worship facilities. For the years ended July 31, 2016 and 2015, the Church billed these related parties \$291,000 and \$231,600, respectively, for these services.

As of July 31, 2016 and 2015, the Church had a net receivable of \$46,327 and \$36,375, respectively, related from For the City Network. As of July 31, 2016 and 2015, the Church had a net receivable of \$887 and \$7,102, respectively, from Unison Development, LLC.