

# **Crossroads Community Church, Inc. and its Subsidiary**

**Consolidated Financial Statements  
August 31, 2016 and 2015, and  
Independent Auditors' Report**

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**  
**August 31, 2016 and 2015**

**Contents**

---

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 17
Accompanying Information:	
Consolidating Statement of Financial Position	18
Consolidating Statement of Activities	19

## Independent Auditors' Report

To the Board of Directors  
Crossroads Community Church, Inc. and its Subsidiary  
Cincinnati, Ohio

We have audited the accompanying consolidated financial statements of Crossroads Community Church, Inc. (a nonprofit organization) and its subsidiary, which comprise the consolidated statements of financial position as of August 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crossroads Community Church, Inc. and its subsidiary as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Independent Auditors' Report  
(Continued)**

***Report on Consolidating Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities on pages 16 to 17 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Barnes, Dennig & Co., Ltd.*

December 28, 2016  
Cincinnati, Ohio

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Consolidated Statements of Financial Position  
August 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash	\$ 2,312,403	\$ 317,507
Cash - restricted	8,166	8,278,375
Accounts receivable	526,259	227,177
Prepaid expenses and other assets	436,451	397,252
Investments	148,985	109,093
Notes receivable	85,444	84,977
Loan receivable	6,105,723	6,105,723
Property and equipment, net	98,084,253	79,982,358
	<hr/>	<hr/>
Total assets	<u>\$ 107,707,684</u>	<u>\$ 95,502,462</u>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 3,349,876	\$ 1,840,380
Accrued expenses	1,005,834	131,458
Deferred revenue	309,904	209,204
Line of credit	-	1,000,000
Notes payable	33,544,979	33,961,155
	<hr/>	<hr/>
Total liabilities	<u>38,210,593</u>	<u>37,142,197</u>
 <b>Net Assets</b>		
Unrestricted	64,683,888	58,350,892
Temporarily restricted	4,813,203	9,373
	<hr/>	<hr/>
Total net assets	<u>69,497,091</u>	<u>58,360,265</u>
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 107,707,684</u>	<u>\$ 95,502,462</u>

See accompanying notes to consolidated financial statements

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Consolidated Statement of Activities  
Year Ended August 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue, gains and other support</b>			
Ministry contributions	\$ 27,549,340	\$ -	\$ 27,549,340
I'm In campaign	-	20,081,740	20,081,740
Mission trip contributions	1,236,121	-	1,236,121
Special event income	294,210	-	294,210
Beans & Rice contributions	-	246,364	246,364
In-kind revenue	202,056	-	202,056
Other income	122,867	-	122,867
Investment return	68,705	-	68,705
Net assets released from restrictions	15,524,274	(15,524,274)	-
	<u>44,997,573</u>	<u>4,803,830</u>	<u>49,801,403</u>
<b>Expenses</b>			
Central Services	23,417,037	-	23,417,037
ReachOut	5,334,917	-	5,334,917
First Impressions	4,406,621	-	4,406,621
Experience	2,580,626	-	2,580,626
Multi-Site	1,804,451	-	1,804,451
Kids Club and Student Ministry	746,464	-	746,464
Spiritual Growth	374,461	-	374,461
	<u>38,664,577</u>	<u>-</u>	<u>38,664,577</u>
<b>Change in net assets</b>	6,332,996	4,803,830	11,136,826
<b>Net assets, beginning of period</b>	<u>58,350,892</u>	<u>9,373</u>	<u>58,360,265</u>
<b>Net assets, end of period</b>	<u>\$ 64,683,888</u>	<u>\$ 4,813,203</u>	<u>\$ 69,497,091</u>

See accompanying notes to consolidated financial statements

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Consolidated Statement of Activities  
Year Ended August 31, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue, gains and other support</b>			
Ministry contributions	\$ 27,165,865	\$ -	\$ 27,165,865
OSG contributions	-	5,823,852	5,823,852
Game Change contributions	-	1,924,545	1,924,545
Mission trip contributions	1,223,336	-	1,223,336
Special event income	34,616	-	34,616
In-kind revenue	136,364	-	136,364
Other income	149,227	-	149,227
Investment return	9,392	-	9,392
Net assets released from restrictions	<u>7,773,207</u>	<u>(7,773,207)</u>	<u>-</u>
 Total revenue, gains and other support	 <u>36,492,007</u>	 <u>(24,810)</u>	 <u>36,467,197</u>
 <b>Expenses</b>			
Central Services	17,535,740	-	17,535,740
ReachOut	3,520,028	-	3,520,028
First Impressions	3,546,773	-	3,546,773
Experience	1,733,960	-	1,733,960
Multi-Site	347,577	-	347,577
Kids Club and Student Ministry	632,782	-	632,782
Spiritual Growth	<u>370,208</u>	<u>-</u>	<u>370,208</u>
 Total expenses	 <u>27,687,068</u>	 <u>-</u>	 <u>27,687,068</u>
 <b>Change in net assets</b>	 8,804,939	 (24,810)	 8,780,129
 <b>Net assets, beginning of period</b>	 <u>49,545,953</u>	 <u>34,183</u>	 <u>49,580,136</u>
 <b>Net assets, end of period</b>	 <u><u>\$ 58,350,892</u></u>	 <u><u>\$ 9,373</u></u>	 <u><u>\$ 58,360,265</u></u>

See accompanying notes to consolidated financial statements

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Consolidated Statements of Cash Flows  
Years Ended August 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 11,136,826	\$ 8,780,129
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	4,020,459	2,616,547
Realized and unrealized losses on investments	15,902	14,440
Debt forgiveness on note receivable	20,643	20,256
(Gain)loss on sale of property and equipment	37,481	(4,000)
Donated building	(310,000)	-
Changes in:		
Accounts receivable	(299,082)	(216,588)
Other assets	(39,199)	(78,217)
Accounts payable	1,509,496	(1,047,164)
Accrued expenses	874,376	(264,486)
Deferred revenue	100,700	109,047
	<u>17,067,602</u>	<u>9,929,964</u>
<b>Cash flows from investing activities</b>		
Loans made	(21,110)	-
Increase in loan receivable	-	(6,105,723)
Purchases of investments	(73,576)	(35,832)
Proceeds from sales of investments	17,782	16,270
Purchases of property and equipment	(22,119,835)	(11,283,790)
Proceeds from sales of property and equipment	270,000	4,000
	<u>(21,926,739)</u>	<u>(17,405,075)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of notes payable	216,222	13,716,404
Principal payments on notes payable	(632,398)	(249,960)
Payments for debt issuance costs	-	(389,149)
Proceeds from line of credit	-	1,000,000
Payments on line of credit	(1,000,000)	-
	<u>(1,416,176)</u>	<u>14,077,295</u>
<b>Net change in cash and restricted cash</b>	<u>(6,275,313)</u>	<u>6,602,184</u>
<b>Cash and restricted cash, beginning of period</b>	<u>8,595,882</u>	<u>1,993,698</u>
<b>Cash and restricted cash, end of period</b>	<u><u>\$ 2,320,569</u></u>	<u><u>\$ 8,595,882</u></u>
<b>Supplemental cash flows information</b>		
Cash paid for interest	\$ 1,264,707	\$ 1,123,569
<b>Noncash cash flow activity</b>		
Property and equipment purchases included in accounts payable	\$ 2,058,368	\$ 786,617

See accompanying notes to consolidated financial statements.



# CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY

## Notes to Consolidated Financial Statements

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of Activities*

Crossroads Community Church, Inc. (“the Church”) was incorporated as a not-for-profit church under the laws of the State of Ohio. The Church’s mission is connecting seekers to a community of growing Christ-followers who are changing the world. The Church’s revenue and other support are derived principally from contributions.

During 2015, Crossroads OSG, Inc. (“OSG”), an Ohio Limited Liability Company, was established as a title-holding corporation under Section 501(c)(2) of the Internal Revenue Code. OSG was organized exclusively for the purpose of holding title to real property, collecting income, and turning over the entire amount, less expenses, to the Church. The Church is the sole member of OSG.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Church and OSG (collectively, “Crossroads”). All significant inter-organizational accounts and transactions have been eliminated.

#### *Financial Statement Presentation*

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). Crossroads is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which have no donor-imposed restriction; temporarily restricted net assets which have donor-imposed restrictions that will expire in the future; and permanently restricted net assets which have donor-imposed restriction which do not expire.

#### *Fair Value Measurements*

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management’s best estimate of what market participants would use as fair value.

#### *Cash and Restricted Cash*

Crossroads maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. Crossroads has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Restricted cash includes cash balances on deposit with financial institutions to be used to pay for asset management fees and renovation and construction of property.

# CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY

## Notes to Consolidated Financial Statements (Continued)

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Accounts Receivable***

Accounts receivable represent credit card contributions made prior to year-end that had not been processed and transferred into the Church's bank account until after year-end.

#### ***Investments and Investment Return/Concentration of Credit Risk***

The Church's policy is to promptly sell marketable securities contributed by donors. Investments in equity and debt securities are carried at fair value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Church's investments do not have a significant concentration of credit or market risk within any industry, specific institution or group of investments.

#### ***Property and Equipment***

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

GAAP requires Crossroads to assess the recoverability of the carrying amount of property and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in operating conditions. Based on its most recent analysis, Crossroads believes no impairments existed at August 31, 2016 and 2015.

#### ***Deferred Revenue***

Support for mission trips is deferred and recognized in the period to which the mission trip actually takes place.

#### ***Contributions***

Crossroads records gifts of cash and other assets at their fair value as of the date of contribution. Such donations are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, Crossroads generally reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

## CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### ***Donated Services***

Crossroads records donated services, if significant, as revenues in the period received only if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended August 31, 2016 and 2015, Crossroads received donated services in the amounts of \$189,123 and \$133,654, respectively. Crossroads pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist Crossroads.

##### ***In-Kind Donations***

Crossroads receives certain in-kind donations during the year. In the event the value of the in-kind donation is material, they are recorded at fair value as in-kind revenue and an expense in the financial statements. For the years ended August 31, 2016 and 2015, Crossroads received in-kind donations in the amounts of \$12,933 and \$2,710, respectively.

##### ***Income Taxes***

The Church is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law. As a religious organization, the Church is not required to file annual federal or state informational returns. However, the Church is subject to federal income tax on any unrelated business taxable income.

The Church's IRS Form 990-T is subject to review and examination by federal and state authorities. Crossroads believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

OSG is exempt from income taxes under Section 501(c)(2) of the Internal Revenue Code and a similar provision of Ohio law. OSG is not considered a private foundation. However, OSG is subject to federal income tax on any unrelated business taxable income.

OSG's IRS Form 990 is subject to review and examination by federal and state authorities. OSG is not aware of any activities that would jeopardize its exempt status.

##### ***Functional Allocation of Expenses***

The costs of providing the various programs and other activities have been summarized in the notes to the financial statements. Expenses have been classified based upon the actual expenditures and cost allocations based upon estimates of time spent by Crossroads personnel.

## CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### *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 the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### *Reclassifications*

Certain 2015 figures have been reclassified to conform to the 2016 presentation.

##### *Subsequent Event Evaluation*

In preparing its financial statements, Crossroads has evaluated events subsequent to the statement of financial position date through December 28, 2016, which is the date the financial statements were available to be issued. See Note 7 for disclosure of subsequent event regarding the new line of credit.

#### NOTE 2 NOTES RECEIVABLE

On May 19, 2011, as part of a key-person retention strategy, the Church provided financing to an employee who is not the Senior Pastor, Brian Tome. The Church will forgive one-eighth of the principal and accrued interest at a rate of 1.9% beginning April 15, 2012 until April 15, 2019. The annual forgiveness is contingent upon the employee's continued employment. If employment ends before maturity date, either because employee was terminated for cause or voluntary resignation, the outstanding balance of the principal and accrued interest will be paid by the lesser of five years from the date of default or by maturity date at an interest rate of prime plus 2%. However, if the Church terminates the employee without cause, the outstanding balance of the principal and accrued interest will be paid by the lesser of five years from the date of termination or until maturity date at an interest rate of 1.9%. The note receivable is secured by the mortgage of the employee's residence. As of August 31, 2016 and 2015, the outstanding balance was \$64,334 and \$84,977, respectively.

On June 13, 2016, the Church provided financing to a second employee who is not the Senior Pastor, Brian Tome. The principal sum was \$21,110 and will be paid in full on or before June 13, 2018, with an annual interest rate of 1.9%. The note may be forgiven by the Lender in its sole discretion. As of August 31, 2016 and 2015, the outstanding balance was \$21,110 and \$-0-, respectively.

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 3 INVESTMENTS AT FAIR VALUE**

Investments as of August 31, 2016 and 2015 consisted of common stocks and mutual funds using Level 1 valuation inputs.

Investment return is comprised of the following for the year ended August 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 84,607	\$ 23,832
Net realized and unrealized losses on investments	<u>(15,902)</u>	<u>(14,440)</u>
	<u><u>\$ 68,705</u></u>	<u><u>\$ 9,392</u></u>

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of August 31:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 86,103,998	\$ 72,859,702
Equipment	10,056,962	5,200,453
IT equipment and software	4,851,564	640,454
Furniture and fixtures	2,053,846	2,053,846
Vehicles	<u>177,102</u>	<u>106,386</u>
	103,243,472	80,860,841
Less accumulated depreciation and amortization	<u>18,236,767</u>	<u>14,391,933</u>
	85,006,705	66,468,908
Land	11,162,309	9,325,208
Construction in progress	1,915,239	2,423,139
Construction in progress - NMTC	<u>-</u>	<u>1,765,103</u>
	<u><u>\$ 98,084,253</u></u>	<u><u>\$ 79,982,358</u></u>

Depreciation expense was \$4,020,459 and \$2,616,547 for the years ended August 31, 2016 and 2015, respectively.

**NOTE 5 NOTES PAYABLE**

The Church has a note payable which has a maximum principal amount of \$26,000,000. As of August 31, 2016 and 2015, the note had an outstanding principal balance of \$25,317,642 and \$25,570,040, respectively. The note bears interest at an annual rate of 4.4% until March 27, 2017, at which time a new, mutually agreeable rate will be determined. Interest only payments were made until the completion of the project during 2015. At that time, the Church began making principal and interest payments based on the amortization of the principal balance over a 360 month period. The note has a final maturity date of March 27, 2033 and is secured by mortgages on certain real and personal property owned by the Church and an assignment of interests in life insurance policies on the Senior Pastor.

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 5 NOTES PAYABLE (Continued)**

Interest expense was \$1,168,843 and \$1,117,200 for the years ended August 31, 2016 and 2015, respectively.

Future minimum principal maturities of the note for the Church at August 31, 2016 are:

2017	\$ 458,238
2018	478,812
2019	500,309
2020	519,872
2021	546,114
Thereafter	<u>22,814,297</u>
	<u>\$ 25,317,642</u>

Note payable for the Church was as follows as of August 31:

	<u>2016</u>	<u>2015</u>
Note principal amount	<u>\$ 25,317,642</u>	<u>\$ 25,750,040</u>
Less unamortized debt issuance cost	<u>53,896</u>	<u>57,146</u>
	<u>\$ 25,263,746</u>	<u>\$ 25,692,894</u>

Debt issuance costs of \$65,000 were recognized as a reduction to the face amount of the note payable and will be amortized over a period of 30 years (term of the note). Accumulated amortization related to these debt issuance costs at August 31, 2016 and 2015 was \$11,104 and \$7,854, respectively. Amortization of the debt issuance costs was \$3,250 in 2016 and 2015 and has been included in interest expense.

**NOTE 6 NEW MARKET TAX CREDIT (NMTC)**

In 2015, Crossroads financed the development and construction of a building project through the New Market Tax Credit (NMTC) program. PNC New Markets Investment Partners, LLC, a Delaware limited liability company, contributed \$2,768,874 in equity to Crossroads OSG Investment Fund, LLC (the "Fund"), an unaffiliated Delaware limited liability company. In conjunction with this equity investment, the Church made a loan of \$6,105,723 to the Fund. In turn, the Fund made two Qualified Equity Investments (QEIs) in UNIF V, LLC (UCI sub-CDE), an Ohio limited liability company and community development entity (sub-CDE), and PNC CDE 61, LP (PNC sub-CDE), a Pennsylvania limited partnership and community development entity (sub-CDE), of \$7,251,200 and \$1,623,397, respectively. In return, the sub-CDEs allocated \$3,461,093 in New Market Tax Credits (the Credits) to the Fund. Credits of \$2,827,968 were allocated to UCI sub-CDE and \$633,125 were allocated to PNC sub-CDE, pursuant to Section 45D of the Internal Revenue Code. UCI sub-CDE and PNC sub-CDE made loans to OSG for \$7,033,664 and \$1,623,397, respectively, which were used to finance the development and construction of its building project. Crossroads has pledged various assets as collateral for these loans.

***Loan Receivable***

The note receivable held by the Church is due over 25 years and has an interest rate of 1.42%. The Fund will pay the Church quarterly interest-only payments on the outstanding balance for the first 28 quarterly payments beginning on December 10, 2015 through September 10, 2022. The

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 6 NEW MARKET TAX CREDIT (NMTC) (Continued)**

***Loan Receivable (Continued)***

Fund begins to make quarterly principal and interest payments on December 10, 2022 through maturity on August 21, 2040.

***Notes Payable***

OSG's first note payable consists of two promissory notes, Note A and Note B, both of which have an interest rate of 1.00%, simple interest, and payable to UCI sub-CDE. Note A is for \$4,988,826 and is payable quarterly over 30 years on the first of March, June, September, and December of each year. Interest-only payments are due from December 1, 2015 through September 1, 2022. Beginning on December 1, 2022, OSG begins to make quarterly principal and interest payments through maturity on August 22, 2045. Note B is for \$2,044,838 and is payable quarterly over 30 years on the first of March, June, September, and December of each year. Interest-only payments are due from December 1, 2015 through September 1, 2022. Beginning on December 1, 2022, OSG begins to make quarterly principal and interest payments through maturity on August 22, 2045. Interest paid amounted to \$81,339 and \$8,098 for the years ended August 31, 2016 and 2015, respectively.

OSG's second note payable consists of two promissory notes, Note A and Note B, both of which have an interest rate of 1.00%, simple interest. Note A is for \$1,116,897 and is payable quarterly over 30 years on the first of March, June, September, and December of each year. Interest-only payments are due from December 1, 2015 through September 1, 2022. Beginning on December 1, 2022, OSG begins to make quarterly principal and interest payments through maturity on August 22, 2045. Note B is for \$506,500 and is payable quarterly over 30 years on the first of March, June, September, and December of each year. Interest-only payments are due from December 1, 2015 through September 1, 2022. Beginning on December 1, 2022, OSG begins to make quarterly principal and interest payments through maturity on August 22, 2045. Interest paid amounted to \$30,667 and \$1,867 for the years ended August 31, 2016 and 2015, respectively.

Notes payable for OSG related to the NMTC program were as follows as of August 31:

	<u>2016</u>	<u>2015</u>
Notes principal amount	\$ 8,657,061	\$ 8,657,061
Less unamortized debt issuance cost	<u>375,828</u>	<u>388,800</u>
	<u><u>\$ 8,281,233</u></u>	<u><u>\$ 8,268,261</u></u>

Debt issuance costs of \$389,149 were recognized as a reduction to the face amount of the note payable and will be amortized over a period of 30 years (terms of notes). Accumulated amortization related to these debt issuance costs at August 31, 2016 and 2015 was \$13,321 and \$349, respectively. Amortization of the debt issuance costs was \$12,972 and \$349 in 2016 and 2015, respectively, and has been included in interest expense.

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 6 NEW MARKET TAX CREDIT (NMTC) (Continued)**

Future minimum principal maturities of the note for OSG at August 31, 2016 are:

2017	\$	-
2018		-
2019		-
2020		-
2021		-
Thereafter		<u>8,657,061</u>
		<u>\$ 8,657,061</u>

***Contribution from the Church to OSG***

In addition to the transaction above, the Church signed an agreement in 2015 to contribute \$3,109,737 to OSG in order to ensure the building project is completed. As of August 31, 2016 and 2015, \$1,632,014 of this contribution was outstanding and is eliminated in consolidation.

***Construction Disbursement Account***

Restricted cash includes a disbursement account established for the loan proceeds used to fund the renovation and construction of the building project. As of August 31, 2016 and 2015, the disbursement account balance was \$8,166 and \$8,278,375, respectively.

***Asset Management Fee Reserve***

OSG will be required to pay annual asset management fees due to UCI sub-CDE during the NMTC compliance period. Beginning December 31, 2015, OSG is required to pay UCI sub-CDE service fees of \$36,256 and audit and tax fees of \$12,000 annually for seven years.

***Other***

After the seven-year NMTC period expires, it is anticipated that PNC New Markets Investment Partners, LLC will exercise its put option to sell its ownership interest in the Fund to the Church, or the Church will exercise its call option to buy PNC New Markets Investment Partners, LLC's ownership interest, for a predetermined amount and the Fund will be liquidated and its assets distributed to the Church. Immediately after the exit transactions are completed, the Church will be the holder of OSG's notes payable and, as such, the loan will be eliminated in the consolidated financial statements. It is anticipated that the loan will be discharged. The loan agreement also has various financial and negative covenants, including certain reporting requirements that must be met by Crossroads.

**NOTE 7 LINES OF CREDIT**

The Church had an unsecured \$1,000,000 revolving line of credit agreement that matured in 2016. As of August 31, 2015, \$1,000,000 was borrowed against this line and paid in full during 2016. Interest accrued at 4.9% and was payable monthly.



**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 7 LINES OF CREDIT (Continued)**

During 2016, the Church entered into a credit line promissory note for a maximum principal sum of \$24,000,000 with a maturity date of February 2019. The note is collateralized by mortgages on certain real estate and personal property of the Church. Amounts outstanding bear interest at the lender's deposit rate plus 2.5% (4.5% at August 31, 2016). There was no amount borrowed against this line at August 31, 2016.

**NOTE 8 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of August 31 are available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
I'm In campaign	\$ 4,787,291	\$ -
Beans & Rice campaign	25,912	-
Student ministry missions	-	9,373
	<u>\$ 4,813,203</u>	<u>\$ 9,373</u>

**NOTE 9 NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

	<u>2016</u>	<u>2015</u>
Purpose restriction accomplished:		
I'm In initiatives	\$ 15,294,449	\$ -
OSG initiative	-	5,823,852
Game Change initiative	-	1,924,545
Beans & Rice	220,452	-
Scholarships	9,373	24,810
	<u>\$ 15,524,274</u>	<u>\$ 7,773,207</u>

**NOTE 10 RETIREMENT PLAN**

The Church maintains a defined contribution retirement plan (the "Plan") under Internal Revenue Code Section 403(b). The Plan provides for both employee and employer contributions. The Church contributes a discretionary amount up to 5% of the employee's regular salary. Contributions to the Plan totaled \$460,676 and \$400,625 for the years ended August 31, 2016 and 2015, respectively.

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 11 FUNCTIONAL EXPENSES**

Direct costs are charged directly to the program for which they were incurred. Functional expenses as of August 31 are as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 34,033,174	\$ 24,877,016
Management and general	3,884,802	2,611,873
Fundraising	<u>746,601</u>	<u>198,179</u>
	<u>\$ 38,664,577</u>	<u>\$ 27,687,068</u>

**NOTE 12 OPERATING LEASES**

During 2016, the Organization entered into three non-cancellable operating leases for rental space that expire in various years throughout 2037. Future minimum lease payments at August 31, 2016 were:

2017	\$ 391,808
2018	855,500
2019	855,500
2020	855,500
2021	855,500
Thereafter	<u>15,055,862</u>
	<u>\$ 18,869,671</u>

Rental expense for all operating leases was \$279,153 and \$147,309 for 2016 and 2015, respectively.

**NOTE 13 RELATED PARTY TRANSACTIONS**

***Master Lease Agreement***

OSG has entered into a master lease agreement with the Church to lease property commencing the earlier of the date that improvements are substantially completed or September 1, 2016 with a term of 30 years. The lease payments are set forth in the master lease and are receivable (payable) in quarterly installments during each lease year.

Pursuant to the master lease, future minimum rental receipts (payments) to be received in quarterly installments from the master tenant over the next five years and thereafter are as follows:

2017	\$ 360,000
2018	449,600
2019	504,288
2020	519,417
2021	534,999
Thereafter	<u>20,068,880</u>
	<u>\$ 22,437,184</u>

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 14 SUBSEQUENT EVENTS**

Subsequent to year end, Crossroads entered into two separate purchase agreements to sell two parcels of property located adjacent to their Oakley location. The total amount of the two purchase agreements is \$1,675,000. Both agreements are currently in their due diligence period.

Subsequent to year end, Crossroads entered into an asset acquisition agreement with Crossroads Christian Church of Lexington Kentucky. Per the agreement, Crossroads Christian Church donated the majority of its assets to Crossroads Church; and in return Crossroads Church assumed certain debts and liabilities of Crossroads Christian Church.

## **Accompanying Information**

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Consolidating Statement of Financial Position  
August 31, 2016**

	<u>Crossroads Community Church, Inc.</u>	<u>Crossroads OSG, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>				
Cash	\$ 2,311,398	\$ 1,005	\$ -	\$ 2,312,403
Cash - restricted	-	8,166	-	8,166
Accounts receivable	526,259	-	-	526,259
Contributions receivable	-	1,430,616	(1,430,616)	-
Prepays and other assets	436,451	-	-	436,451
Investments	148,985	-	-	148,985
Notes receivable	85,444	-	-	85,444
Loan receivable	6,105,723	-	-	6,105,723
Property and equipment, net	<u>86,073,407</u>	<u>12,010,846</u>	<u>-</u>	<u>98,084,253</u>
 Total assets	 <u>\$ 95,687,667</u>	 <u>\$ 13,450,633</u>	 <u>\$ (1,430,616)</u>	 <u>\$ 107,707,684</u>
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,550,402	\$ 799,474	\$ -	\$ 3,349,876
Accrued expenses	266,103	739,731	-	1,005,834
Deferred revenue	309,904	-	-	309,904
Contributions payable	1,430,616	-	(1,430,616)	-
Notes payable	<u>25,263,746</u>	<u>8,281,233</u>	<u>-</u>	<u>33,544,979</u>
 Total liabilities	 <u>29,820,771</u>	 <u>9,820,438</u>	 <u>(1,430,616)</u>	 <u>38,210,593</u>
<b>Net Assets</b>				
Unrestricted	61,053,693	3,630,195	-	64,683,888
Temporarily restricted	<u>4,813,203</u>	<u>-</u>	<u>-</u>	<u>4,813,203</u>
 Total net assets	 <u>65,866,896</u>	 <u>3,630,195</u>	 <u>-</u>	 <u>69,497,091</u>
 Total liabilities and net assets	 <u>\$ 95,687,667</u>	 <u>\$ 13,450,633</u>	 <u>\$ (1,430,616)</u>	 <u>\$ 107,707,684</u>

See independent auditors' report

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**

**Consolidating Statement of Activities  
Year Ended August 31, 2016**

	<b>Crossroads Community Church, Inc.</b>	<b>Crossroads OSG, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenue, gains and other support</b>				
Ministry contributions	\$ 27,549,340	\$ 627,657	\$ (627,657)	\$ 27,549,340
I'm In campaign	20,081,740	-	-	20,081,740
Mission trip contributions	1,236,121	-	-	1,236,121
Special event income	294,210	-	-	294,210
Beans & Rice contributions	246,364	-	-	246,364
In-kind revenue	202,056	-	-	202,056
Other income	110,622	12,245	-	122,867
Investment return	68,705	-	-	68,705
	<u>49,789,158</u>	<u>639,902</u>	<u>(627,657)</u>	<u>49,801,403</u>
<b>Expenses</b>				
Central Services	23,847,036	197,658	(627,657)	23,417,037
ReachOut	5,334,917	-	-	5,334,917
First Impressions	4,406,621	-	-	4,406,621
Experience	2,580,626	-	-	2,580,626
Multi-Site	1,804,451	-	-	1,804,451
Kids Club and Student Ministry	746,464	-	-	746,464
Spiritual Growth	374,461	-	-	374,461
	<u>39,094,576</u>	<u>197,658</u>	<u>(627,657)</u>	<u>38,664,577</u>
<b>Change in net assets</b>	10,694,582	442,244	-	11,136,826
<b>Net assets, beginning of period</b>	<u>55,172,314</u>	<u>3,187,951</u>	<u>-</u>	<u>58,360,265</u>
<b>Net assets, end of period</b>	<u>\$ 65,866,896</u>	<u>\$ 3,630,195</u>	<u>\$ -</u>	<u>\$ 69,497,091</u>

See independent auditors' report