

AUSTIN STONE COMMUNITY CHURCH
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
JULY 31, 2018 AND 2017

AUSTIN STONE COMMUNITY CHURCH

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INDEPENDENT AUDITORS' REPORT

Austin Stone Community Church
313 E. Anderson Lane, Bld 3, Ste 100
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, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2018 and 2017, 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

December 20, 2018

AUSTIN STONE COMMUNITY CHURCH
STATEMENTS OF FINANCIAL POSITION
JULY 31, 2018 AND 2017

<u>ASSETS</u>		
	2018	2017
Current assets		
Cash and cash equivalents	\$ 3,884,771	\$ 3,775,440
Accounts receivable	201,022	166,655
Prepaid expenses and other assets	86,525	126,416
	4,172,318	4,068,511
Total current assets		
Property and equipment, net	32,377,419	29,251,916
	\$ 36,549,737	\$ 33,320,427
Total assets	\$ 36,549,737	\$ 33,320,427

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 1,241,692	\$ 657,823
Capital leases, current portion	13,920	25,902
Notes payable, current portion	522,100	2,678,262
	1,777,712	3,361,987
Total current liabilities		
Long-term liabilities		
Capital leases, net of current portion	3,561	17,480
Notes payable, net of current portion	20,719,653	17,155,750
Noncurrent accrued liabilities	225,000	45,000
	20,948,214	17,218,230
Total long-term liabilities		
Total liabilities	22,725,926	20,580,217
Net assets		
Unrestricted	13,114,654	10,531,177
Temporarily restricted	709,157	2,209,033
	13,823,811	12,740,210
Total net assets		
Total liabilities and net assets	\$ 36,549,737	\$ 33,320,427

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

AUSTIN STONE COMMUNITY CHURCH
STATEMENTS OF ACTIVITIES
YEARS ENDED JULY 31, 2018 AND 2017

Unrestricted net assets:	2018	2017
Revenues		
Tithes and offerings	\$ 16,307,816	\$ 14,976,425
Other revenue	1,814,641	1,703,301
Interest income	5,557	812
	18,128,014	16,680,538
Net assets released from restrictions:		
Restrictions satisfied by payments	3,512,887	3,953,970
	21,640,901	20,634,508
Expenses		
Campus leadership & connections	4,432,625	3,883,932
Central facilities & ministry support	3,259,530	3,388,299
Equipping & resources	1,700,626	2,904,020
Worship & gathering	2,613,381	2,372,930
Global missions	1,772,504	2,299,442
Family ministry	1,420,499	1,534,180
Strategic development & leadership	1,228,305	1,452,765
Local missions	1,176,251	1,285,791
Counseling center	870,796	703,744
National missions & church planting	371,281	657,199
Care & counseling ministry	211,626	219,675
	19,057,424	20,701,977
Increase (decrease) in unrestricted net assets	2,583,477	(67,469)
Temporarily restricted net assets		
Contributions	2,013,011	4,655,935
Net assets released from restrictions	(3,512,887)	(3,953,970)
	(1,499,876)	701,965
Increase (decrease) in temporarily restricted net assets		
Change in net assets	1,083,601	634,496
Net assets at beginning of year	12,740,210	12,105,714
Net assets at end of year	\$ 13,823,811	\$ 12,740,210

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

AUSTIN STONE COMMUNITY CHURCH
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2018 AND 2017

	2018	2017
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 1,083,601	\$ 634,496
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	950,565	985,185
(Increase) decrease in accounts receivable	(34,367)	59,600
(Increase) decrease in prepaid expenses and other assets	39,891	(55,671)
Increase (decrease) in accounts payable	583,869	512,640
Increase (decrease) in noncurrent accrued liabilities	180,000	45,000
Net cash provided by operating activities	2,803,559	2,181,250
<u>Cash flows from investing activities</u>		
Purchase of property and equipment	(4,076,068)	(11,367,458)
Net cash used in investing activities	(4,076,068)	(11,367,458)
<u>Cash flows from financing activities</u>		
Payments on capital lease obligations	(25,901)	(48,750)
Proceeds from long-term debt	1,586,003	10,984,790
Payments on long-term debt	(178,262)	(170,842)
Net cash provided by financing activities	1,381,840	10,765,198
Increase in cash and cash equivalents	109,331	1,578,990
Cash and cash equivalents - beginning of year	3,775,440	2,196,450
Cash and cash equivalents - end of year	\$ 3,884,771	\$ 3,775,440
<u>Supplemental Disclosure</u>		
Interest paid	\$ 1,090,865	\$ 349,624

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

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

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, 2018 and 2017.

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 \$5,000 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, 2018 AND 2017

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, 2018 AND 2017

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

Recently Issued Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires presentation on the face of the statements of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the currently required three classes. The standard also requires the presentation of the amount of the changes in each of the two classes of net assets on the face of the statements of activities. The entity will be required to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Church is currently evaluating the impact the standard will have on its 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, 2018, includes \$3,445,818 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:

	2018	2017
Land	\$ 8,706,534	\$ 8,706,534
Building	14,297,052	14,297,052
Furniture & fixtures	2,507,355	2,507,323
Equipment	2,095,715	1,810,989
Construction in progress	10,616,763	6,813,156
	38,223,419	34,135,054
Less: accumulated depreciation	(5,846,000)	(4,883,138)
Total property and equipment	\$32,377,419	\$29,251,916

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE C - PROPERTY AND EQUIPMENT (Continued)

Depreciation of property and equipment amounted to \$950,565 and \$985,185, for the years ended July 31, 2018 and 2017, respectively.

During the year ended July 31, 2017, the Church purchased land and a building and began the planning process for renovation of a portion of the building for a new West Campus worship facility. A portion of the building will be leased out to office tenants. The Church completed the construction during the summer of 2018. The total purchase price of the land and building was \$11.1 million. As of July 31, 2018, the Church has spent approximately \$4.4 million for improvements, which is capitalized as construction in progress.

NOTE D - LONG-TERM DEBT

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

	2018	2017
<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 (4.33% at July 31, 2018); 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>	\$ 4,095,929	\$ 4,214,249
<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 (4.33% at July 31, 2018); 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>	2,075,031	2,134,973
<p>Construction line of credit from Frost Bank with available credit of \$0 and an interest rate of 2.25% above the LIBOR rate, adjusted monthly (4.59% at July 31, 2018); secured by the Church's assets; interest and principal payments due monthly with all unpaid interest and principal due upon maturity. The note matures on September 1, 2025.</p>	2,500,000	2,500,000

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE D - LONG-TERM DEBT (Continued)

	2018	2017
Construction line of credit from Frost Bank with available credit of \$74,837 and an interest rate of 2.25% above the LIBOR rate, adjusted monthly (4.63% at July 31, 2018); secured by the Church's assets; interest due quarterly and quarterly principal payments of \$96,456 from July 24, 2019 to maturity with all unpaid interest and principal due upon maturity. The note matures on April 24, 2024.	9,570,793	7,984,790
Real Estate Lien Note from J. Campbell Murrell Family Fund with initial balance of \$2,500,000 and an interest rate of 12%; secured by a deed of trust on the Church's property; one-half of accrued interest payments due monthly with all unpaid interest and principal due upon maturity. The note matures on May 24, 2024.	2,500,000	2,500,000
Real Estate Lien Note from Sayre Family Fund with initial balance of \$500,000 and an interest rate of 12%; secured by a deed of trust on the Church's property; one-half of accrued interest payments due monthly with all unpaid interest and principal due upon maturity. The note matures on May 24, 2024.	500,000	500,000
	\$21,241,753	\$19,834,012

Interest expense amounted to \$362,322 and \$349,624 for the years ended July 31, 2018 and 2017, respectively. Interest capitalized to construction in progress amounted to \$741,043 and \$183,451 for the years ended July 31, 2018 and 2017, 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.

Effective April 24, 2017, the Church entered into an interest rate swap agreement in connection with the construction line of credit with Frost Bank. Under the agreement, the Church receives variable rate interest payments, based on the 3 month LIBOR plus 2.25%, and makes fixed interest rate payments, at 4.63% until the agreement terminates on April 24, 2024.

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

NOTE D - LONG-TERM DEBT (Continued)

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

<u>Year ending July 31,</u>	
2019	\$ 522,100
2020	685,578
2021	694,670
2022	703,463
2023	712,637
Thereafter	<u>17,923,305</u>
	<u><u>\$21,241,753</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>2018</u>	<u>2017</u>
Missions fund	\$ 610,071	\$ 764,329
Building fund	-	1,122,012
Austin Stone Institute	<u>99,086</u>	<u>322,692</u>
	<u><u>\$ 709,157</u></u>	<u><u>\$ 2,209,033</u></u>

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

	<u>2018</u>	<u>2017</u>
Mission fund activities	\$ 1,494,040	\$ 1,518,997
Building fund activities	1,136,532	390,064
Austin Stone Institute activities	<u>882,315</u>	<u>2,044,909</u>
	<u><u>\$ 3,512,887</u></u>	<u><u>\$ 3,953,970</u></u>

AUSTIN STONE COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2018 AND 2017

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 were \$3,105, with an implicit interest rate of 4.5%. Total payments under the agreement were \$12,419 and \$37,258 during the years ended July 31, 2018 and 2017, respectively. Assets under the capital lease agreement consisted of equipment with an original cost of \$167,166 and accumulated depreciation of \$167,166 as of July 31, 2018.

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 during the years ended July 31, 2018 and 2017. Assets under the capital lease agreement consist of equipment with an original cost of \$65,352 and accumulated depreciation of \$37,033 as of July 31, 2018.

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 the capital lease and the noncancelable operating 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>
2019	\$ 14,330	\$ 990,584
2020	3,582	700,831
2021	-	120,318
	<hr/>	<hr/>
Less: Imputed Interest	(431)	-
	<hr/>	<hr/>
	<u>\$ 17,481</u>	<u>\$ 1,811,733</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, 2018 and 2017, were \$1,466,005 and \$1,402,134, respectively.

AUSTIN STONE COMMUNITY CHURCH
 NOTES TO FINANCIAL STATEMENTS
 JULY 31, 2018 AND 2017

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>	
2019	\$ 181,287
2020	161,329
2021	<u>41,383</u>
	<u>\$ 383,999</u>

NOTE G - PERSONNEL EXPENSES

The Church paid salaries and related payroll benefits and taxes in the years ended July 31, 2018 and 2017, in the amount of \$8,292,994 and \$9,763,149, 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 \$315,220 and \$293,308 to the plan for the years ended July 31, 2018 and 2017, 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, 2018 and 2017, the Church billed these related parties approximately \$360,852 and \$341,000, respectively, for these services.

As of July 31, 2018 and 2017, the Church had a net receivable of \$15,869 and \$54,446, respectively, from For the City Network. As of July 31, 2018 and 2017, the Church had a net receivable of \$1,857 and \$1,531, respectively, from Unison Development, LLC.