

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

**Consolidated Financial Statements  
August 31, 2017 and 2016, and  
Independent Auditors' Report**

**CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY**  
**August 31, 2017 and 2016**

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## 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, 2017 and 2016, 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 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, 2017 and 2016, 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 audit was 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 20 to 21 are presented for purposes of additional analysis and are 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 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Barnes, Dennig & Co., Ltd.*

December 22, 2017  
Cincinnati, Ohio

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

**Consolidated Statements of Financial Position  
August 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash	\$ 1,175,764	\$ 2,312,403
Cash - restricted	264,895	8,166
Accounts receivable	501,179	526,259
Prepaid expenses and other assets	674,267	436,451
Investments	154,452	148,985
Notes receivable	64,405	85,444
Loan receivable	6,105,723	6,105,723
Property and equipment, net	<u>127,093,910</u>	<u>98,084,253</u>
Total assets	<u><u>\$ 136,034,595</u></u>	<u><u>\$ 107,707,684</u></u>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,512,184	\$ 3,349,876
Accrued expenses	2,410,878	1,005,834
Deferred revenue	537,067	309,904
Line of credit	18,208,407	-
Notes payable	<u>38,744,540</u>	<u>33,544,979</u>
Total liabilities	<u>61,413,076</u>	<u>38,210,593</u>
 <b>Net Assets</b>		
Unrestricted	74,356,624	64,683,888
Temporarily restricted	<u>264,895</u>	<u>4,813,203</u>
Total net assets	<u>74,621,519</u>	<u>69,497,091</u>
Total liabilities and net assets	<u><u>\$ 136,034,595</u></u>	<u><u>\$ 107,707,684</u></u>

See accompanying notes to consolidated financial statements

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

**Consolidated Statement of Activities  
Year Ended August 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue, gains and other support</b>			
Ministry contributions	\$ 32,378,757	\$ 350,000	\$ 32,728,757
I'm In campaign	-	19,778,657	19,778,657
Mission trip contributions	1,883,265	-	1,883,265
Special event income	453,845	-	453,845
In-kind revenue	139,776	-	139,776
Other income	1,037,127	-	1,037,127
Investment return	90,034	-	90,034
Net assets released from restrictions	24,676,965	(24,676,965)	-
	<u>60,659,769</u>	<u>(4,548,308)</u>	<u>56,111,461</u>
Total revenue, gains and other support			
<b>Expenses</b>			
National team operations	16,633,960	-	16,633,960
Campus operations	14,696,310	-	14,696,310
Depreciation	7,309,435	-	7,309,435
ReachOut	6,089,284	-	6,089,284
Information and technology	4,693,731	-	4,693,731
Interest expenses	1,564,313	-	1,564,313
	<u>50,987,033</u>	<u>-</u>	<u>50,987,033</u>
Total expenses			
<b>Change in net assets</b>	9,672,736	(4,548,308)	5,124,428
<b>Net assets, beginning of period</b>	<u>64,683,888</u>	<u>4,813,203</u>	<u>69,497,091</u>
<b>Net assets, end of period</b>	<u>\$ 74,356,624</u>	<u>\$ 264,895</u>	<u>\$ 74,621,519</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	<u>15,524,274</u>	<u>(15,524,274)</u>	<u>-</u>
 Total revenue, gains and other support	 <u>44,997,573</u>	 <u>4,803,830</u>	 <u>49,801,403</u>
 <b>Expenses</b>			
National team operations	15,279,542	-	15,279,542
Campus operations	9,702,919	-	9,702,919
Depreciation	4,020,459	-	4,020,459
ReachOut	5,257,951	-	5,257,951
Information and technology	3,122,777	-	3,122,777
Interest expenses	<u>1,280,929</u>	<u>-</u>	<u>1,280,929</u>
 Total expenses	 <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 Statements of Cash Flows  
Years Ended August 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 5,124,428	\$ 11,136,826
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	7,309,435	4,020,459
Amortization of debt issuance costs included in interest expense	16,222	16,222
Realized and unrealized losses on investments	4,539	15,902
Debt forgiveness on note receivable	21,039	20,643
(Gain) loss on sale of property and equipment	(255,815)	37,481
Donated building	-	(310,000)
Changes in:		
Accounts receivable	25,080	(299,082)
Other assets	(237,816)	(39,199)
Accounts payable	(1,999,900)	1,509,496
Accrued expenses	(4,912)	874,376
Deferred revenue	227,163	100,700
	<u>10,229,463</u>	<u>17,083,824</u>
<b>Cash flows from investing activities</b>		
Loans made	-	(21,110)
Purchases of investments	(24,837)	(73,576)
Proceeds from sales of investments	14,831	17,782
Purchases of property and equipment	(35,526,113)	(22,119,835)
Proceeds from sales of property and equipment	1,035,000	270,000
	<u>(34,501,119)</u>	<u>(21,926,739)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of notes payable	5,700,000	200,000
Principal payments on notes payable	(516,661)	(632,398)
Proceeds from line of credit	18,208,407	-
Payments on line of credit	-	(1,000,000)
	<u>23,391,746</u>	<u>(1,432,398)</u>
<b>Net change in cash and restricted cash</b>	(879,910)	(6,275,313)
<b>Cash and restricted cash, beginning of period</b>	<u>2,320,569</u>	<u>8,595,882</u>
<b>Cash and restricted cash, end of period</b>	<u>\$ 1,440,659</u>	<u>\$ 2,320,569</u>

(Continued)



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

**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended August 31, 2017 and 2016**

**Supplemental cash flows information**

Cash paid for interest	\$ 1,548,091	\$ 1,264,707
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**Noncash investing and financing activities**

Property and equipment purchases included in accounts payable and accrued expenses	\$ 1,572,164	\$ 2,058,368
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Crossroads Community Church, Inc. acquired Lexington Church (See Note 14) in 2017. No cash was transferred for the acquisition. In conjunction with the acquisition, liabilities were assumed and a contribution was received from Lexington Church as follows:

Fair value of property and equipment assets acquired	\$ 9,130,903
Liabilities assumed	<u>(5,763,727)</u>
Contribution received in acquisition of Lexington Church	<u>\$ 3,367,176</u>

(Continued)

## 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.

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 at August 31, 2017 includes cash balance required by a donor to be held in a separate bank account for the Leadership Scholar program.

Restricted cash at August 31, 2016 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, 2017 and 2016.

##### ***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, 2017 and 2016, Crossroads received donated services in the amounts of \$96,812 and \$189,123, 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, 2017 and 2016, Crossroads received in-kind donations in the amounts of \$42,964 and \$12,933, 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.

##### *New Accounting Standards*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contract with customers. This standard will be effective for the Church's year ending August 31, 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating, which will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Church's year ending August 31, 2021.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard aims to improve nonprofit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include: net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications will be reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two: net assets with donor restrictions and net assets without donor restrictions. Updated disclosure requirements will be presented regarding risk exposure and availability of cash for short term use. Expenses will be reported by both their natural and functional classification to aid in the usefulness of financial statements. This standard will be effective for the Church's year ending August 31, 2019.

The Church is currently in the process of evaluating the impact of adoption of these ASUs on its consolidated financial statements.

##### *Subsequent Event Evaluation*

In preparing its financial statements, Crossroads has evaluated events subsequent to the statement of financial position date through December 22, 2017, which is the date the financial statements were available to be issued. See Note 15 for disclosure of subsequent event regarding the sale of Church property.

## CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY

### Notes to Consolidated Financial Statements (Continued)

#### 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, 2017 and 2016, the outstanding balance was \$43,295 and \$64,334, 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, 2017 and 2016, the outstanding balance was \$21,110.

#### NOTE 3 INVESTMENTS AT FAIR VALUE

Investments as of August 31, 2017 and 2016 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>2017</u>	<u>2016</u>
Interest and dividend income	\$ 94,573	\$ 84,607
Net realized and unrealized losses on investments	<u>(4,539)</u>	<u>(15,902)</u>
	<u>\$ 90,034</u>	<u>\$ 68,705</u>

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

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

**NOTE 4 PROPERTY AND EQUIPMENT**

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

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 101,723,848	\$ 86,103,998
Equipment	11,542,451	10,056,962
IT equipment and software	11,180,224	4,851,564
Furniture and fixtures	2,540,227	2,053,846
Vehicles	<u>182,602</u>	<u>177,102</u>
	127,169,352	103,243,472
Less accumulated depreciation	<u>25,546,202</u>	<u>18,236,767</u>
	101,623,150	85,006,705
Land	12,253,090	11,162,309
Construction in progress	<u>13,217,670</u>	<u>1,915,239</u>
	<u><u>\$ 127,093,910</u></u>	<u><u>\$ 98,084,253</u></u>

Depreciation expense was \$7,309,435 and \$4,020,459 for the years ended August 31, 2017 and 2016, 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, 2017 and 2016, the note had an outstanding principal balance of \$24,856,432 and \$25,317,642, respectively. The note bears interest at an annual rate of 4.4% and the Church makes principal and interest payments of \$130,244 per month based on the amortization of the principal balance over a 360 month period. The note has a final maturity date of March 27, 2033, at which point all unpaid principal and interest are due, 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.

During 2017, the Church entered into a note payable to payoff the assumed mortgage from the Lexington Church acquisition (see Note 14) and finance building improvements. As of August 31, 2017 and 2016, the note had an outstanding principal balance of \$5,644,550 and \$0-, respectively. The note bears interest at an annual rate of 4.4% and the Church makes principal and interest payments of \$29,821 per month based on the amortization of the principal balance over a 330 month period. The note has a final maturity date of March 27, 2033, at which point all unpaid principal and interest are due, 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.

Interest expense was \$1,213,792 and \$1,168,843 for the years ended August 31, 2017 and 2016, respectively.

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

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

**NOTE 5 NOTES PAYABLE (CONTINUED)**

Future minimum principal maturities of the note for the Church at August 31, 2017 are:

2018	\$ 590,550
2019	617,063
2020	641,868
2021	673,588
2022	703,830
Thereafter	<u>27,274,083</u>
	<u><u>\$ 30,500,982</u></u>

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

	<u>2017</u>	<u>2016</u>
Note principal amount	\$ 30,500,982	\$ 25,317,642
Less unamortized debt issuance cost	<u>50,646</u>	<u>53,896</u>
	<u><u>\$ 30,450,336</u></u>	<u><u>\$ 25,263,746</u></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, 2017 and 2016 was \$14,354 and \$11,104, respectively. Amortization of the debt issuance costs was \$3,250 in 2017 and 2016 and has been included in interest expense.

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

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



## CROSSROADS COMMUNITY CHURCH, INC. AND ITS SUBSIDIARY

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 6 NEW MARKET TAX CREDIT (NMTC) (CONTINUED)

##### *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 \$119,324 and \$81,339 for the years ended August 31, 2017 and 2016, 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 \$27,541 and \$30,667 for the years ended August 31, 2017 and 2016, respectively.

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

	2017	2016
Notes principal amount	\$ 8,657,061	\$ 8,657,061
Less unamortized debt issuance cost	362,857	375,828
	<u>\$ 8,294,204</u>	<u>\$ 8,281,233</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, 2017 and 2016 was \$26,292 and \$13,321, respectively. Amortization of the debt issuance costs was \$12,972 in 2017 and 2016 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)**

***Notes Payable (Continued)***

Future minimum principal maturities of the note for OSG at August 31, 2017 are:

2018	\$	-
2019		-
2020		-
2021		-
2022		-
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 to contribute \$3,109,737 to OSG in order to ensure the building project is completed. As of August 31, 2017 and 2016, \$-0- and \$1,632,397 of this contribution was outstanding, respectively, 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, 2017 and 2016, the disbursement account balance was \$-0- and \$8,166, 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.

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

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

**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, 2016, \$1,000,000 was borrowed against this line and paid in full during 2016. Interest accrued at 4.9% and was payable monthly.

The Church has 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% (4.0% at August 31, 2017). At August 31, 2017 and 2016, \$18,208,407 and \$-0-, respectively, was borrowed against this line.

**NOTE 8 TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2017</u>	<u>2016</u>
Leadership Scholar program	\$ 264,895	\$ -
I'm In campaign	-	4,787,291
Beans & Rice campaign	-	25,912
	<u>\$ 264,895</u>	<u>\$ 4,813,203</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>2017</u>	<u>2016</u>
Purpose restriction accomplished:		
I'm In initiatives	\$ 24,565,948	\$ 15,294,449
Leadership Scholar program	85,105	-
Beans & Rice	25,912	220,452
Scholarships	-	9,373
	<u>\$ 24,676,965</u>	<u>\$ 15,524,274</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 \$624,422 and \$460,676 for the years ended August 31, 2017 and 2016, 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>2017</u>	<u>2016</u>
Program services	\$ 47,031,102	\$ 34,033,174
Management and general	3,912,046	3,884,802
Fundraising	<u>43,885</u>	<u>746,601</u>
	<u>\$ 50,987,033</u>	<u>\$ 38,664,577</u>

**NOTE 12 OPERATING LEASES**

The Organization has two non-cancellable operating leases for rental space that expire in various years throughout 2038. Future minimum lease payments at August 31, 2017 were:

2018	\$ 486,700
2019	870,350
2020	855,500
2021	855,500
2022	855,500
Thereafter	<u>14,623,750</u>
	<u>\$ 18,547,301</u>

Rental expense for all operating leases was \$199,026 and \$279,153 for 2017 and 2016, 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. For the year ended August 31, 2017 and 2016, OSG earned \$748,450 and \$-0-, respectively, of rental income. As of August 31, 2017 and 2016, rent receivable was \$388,450 and \$-0-, respectively. These transactions were eliminated in consolidation.

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:

2018	\$ 449,600
2019	504,288
2020	519,417
2021	534,999
2022	551,049
Thereafter	<u>19,517,831</u>
	<u>\$ 22,077,184</u>

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

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

#### **NOTE 14 BUSINESS COMBINATION**

On December 15, 2016 the Church acquired most of the assets and liabilities of Crossroads Christian Church of Lexington, Inc. ("Lexington Church"). Lexington Church donated most of its assets to the Church, while the Church assumed the mortgage and other liabilities of Lexington Church. The Boards of both churches prayerfully determined that the churches would be better together than apart.

The Church received land, building and building improvements with a fair value of \$9,130,903, and assumed liabilities, primarily a mortgage, with a fair value of \$5,763,727. There was no other consideration transferred as part of the deal. As a result, the Church recognized an inherent contribution of \$3,367,176 from the Lexington Church as part of the acquisition.

The acquisition was accounted for under the acquisition method with the acquired assets and liabilities recorded at their estimated fair value as of the acquisition date.

#### **NOTE 15 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 \$4,500,000. Both agreements are currently in their due diligence period. In addition, Crossroads sold another piece of real estate adjacent to their Oakley location subsequent to year end for a total of \$650,000.

**ACCOMPANYING INFORMATION**

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

**Consolidating Statement of Financial Position  
August 31, 2017**

	<u>Crossroads Community Church, Inc.</u>	<u>Crossroads OSG, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>				
Cash	\$ 1,174,541	\$ 1,223	\$ -	\$ 1,175,764
Cash - restricted	264,895	-	-	264,895
Accounts receivable	501,179	-	-	501,179
Deferred rent receivable - related party	-	388,450	(388,450)	-
Prepaid expenses and other assets	914,351	-	(240,084)	674,267
Investments	154,452	-	-	154,452
Notes receivable	64,405	-	-	64,405
Loan receivable	6,105,723	-	-	6,105,723
Property and equipment, net	115,065,840	12,028,070	-	127,093,910
	<u>\$ 124,245,386</u>	<u>\$ 12,417,743</u>	<u>\$ (628,534)</u>	<u>\$ 136,034,595</u>
	Total assets			
<b>Liabilities and Net Assets</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,512,184	\$ -	\$ -	\$ 1,512,184
Accrued expenses	2,410,878	-	-	2,410,878
Deferred rent payable - related party	388,450	-	(388,450)	-
Deferred revenue	537,067	240,084	(240,084)	537,067
Line of credit	18,208,407	-	-	18,208,407
Notes payable	30,450,336	8,294,204	-	38,744,540
	<u>53,507,322</u>	<u>8,534,288</u>	<u>(628,534)</u>	<u>61,413,076</u>
	Total liabilities			
<b>Net Assets</b>				
Unrestricted	70,473,169	3,883,455	-	74,356,624
Temporarily restricted	264,895	-	-	264,895
	<u>70,738,064</u>	<u>3,883,455</u>	<u>-</u>	<u>74,621,519</u>
	Total net assets			
	<u>\$ 124,245,386</u>	<u>\$ 12,417,743</u>	<u>\$ (628,534)</u>	<u>\$ 136,034,595</u>
	Total liabilities and net assets			

See independent auditors' report

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

**Consolidating Statement of Activities  
Year Ended August 31, 2017**

	<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	\$ 32,728,757	\$ -	\$ -	\$ 32,728,757
I'm In campaign	19,778,657	-	-	19,778,657
Mission trip contributions	1,883,265	-	-	1,883,265
Special event income	453,845	-	-	453,845
In-kind revenue	139,776	-	-	139,776
Other income	1,037,123	748,454	(748,450)	1,037,127
Investment return	90,034	-	-	90,034
	<u>56,111,457</u>	<u>748,454</u>	<u>(748,450)</u>	<u>56,111,461</u>
<b>Expenses</b>				
National team operations	17,341,131	41,279	(748,450)	16,633,960
Campus operations	14,696,310	-	-	14,696,310
Depreciation	7,002,385	307,050	-	7,309,435
ReachOut	6,089,284	-	-	6,089,284
Information and technology	4,693,731	-	-	4,693,731
Interest expenses	1,417,448	146,865	-	1,564,313
	<u>51,240,289</u>	<u>495,194</u>	<u>(748,450)</u>	<u>50,987,033</u>
<b>Change in net assets</b>	4,871,168	253,260	-	5,124,428
<b>Net assets, beginning of period</b>	<u>65,866,896</u>	<u>3,630,195</u>	<u>-</u>	<u>69,497,091</u>
<b>Net assets, end of period</b>	<u>\$ 70,738,064</u>	<u>\$ 3,883,455</u>	<u>\$ -</u>	<u>\$ 74,621,519</u>

See independent auditors' report