



New Life
CHURCH

NEW LIFE CHURCH AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

December 31, 2017 and 2016

NEW LIFE CHURCH AND AFFILIATES

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Supplemental Information	
Independent Auditors' Report on Supplemental Information	18
Consolidating Statements of Financial Position	19
Consolidating Statements of Activities	21

INDEPENDENT AUDITORS' REPORT

Board of Elders
New Life Church and Affiliates
Colorado Springs, Colorado

We have audited the accompanying consolidated financial statements of New Life Church and Affiliates, which comprise the consolidated statements of financial position as of December 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 consolidated 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 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 audit 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.

Board of Elders
New Life Church and Affiliates
Colorado Springs, Colorado

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Life Church and Affiliates, as of December 31, 2017 and 2016, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Colorado Springs, Colorado
May 16, 2018

NEW LIFE CHURCH AND AFFILIATES

Consolidated Statements of Financial Position

	December 31,	
	2017	2016
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 1,803,015	\$ 2,350,378
Prepaid expenses and other assets	260,838	202,315
Contributions receivable	132,980	2,835
	2,196,833	2,555,528
Cash restricted for long-term purposes	486,873	-
Land, buildings, and equipment–net	22,472,174	23,185,881
	22,959,047	23,185,881
Total Assets	\$ 25,155,880	\$ 25,741,409
LIABILITIES AND NET ASSETS:		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 678,574	\$ 471,912
Deferred revenue	76,554	142,172
Interest rate swap agreement liability	142,433	237,944
Current portion of capitalized lease obligation	111,725	35,601
Current portion of notes payable	419,759	371,587
	1,429,045	1,259,216
Capitalized lease obligation, net of current portion	331,196	124,128
Notes payable, net of current portion	11,926,478	12,531,098
	12,257,674	12,655,226
	13,686,719	13,914,442
Net assets:		
Unrestricted:		
Undesignated	1,005,263	1,598,902
Equity in land, buildings, and equipment–net	9,458,408	9,816,157
	10,463,671	11,415,059
Temporarily restricted	1,005,490	411,908
	11,469,161	11,826,967
Total Liabilities and Net Assets	\$ 25,155,880	\$ 25,741,409

See notes to consolidated financial statements

NEW LIFE CHURCH AND AFFILIATES

Consolidated Statements of Activities

	Year Ended December 31,					
	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING:						
SUPPORT AND REVENUE:						
Contributions	\$ 14,499,684	\$ 1,811,290	\$ 16,310,974	\$ 12,960,397	\$ 1,844,841	\$ 14,805,238
Program income	1,043,027	-	1,043,027	1,248,421	-	1,248,421
Grant income	-	162,037	162,037	-	92,599	92,599
Sales income	409,515	-	409,515	258,659	-	258,659
Rental and other income	89,252	-	89,252	44,523	-	44,523
Total Support and Revenue	16,041,478	1,973,327	18,014,805	14,512,000	1,937,440	16,449,440
NET ASSETS RELEASED:						
Purpose restrictions	1,379,745	(1,379,745)	-	1,821,411	(1,821,411)	-
EXPENSES:						
Salaries and benefits	9,508,860	-	9,508,860	8,322,415	-	8,322,415
Missions	2,226,793	-	2,226,793	2,522,231	-	2,522,231
Ministry	1,910,145	-	1,910,145	1,737,139	-	1,737,139
Depreciation and amortization	1,871,553	-	1,871,553	1,774,480	-	1,774,480
Facilities	1,371,928	-	1,371,928	1,114,003	-	1,114,003
Office expenses	692,929	-	692,929	588,018	-	588,018
Interest	497,234	-	497,234	485,139	-	485,139
Cost of sales	388,680	-	388,680	334,619	-	334,619
Total Expenses	18,468,122	-	18,468,122	16,878,044	-	16,878,044
Change in Net Assets from Operations	(1,046,899)	593,582	(453,317)	(544,633)	116,029	(428,604)
NON-OPERATING:						
Change in interest rate swap agreement	95,511	-	95,511	(129,559)	-	(129,559)
Change in Net Assets	(951,388)	593,582	(357,806)	(674,192)	116,029	(558,163)
Net Assets, Beginning of Year	11,415,059	411,908	11,826,967	12,089,251	295,879	12,385,130
Net Assets, End of Year	\$ 10,463,671	\$ 1,005,490	\$ 11,469,161	\$ 11,415,059	\$ 411,908	\$ 11,826,967

See notes to consolidated financial statements

NEW LIFE CHURCH AND AFFILIATES

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (357,806)	\$ (558,163)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization expense	1,867,638	1,736,083
Amortization of deferred debt issue costs	3,915	5,619
Donations of land, buildings, and equipment	(28,197)	(55,826)
Gain (loss) on sales of land, buildings, and equipment	(8,840)	(401)
Contributions received for long-term purposes	(680,003)	(428,336)
Change in interest rate swap agreement	(95,511)	129,559
Write-off of old capitalized loan fees	-	32,777
Change in operating assets and liabilities:		
Prepaid expenses and other assets	(58,523)	21,124
Contributions receivable	(130,145)	(2,835)
Accounts payable and accrued liabilities	201,190	43,618
Deferred revenue	(65,618)	(54,049)
Net Cash Provided by Operating Activities	648,100	869,170
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of land, buildings, and equipment	(1,073,177)	(713,687)
Proceeds from sales of land, building, and equipment	11,987	1,200
Net Cash Used by Investing Activities	(1,061,190)	(712,487)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capitalized loan fees incurred	-	(39,147)
Contributions received for long-term purposes	680,003	428,336
Proceeds from capital lease obligation	291,314	159,729
Payments on capital lease obligation	(58,354)	-
Principal payments on notes payable	(560,363)	(548,067)
Net Cash Provided by Financing Activities	352,600	851
Change in Cash, Cash Equivalents, and Cash Restricted	(60,490)	157,534
Cash, Cash Equivalents, and Cash Restricted, Beginning of Year	2,350,378	2,192,844
Cash, Cash Equivalents, and Cash Restricted, End of Year	\$ 2,289,888	\$ 2,350,378
NON-CASH ACTIVITY AND SUPPLEMENTAL DISCLOSURES:		
Refinance of notes payable	\$ -	\$ 12,941,832
Land, buildings, and equipment obtained through accounts payable and accrued liabilities	\$ 55,704	\$ 30,208
Equipment obtained directly through a capital lease	\$ 50,232	\$ -
Cash paid for interest, none capitalized	\$ 465,525	\$ 522,897

See notes to consolidated financial statements

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

1. NATURE OF ORGANIZATIONS:

New Life Church (NLC) is an independent, nondenominational, charismatic church founded in 1985. NLC is operated as a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), and comparable state laws. However, NLC is subject to federal income tax on any unrelated business taxable income. NLC is not a private foundation under Section 509(c) of the IRC. The mission of NLC is to make disciples for Jesus Christ. NLC conducts services in various congregational locations in and around Colorado Springs, Colorado. NLC's primary source of revenue is from contributions.

The Dream Centers of Colorado Springs (Dream Centers) was incorporated in 2011, to provide health and hope for people in Colorado Springs who are working to rebuild their dreams. Dream Centers is operated as a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the IRC, and comparable state laws. However, Dream Centers is subject to federal income tax on any unrelated business taxable income. Dream Centers is not a private foundation under Section 509(c) of the IRC. NLC controls Dream Centers through economic dependence, board control, and is the sole member of the corporation.

As of January 1, 2017 Iglesia Nueva Vida (INV), a separate nonprofit organization, merged with NLC and contributed its net assets to NLC and now functions as a NLC congregation with all of its activity reflected in NLC's financial statements. INV essentially has no activity or balances in the existing legal entity. NLC controls INV through economic dependence and board control.

NLC, Dream Centers, and INV are referred to collectively as the Church.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Church maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of consolidated 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 and liabilities, disclosures of any contingent assets and liabilities at the date of the consolidated financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of NLC, Dream Centers, and INV. All significant intercompany transactions have been eliminated in consolidation.

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, cash and cash equivalents are defined as actual currency, demand deposits, and highly liquid investments with original maturities of three months or less. As of December 31, 2017 and 2016, amounts exceeding the federally insured limits were approximately \$1,540,000 and \$1,740,000, respectively. The Church has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

LAND, BUILDINGS, AND EQUIPMENT—NET

Items capitalized as land, buildings, and equipment are recorded at cost. Donated items are recorded at their fair market value on the date of the gift. Depreciation is computed on the straight-line method over the estimated useful lives (currently 5 - 30 years) of the related assets. The Church capitalizes fixed asset purchases exceeding \$1,000 with lesser amounts expensed in the year purchased.

CLASSES OF NET ASSETS

The consolidated financial statements report amounts separately by class of net assets as follows:

Unrestricted net assets are those currently available at the discretion of the board for use in the Church's operations and those resources invested in land, buildings, and equipment.

Temporarily restricted net assets are restricted by donors for specific operating purposes, or until time restrictions have been met. They are not currently available for use in the Church's activities until restrictions regarding their use have been fulfilled.

SUPPORT, REVENUE AND EXPENSES

Contributions are recorded when made, which may be when cash or other assets are received or unconditionally promised. Those contributions postmarked by December 31 are recorded as contributions and cash and cash equivalents rather than promises to give during the respective year. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. The Church reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Church reports expirations of donor restrictions when the donated long-lived assets are placed in service.

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT, REVENUE AND EXPENSES, continued

Program income consists of revenues received for conferences, retreats, ministry programs, and events held by the Church. Program income is recorded when earned which is when the program is held. Sales income is related to the sale of various cafe and ministry resources. Sales income is recorded when earned which is when items are sold. Rental income consists of revenues received for rental of Church facilities. Rental income is recorded when earned which is at the time facilities are used. Contributed rent is recorded by the Church at estimated fair market value when it receives discounted or free rent of facilities for its ministries. Contributed rent is recorded as contributions in the consolidated statements of activities. During the years ended December 31, 2017 and 2016, the Church received contributed rent of \$13,542 and \$25,200, respectively.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

CONTRIBUTED SERVICES

The Not-for-Profit Topic of the FASB ASC, requires recording the value of donated services that create or enhance nonfinancial assets or require specialized skills. Contributed services consist of medical services used in the women's clinic of Dream Centers and professional services. These services are valued using existing compensation amounts and externally published rates. Contributed services are recorded at their estimated fair market value on the date the services are provided and were \$194,160 and \$164,174 during the years ended December 31, 2017 and 2016, respectively. These services are included as contributions on the consolidated statements of activities.

ADVERTISING

The Church uses advertising to communicate the Gospel message to the City of Colorado Springs and to promote its programs to the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2017 and 2016, was \$106,729 and \$86,066, respectively.

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

3. LAND, BUILDINGS, AND EQUIPMENT–NET:

Land, buildings, and equipment–net consist of:

	December 31,	
	2017	2016
Land and land improvements	\$ 2,910,740	\$ 2,761,248
Buildings and building improvements	37,749,024	37,422,485
Equipment	9,197,740	8,532,961
	49,857,504	48,716,694
Less accumulated depreciation	(27,385,330)	(25,530,813)
	\$ 22,472,174	\$ 23,185,881

Equity in land, buildings, and equipment–net consists of:

	December 31,	
	2017	2016
Land, buildings, and equipment–net	\$ 22,472,174	\$ 23,185,881
Interest rate swap agreements liability	(142,433)	(237,944)
Less obligations included in accounts payable and accrued liabilities	(40,405)	(59,305)
Less accrued interest payable	(41,770)	(10,061)
Less capitalized lease obligation	(442,921)	(159,729)
Less notes payable - net	(12,346,237)	(12,902,685)
	\$ 9,458,408	\$ 9,816,157

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

4. CAPITALIZED LEASE OBLIGATION–NET:

Capitalized lease obligation–net consists of:

	December 31,	
	2017	2016
Equipment capital lease with monthly payments of \$3,763 until July, 2022.	\$ 184,000	\$ -
Equipment capital lease with monthly payments of \$2,967 until January, 2022.	130,587	159,729
Equipment capital lease with monthly payments of \$1,648 until November, 2022.	85,804	-
Equipment capital lease with monthly payments of \$933 until March, 2022.	42,530	-
	442,921	159,729
Less current portion	(111,725)	(35,601)
	\$ 331,196	\$ 124,128

Future minimum payments are:

<u>Year Ending December 31,</u>	
2018	\$ 111,725
2019	111,725
2020	111,725
2021	111,725
2022	44,248
	491,148
Less interest expense	(48,227)
	\$ 442,921

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

4. CAPITALIZED LEASE OBLIGATION–NET, continued:

Included in land, buildings, and equipment are the following assets under capital leases:

	December 31,	
	2017	2016
Furniture and equipment	\$ 501,275	\$ 159,729
Less accumulated amortization	(63,195)	(554)
	<u>\$ 438,080</u>	<u>\$ 159,175</u>

5. LINE OF CREDIT:

The Church was issued an unsecured line of credit from a bank in the amount of \$250,000 during the year ended December 31, 2012. The line of credit was renewed during the year ended December 31, 2017 and matures July 2018. There were no funds drawn against this line of credit during the years ended December 31, 2017 and 2016.

6. INTEREST RATE SWAP AGREEMENT:

The Church has one derivative agreement, known as an interest rate swap, as of December 31, 2017 and 2016. In substance, this agreement exchanges the variable rate terms contained in the underlying loan agreement for a fixed rate of interest contracted with the financial institution.

Under the swap agreement in place as of December 31, 2017 and 2016, the Church pays a fixed rate of 4.0% instead of a variable rate of 1.55% above LIBOR, effectively 2.04% and 2.32% as of December 31, 2017 and 2016, respectively. The original note payable balance covered by the agreement is \$9,917,832, and the aggregate notional amount of the swap agreement was \$9,639,059 and \$9,917,832 as of December 31, 2017 and 2016, respectively. The notional amount declines monthly as principal and interest payments are made on the note payable. As of December 31, 2017 and 2016, the interest rate swap had a fair value of \$(142,433) and \$(237,944), respectively. A liability is recorded in the consolidated statements of financial position as interest rate swap agreement liability.

The change in the fair value of the swap agreement of \$95,511 and \$(129,559) for the years ended December 31, 2017 and 2016, respectively, is reported as non-operating change in interest rate swap agreement in the consolidated statements of activities. This amount will be recomputed each year using the interest rates effective at the year end.

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

6. INTEREST RATE SWAP AGREEMENT, continued:

The Church uses appropriate valuation techniques to determine fair value based on inputs available. When appropriate, the Church measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available. The Church's swap agreement liability is considered Level 2 under the fair value hierarchy and is based on observable inputs other than the quoted prices included in Level 1 and are based on yields for swap agreements of comparable maturity, quality, and types as obtained from market transactions. The calculation is determined by the Church's lender.

7. NOTES PAYABLE:

Notes payable consist of:

	December 31,	
	2017	2016
Note payable to Bank of the West, secured by the Church's land, buildings, and equipment. Variable interest rate of 1.55% above LIBOR, effective 2.32%, on \$9,917,832 principal portion of the note payable, payable at the fixed interest rate of 4.00% per a swap agreement with the difference being paid to, or by the bank to reflect the total interest rate. Principal and interest payments are due monthly and fluctuate based on the relationship between the effective interest rate and the fixed interest rate. The monthly payment of principal and interest as of December 31, 2017 was \$57,473. The agreement terminates January 1, 2027, at which time a balloon payment will be required.	\$ 9,639,059	\$ 9,917,832
Note payable to Bank of the West, secured by the Church's land, buildings, and equipment. Monthly payments of \$15,885 are due, including interest at 2.83% fixed until January 1, 2022. After that date, the interest rate becomes variable at 1.55% above LIBOR until it matures on January 1, 2027, at which point a balloon payment will be required.	2,742,410	3,024,000
	12,381,469	12,941,832
Less current portion of notes payable	(419,759)	(371,587)
Less deferred debt issue costs-net	(35,232)	(39,147)
	\$ 11,926,478	\$ 12,531,098

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

7. NOTES PAYABLE, continued:

Deferred debt issue costs are recorded at cost and amortized on a straight-line basis over the term of the debt agreement. Amortization expense, related to deferred debt issue costs, was \$3,915 and \$5,619 for the years ended December 31, 2017 and 2016, respectively. Accumulated amortization was \$3,915 and \$0 as of December 31, 2017 and 2016, respectively. The remaining debt issue costs for the loans refinanced during the year ended December 31, 2016 were written off in the amount of \$32,777 during the year ended December 31, 2016.

Future minimum payments on the notes payable are:

<u>Year Ending December 31,</u>	
2018	\$ 423,674
2019	439,856
2020	455,510
2021	474,006
2022	492,222
Thereafter	<u>10,096,201</u>
	<u>\$ 12,381,469</u>

The Church was in compliance with all financial and reporting covenants as of December 31, 2017.

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

8. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	December 31,	
	2017	2016
New Life Church:		
Building projects	\$ 406,373	\$ -
Missions projects	335,217	313,383
Scholarship fund	78,399	85,313
Move the mountain	-	13,212
	819,989	411,908
 The Dream Centers of Colorado Springs:		
Time restricted	80,000	-
Mary's Home	105,501	-
	185,501	-
	\$ 1,005,490	\$ 411,908

9. OPERATING LEASES:

NLC leases church gathering and office space and certain office equipment under operating lease agreements, and Dream Centers rents space and certain equipment for the women's clinic. Lease terms provide that the Church is to pay, in addition to the minimum rentals summarized below, applicable taxes and any additional print charges. Lease expense under these agreements for the years ended December 31, 2017 and 2016, was \$162,795 and \$55,362, respectively. Future minimum lease payments are:

<u>Year Ending December 31,</u>	
2018	\$ 125,780
2019	88,524
2020	15,301
2021	4,501
2022	1,875
	\$ 235,981

Also, in May 2006, the Church entered into a fifty-year lease with Pikes Peak Community College to lease a portion of the college's land. In lieu of rent, the Church agreed to construct and maintain a parking lot and pay the electricity for the parking lot. The parking lot was completed during the year ended December 31, 2006, and capitalized at \$632,623 with accumulated depreciation of \$353,215 and \$321,583 as of December 31, 2016 and 2015, respectively. The parking lot is being depreciated over a life of 20 years.

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

10. FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the program services and supporting activities benefited. Functional expenses are:

	Year Ended December 31,	
	2017	2016
Program services	\$ 16,099,482	\$ 14,922,842
Supporting activities:		
General and administrative	1,923,489	1,766,987
Fund-raising	267,383	188,215
	<u>\$ 18,290,354</u>	<u>\$ 16,878,044</u>

11. OPERATING AND NON-OPERATING ACTIVITIES:

The activity of the Church has been reported in the consolidated statements of activities in the following two categories: operating and non-operating. Operating includes the core church and ministry activities of the Church. Non-operating includes all other activity that is not considered to be core church and ministry activities, such as the change in the interest rate swap agreement.

12. RETIREMENT PLAN:

Effective January 1, 2008, the Church adopted a 403(b) retirement plan for all employees. Total employer contributions and matches (excluding the senior pastor) for the years ended December 31, 2017 and 2016 were \$167,398 and \$126,214, respectively. As part of the senior pastor's annual compensation, the non-staff elders, which comprise the compensation committee, discretionally allocated a percentage of his compensation to this plan in the amount of \$25,293 and \$23,856, during the years ended December 31, 2017 and 2016, respectively.

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

13. RELATED PARTY TRANSACTIONS:

The Board of Elders approved a special retirement compensation bonus to a retiring staff person who also serves on the Board of Elders. The retirement bonus of one year salary plus benefits is in recognition and appreciation of 10 years of exemplary and faithful service during a very critical period. The amount has been recorded as a liability as of December 31, 2017, and will be paid out monthly during 2018.

During the years ended December 31, 2017 and 2016, the Church made contributions and paid missions support and reimbursements totaling \$17,600 and \$35,653, respectively, to a related organization. The executive director/chief financial officer of the organization is also an elder of the Church. The Church also made contributions to a local related organization of \$25,200 and \$56,044 during the years of December 31, 2017 and 2016, respectively. The CEO and the chairman of the board of the local organization were elders of the Church during both years.

During the year ended December 31, 2017 and 2016, the Church purchased from a Christian publishing company books and worship CDs authored by several key employees on the Church's executive team totaling \$17,835 and \$42,162, respectively. Additionally, the Church purchased from the same publisher \$16,213 and \$15,951 for materials sold in the bookstore for the years ended December 31, 2017 and 2016, respectively. The publisher owns the rights to the Church's recorded worship music as well. The royalties earned during the year ended December 31, 2017 and 2016, amounted to \$66,899 and \$81,420, respectively. The CEO of this company is a member of the board of elders of the Church.

Also during the year ended December 31, 2016, the Church obtained the rights to a magazine and a conference from the same Christian publishing company. The Church received \$81,690 in magazine subscription revenue.

The Church paid a consulting company \$96,693 and \$22,950 during the years ended December 31, 2017 and 2016. The company is owned by the son of one of the Church's executive pastors.

NEW LIFE CHURCH AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

14. SUBSEQUENT EVENTS:

Subsequent events were evaluated through May 16, 2018, which is the date the financial statement were available to be issued.

During February 2018, the Church borrowed \$2,000,000 from a financial institution, mortgaged by property and equipment purchased by the Church. The loan matures in February 2028 at which point in time a balloon payment is due. A variable interest rate exists at 2.15% above LIBOR.

Dream Centers purchased two four-plex apartment units adjacent to Mary's Home as expansion property in January 2018. Dream Centers' plans are to repurpose the properties to create a Family Life Center and a Family Services Center. This will also free up three housing units in the existing Mary's Home to house more single moms and their children. The total acquisition price for the two properties was approximately \$468,000 which represents \$348,000 for the purchase price, plus \$120,000 reserved for required environmental remediation. Dream Centers financed the purchase and remediation with a 5 year promissory note from Integrity Bank and Trust for \$345,000, bearing interest at a fixed rate of 4.5%, amortized over 20 years with a balloon payment due in March 2023. The balance was paid from available cash.

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION**

Board of Elders
New Life Church and Affiliates
Colorado Springs, Colorado

We have audited the consolidated financial statements of New Life Church and Affiliates as of and for the years ended December 31, 2017 and 2016, and our report thereon dated May 16, 2018, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and they 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 consolidating information has been subjected to the auditing procedures applied in the audits 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.

Capin Crouse LLP

Colorado Springs, Colorado
May 16, 2018

NEW LIFE CHURCH AND AFFILIATES

Consolidating Statements of Financial Position

	December 31,							
	2017				2016			
	NLC	Dream Centers	Eliminations	Total	NLC	Dream Centers	Eliminations	Total
ASSETS:								
Current assets:								
Cash and cash equivalents	\$ 1,176,573	\$ 626,442	\$ -	\$ 1,803,015	\$ 1,764,313	\$ 586,065	\$ -	\$ 2,350,378
Prepaid expenses and other assets	249,107	11,731	-	260,838	202,315	-	-	202,315
Contributions receivable	7,500	135,643	(10,163)	132,980	-	2,835	-	2,835
	<u>1,433,180</u>	<u>773,816</u>	<u>(10,163)</u>	<u>2,196,833</u>	<u>1,966,628</u>	<u>588,900</u>	<u>-</u>	<u>2,555,528</u>
Cash restricted for long-term purposes	406,372	80,501	-	486,873	-	-	-	-
Land, buildings, and equipment-net	<u>20,751,037</u>	<u>1,721,137</u>	<u>-</u>	<u>22,472,174</u>	<u>21,631,076</u>	<u>1,554,805</u>	<u>-</u>	<u>23,185,881</u>
Total Assets	<u>\$ 22,590,589</u>	<u>\$ 2,575,454</u>	<u>\$ (10,163)</u>	<u>\$ 25,155,880</u>	<u>\$ 23,597,704</u>	<u>\$ 2,143,705</u>	<u>\$ -</u>	<u>\$ 25,741,409</u>
LIABILITIES AND NET ASSETS:								
Liabilities:								
Current liabilities:								
Accounts payable and accrued liabilities	\$ 614,844	\$ 73,893	\$ (10,163)	\$ 678,574	\$ 382,824	\$ 89,088	\$ -	\$ 471,912
Deferred revenue	76,554	-	-	76,554	142,172	-	-	142,172
Interest rate swap agreement liability	142,433	-	-	142,433	237,944	-	-	237,944
Current portion of capital lease obligation	111,725	-	-	111,725	35,601	-	-	35,601
Current portion of notes payable	419,759	-	-	419,759	371,587	-	-	371,587
	<u>1,365,315</u>	<u>73,893</u>	<u>(10,163)</u>	<u>1,429,045</u>	<u>1,170,128</u>	<u>89,088</u>	<u>-</u>	<u>1,259,216</u>
Capital lease obligation, net of current portion	331,196	-	-	331,196	124,128	-	-	124,128
Notes payable, net of current portion	11,926,478	-	-	11,926,478	12,531,098	-	-	12,531,098
	<u>13,622,989</u>	<u>73,893</u>	<u>(10,163)</u>	<u>13,686,719</u>	<u>13,825,354</u>	<u>89,088</u>	<u>-</u>	<u>13,914,442</u>

(continued)

NEW LIFE CHURCH AND AFFILIATES

Consolidating Statements of Financial Position

(continued)

	December 31,							
	2017				2016			
	NLC	Dream Centers	Eliminations	Total	NLC	Dream Centers	Eliminations	Total
LIABILITIES AND NET ASSETS,								
continued:								
Net assets:								
Unrestricted:								
Undesignated	410,340	584,760	10,163	1,005,263	1,099,090	499,812	-	1,598,902
Equity in land, buildings, and equipment-net	7,737,271	1,721,137	-	9,458,408	8,261,352	1,554,805	-	9,816,157
	8,147,611	2,305,897	10,163	10,463,671	9,360,442	2,054,617	-	11,415,059
Temporarily restricted	819,989	195,664	(10,163)	1,005,490	411,908	-	-	411,908
	8,967,600	2,501,561	-	11,469,161	9,772,350	2,054,617	-	11,826,967
Total Liabilities and Net Assets	<u>\$ 22,590,589</u>	<u>\$ 2,575,454</u>	<u>\$ (10,163)</u>	<u>\$ 25,155,880</u>	<u>\$ 23,597,704</u>	<u>\$ 2,143,705</u>	<u>\$ -</u>	<u>\$ 25,741,409</u>

NEW LIFE CHURCH AND AFFILIATES

Consolidating Statements of Activities

	Year Ended December 31,							
	2017				2016			
	NLC	Dream Centers	Eliminations	Total	NLC	Dream Centers	Eliminations	Total
OPERATING:								
SUPPORT AND REVENUE:								
Contributions	\$ 14,975,811	\$ 2,178,859	\$ (843,696)	\$ 16,310,974	\$ 14,108,365	\$ 1,499,538	\$ (802,665)	\$ 14,805,238
Program income	1,043,027	-	-	1,043,027	1,248,421	-	-	1,248,421
Grant income	-	162,037	-	162,037	-	92,599	-	92,599
Sales income	409,515	-	-	409,515	258,659	-	-	258,659
Rental and other income	66,552	22,700	-	89,252	28,438	16,085	-	44,523
Total Support and Revenue	16,494,905	2,363,596	(843,696)	18,014,805	15,643,883	1,608,222	(802,665)	16,449,440
EXPENSES:								
Salaries and benefits	8,579,506	1,017,295	(87,941)	9,508,860	7,600,310	771,332	(49,227)	8,322,415
Missions	2,565,557	416,991	(755,755)	2,226,793	2,819,434	456,235	(753,438)	2,522,231
Ministry	1,910,145	-	-	1,910,145	1,737,139	-	-	1,737,139
Depreciation and amortization	1,783,504	88,049	-	1,871,553	1,702,774	71,706	-	1,774,480
Facilities	1,213,309	158,619	-	1,371,928	1,008,483	105,520	-	1,114,003
Office expenses	457,231	235,698	-	692,929	333,231	254,787	-	588,018
Interest	497,234	-	-	497,234	485,139	-	-	485,139
Cost of sales	388,680	-	-	388,680	334,619	-	-	334,619
Total Expenses	17,395,166	1,916,652	(843,696)	18,468,122	16,021,129	1,659,580	(802,665)	16,878,044
Change in Net Assets from Operations	(900,261)	446,944	-	(453,317)	(377,246)	(51,358)	-	(428,604)

(continued)

NEW LIFE CHURCH AND AFFILIATES

Consolidating Statements of Activities

(continued)

	Year Ended December 31,							
	2017				2016			
	NLC	Dream Centers	Eliminations	Total	NLC	Dream Centers	Eliminations	Total
NON-OPERATING:								
Change in interest rate swap agreement	95,511	-	-	95,511	(129,559)	-	-	(129,559)
Change in Net Assets	(804,750)	446,944	-	(357,806)	(506,805)	(51,358)	-	(558,163)
Net Assets, Beginning of Year	9,772,350	2,054,617	-	11,826,967	10,279,155	2,105,975	-	12,385,130
Net Assets, End of Year	\$ 8,967,600	\$ 2,501,561	\$ -	\$ 11,469,161	\$ 9,772,350	\$ 2,054,617	\$ -	\$ 11,826,967