

RIVER POINTE COMMUNITY CHURCH, INC.

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

MARCH 31, 2016

River Pointe Community Church, Inc.
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SALMON SIMS THOMAS

Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Advisory Team
River Pointe Community Church, Inc.

We have audited the accompanying financial statements of River Pointe Community Church, Inc. ("Organization"), which comprise the statement of financial position as of March 31, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Organization's 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

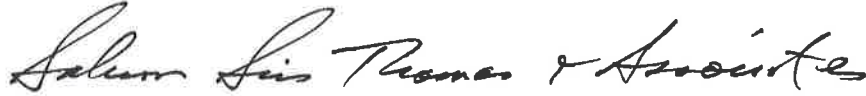
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditor considers 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 River Pointe Community Church, Inc. as of March 31, 2016 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Salmon Sims Thomas & Associates".

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

December 15, 2016

River Pointe Community Church, Inc.
Statement of Financial Position
March 31, 2016

ASSETS

Cash	\$ 6,113,040
Investments	1,313,456
Prepaid expenses	181,952
Property and equipment, net	23,967,826
TOTAL ASSETS	<u>\$ 31,576,274</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 415,445
Contract payable	132,917
Amount held on behalf of others	2,330
Advance receipts	37,694
Mortgage note payable	5,101,738
Notes payable	57,058
Total Liabilities	<u>5,747,182</u>

Net Assets

<i>Unrestricted</i>	
Board designated	1,062,879
Undesignated	19,055,052
	<u>20,117,931</u>
<i>Temporarily restricted</i>	5,711,161
Total Net Assets	<u>25,829,092</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 31,576,274</u>

The accompanying notes are an integral part of this financial statement.

River Pointe Community Church, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended March 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Support			
Contributions	\$ 6,511,449	\$ 6,806,015	\$ 13,317,464
Program fees	609,780	-	609,780
Bookstore and publishing revenues	19,924	-	19,924
Café revenues	78,470	-	78,470
Other revenues	14,453	-	14,453
Investment income	363	-	363
Gain on sale of land	504,551	-	504,551
	<u>7,738,990</u>	<u>6,806,015</u>	<u>14,545,005</u>
Net assets released from restrictions	3,663,845	(3,663,845)	-
Total Revenues and Support	<u>11,402,835</u>	<u>3,142,170</u>	<u>14,545,005</u>
Expenses			
Program Services			
Salaries and related expenses	2,863,501	-	2,863,501
Missions	468,999	-	468,999
Member ministries	549,541	-	549,541
Student ministries	714,511	-	714,511
Worship and music	326,824	-	326,824
Bookstore and café	100,041	-	100,041
Total Program Services	<u>5,023,417</u>	<u>-</u>	<u>5,023,417</u>
Supporting Services			
Salaries and related expenses	1,568,675	-	1,568,675
Facilities and grounds	687,976	-	687,976
Depreciation	874,127	-	874,127
General and administrative	843,965	-	843,965
Campaigns and building	579,597	-	579,597
Interest	95,663	-	95,663
Total Supporting Services	<u>4,650,003</u>	<u>-</u>	<u>4,650,003</u>
Total Expenses	<u>9,673,420</u>	<u>-</u>	<u>9,673,420</u>
Increase in Net Assets	1,729,415	3,142,170	4,871,585
Net Assets, March 31, 2015	12,356,154	2,568,991	14,925,145
Assets acquired in merger	<u>6,032,362</u>	<u>-</u>	<u>6,032,362</u>
Net Assets, March 31, 2016	<u>\$ 20,117,931</u>	<u>\$ 5,711,161</u>	<u>\$ 25,829,092</u>

The accompanying notes are an integral part of this financial statement.

River Pointe Community Church, Inc.
Statement of Cash Flows
For the Year Ended March 31, 2016

Cash Flows From Operating Activities

Increase in Net Assets	\$ 10,903,947
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	874,127
Donated stock	(22,843)
Gain on sale of fixed asset	(504,551)
Realized gain on investments	(353)
Unrealized gain on investments	(363)
Reinvested dividends and interest	(80)
Increase in assets:	
Prepaid expenses	(99,377)
Increase (decrease) in liabilities:	
Accounts payable	278,227
Contract payable	132,917
Amount held on behalf of others	2,280
Advance receipts	(28,077)
Net Cash Provided by Operating Activities	<u>11,535,854</u>

Cash Flows From Investing Activities

Land acquired from merger	(5,863,200)
Purchase of equipment	(3,254,649)
Purchase of investments	(406)
Proceeds from sale of investments	23,196
Proceeds from sale of land	530,311
Net Cash Used by Investing Activities	<u>(8,564,748)</u>

Cash Flows From Financing Activities

Loan borrowings	837,877
Repayments on notes payable	(261,255)
Net Cash Provided by Financing Activities	<u>576,622</u>

Net Increase in Cash 3,547,728

Cash, beginning of year 2,565,312

Cash, end of year \$ 6,113,040

Supplemental Information

Interest paid	<u><u>\$ 95,663</u></u>
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The accompanying notes are an integral part of this financial statement.

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 1: ORGANIZATION

River Pointe Community Church, Inc. (the “Church”) is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Church’s primary activities are church services, church events and ministry services to the public in Richmond, Missouri City, and Houston, Texas. The Church is dedicated to spreading the Gospel through establishing, developing, and promoting all aspects of church ministry within the surrounding community. The Church is supported primarily through contributions from its congregation and a portion of its revenue is tied to the local economy.

Merger with West End Baptist Church

On August 28, 2015, the Church merged with West End Baptist Church (WEBC) in Houston. The Church assumed the WEBC’s assets and is responsible for the payment of future expenses. WEBC’s assets consisted of a cash balance of approximately \$169,200, and land and buildings valued at approximately \$5,863,200.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Church’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in recording depreciation. Actual results could differ from those estimates.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Church and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations. Board designated net assets are considered unrestricted net assets in which the board has internally designated stipulations for purposes of the various programs held.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expirations of temporarily restricted net assets (*i.e.*, the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions are recognized as revenues in the period unconditional promises to give are received. Contributions of assets other than cash are recorded at their estimated fair value, on the date of donation.

Cash and Cash Equivalents

The Church considers all highly liquid instruments, including certificates of deposit, with an original maturity of ninety days or less, to be cash equivalents. The Church places cash which, at times, may exceed federally-insured limits with high-credit quality financial institutions. The Church has not experienced any losses on such assets.

Investments

Investments consist of treasury bills recorded at fair value. The Church also receives donated stock that is converted to cash within thirty days. The Church did not hold any stock as of March 31, 2016. Increases or decreases in fair value of the donated stock are recorded as realized or unrealized gains and losses and are reflected on the Statement of Activities.

Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at March 31, 2016.

Treasury bills: Valued at the closing price reported in an active market in which the security is traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Church believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The provisions of Topic ASC 820 did not have an impact on the Church's nonfinancial assets and nonfinancial liabilities that are not permitted or required to be measured at fair value on a recurring basis.

Property and Equipment

Property and equipment are stated at cost if purchased, or at fair value at the date the equipment was donated. Major expenditures and those which substantially increase useful lives of the assets are capitalized. Maintenance, repairs, and replacements, which do not improve or extend the lives of the respective assets, are charged to operations when incurred. When property and equipment is sold or otherwise disposed of, the asset is removed, and any gain or loss is included in operations.

Depreciation has been calculated using the straight-line method based on the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	5-7 years
Vehicles	5 years
Buildings and building improvements	10-39 years
Land improvements	20 years

Donated assets are reported as unrestricted support unless the donor has restricted the asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Church reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Church reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Income Taxes

The Church is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in Section 501(c)(3) of the IRC. The Church has been classified as an organization that is not a private foundation under IRC Section 509(a)(2), and as such, contributions to the Church qualify for deductions as charitable contributions. However, income generated from activities unrelated to the Church's exempt purpose is subject to tax under IRC Section 511.

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Uncertainty in Income Taxes

Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of Topic ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statements of activities or accrued in the statements of financial position. Federal and state tax returns of the entity are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Date of Management's Review

Subsequent events have been evaluated for potential recognition or disclosure through December 15, 2016, which is the date the financial statements were available to be issued.

NOTE 3: INVESTMENTS

As of March 31, 2016, investments consisted of:

Treasury bills	\$ 1,313,456
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The Church had an unrealized gain of \$363 for the year ended March 31, 2016.

NOTE 4: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table sets forth by level, within the fair value hierarchy, the Church's assets at fair value as of March 31, 2016:

<u>Fair Value Measurements at Reporting Date Using:</u>				
	<u>Fair Value</u>	Quoted Prices in Active markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Treasury bills	\$1,313,456	\$1,313,456	\$ -	\$ -

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of March 31, 2016:

Land and improvements	\$ 9,630,022
Buildings and improvements	14,997,876
Furniture and equipment	3,270,605
Construction in progress	2,115,102
Vehicles	<u>194,279</u>
	30,207,884
Less: Accumulated depreciation	<u>(6,240,058)</u>
	<u>\$ 23,967,826</u>

The Church began construction of a storage facility in 2016, with an estimated completion date of June 2016. As of March 31, 2016, construction costs of approximately \$278,000 have been capitalized and are included in construction in progress. Additionally, the Church began designing a children's building in 2016. Construction is set to begin in January 2017, with an estimated completion date of October 2017. As of March 31, 2016, construction costs of approximately \$545,000 have been capitalized and are included in construction in progress. In February 2016, the Church entered into a construction agreement for the renovation of the West End Church building, with an estimated completion date of October 2016, and approximate costs of \$3,900,000. Total project costs of the West End Church building renovation are estimated to be \$6,100,000. As of March 31, 2016, approximately \$1,292,000 have been capitalized and included in construction in progress.

NOTE 6: CONTRACT PAYABLE

On August 28, 2015, the Church signed a part-time contract agreement with the former pastor of WEBC, as part of the merger. The agreement commenced on September 1, 2015 and expires on August 30, 2018, with an annual salary of \$55,000 per year. The remaining commitment at March 31, 2016 was \$-.

NOTE 7: NOTES PAYABLE

The Church signed a note payable to a financial institution in 2004 for \$8,000,000 for construction purposes. On November 1, 2010, there was a mandatory reduction of principal to \$5,500,000 upon conversion to a long-term mortgage note payable. The current monthly payments are fixed at \$18,333 plus accrued interest at 1.75% (based on LIBOR and subject to fluctuation). The maturity date is November 1, 2017 at which time the remaining principal and interest balances will be due. The note is secured by all real and personal property. The outstanding balance at March 31, 2016 was \$4,326,667.

In September 2015, the Church signed a note payable with a financial institution for \$800,000 to purchase a parsonage. The interest rate on the note payable is 3.13%. Monthly principal and interest payments of \$5,598 begin September 1, 2015 through November 1, 2017, at which time the remaining principal is due. The note payable is secured by the church land and buildings in Richmond, Texas. The outstanding balance at March 31, 2016 was \$775,071.

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 7: NOTES PAYABLE (CONTINUED)

In April 2013, the Church executed a loan payable in the amount of \$21,958 to purchase four utility vehicles. The loan has annual interest of 1.80% and monthly payments of \$627. The loan is secured by the vehicles and matures in April 2016. The outstanding balance at March 31, 2016 was \$626. In October 2013, the Church executed a vehicle loan payable in the amount of \$34,332 to purchase a vehicle. The loan has annual interest of 3.99% and monthly payments of \$538. The loan is secured by the vehicle and matures in November 2019. The outstanding balance at March 31, 2016 was \$21,376.

In August 2015, the Church executed a vehicle loan payable in the amount of \$21,756 to purchase a vehicle. The loan has annual interest of 3.74% and monthly payments of \$399. The loan is secured by the vehicle and matures in September 2020. The outstanding balance at March 31, 2016 was \$19,418. In December 2015, the Church executed a vehicle loan payable in the amount of \$16,121 to purchase a vehicle. The loan has annual interest of 3.39% and monthly payments of \$293. The loan is secured by the vehicle and matures in January 2021. The outstanding balance at March 31, 2016 was \$15,638.

Future minimum principal payments scheduled under the mortgage and vehicle notes payable agreements are approximately as follows:

For the years ending March 31,

2017	\$ 275,300
2018	4,850,200
2019	13,300
2020	12,100
2021	7,900
2022 and thereafter	-
Total	<u>\$ 5,158,800</u>

NOTE 8: LINE OF CREDIT

The Church obtained an \$8,812,000 non-revolving line of credit with a financial institution in February 2016, with funding available through January 2019. Interest is to be paid monthly on the outstanding balance at the LIBOR daily floating rate plus 2.25%. The line of credit is secured by the Church's real estate in Richmond and Houston, Texas. There were no funds drawn on the line of credit, and no outstanding balance as of March 31, 2016.

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 9: LEASE COMMITMENTS

Operating Lease

The Church leases office equipment under noncancelable operating lease agreements with varying terms that expire in March 2016, June 2017, and January 2020. The Church also had three facility leases. The first lease expired on December 31, 2015, with costs that fluctuate by month, which was not renewed and became month-to-month. The second lease began in March 2015 and expired in September 2015. Beginning in October 2015, the lease became week-to-week with \$2,000 payments. The third lease commenced in October 2015, with an expiration of October 2016 and monthly payments of \$1,232. Total lease expense for the year ended March 31, 2016 was approximately \$185,000.

Future minimum rental payments required under operating leases with initial or remaining noncancelable lease terms in excess of one year are approximately as follows for the years ending March 31,

2017	\$	43,500
2018		34,500
2019		33,900
2020 and thereafter		<u>28,300</u>
Total	\$	<u>140,200</u>

NOTE 10: TEMPORARILY RESTRICTED NET ASSETS

At March 31, 2016, the purposes and corresponding balances remaining in temporarily restricted net assets were approximately as follows:

Show Up Campaign	\$	2,229,200
Because of Others Campaign		3,077,200
Missions		276,000
Special Offerings		125,800
Summer Camp		50,100
Children's		66,300
Benevolence and assistance		23,400
Cuba Fund		33,200
Counseling		<u>1,000</u>
	\$	<u>5,882,200</u>

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 10: TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Temporarily restricted net assets released from restrictions were approximately as follows:

Because of Others Campaign	\$ 2,396,200
Show Up Campaign	133,200
Missions	403,400
West End	481,500
Summer Camp	61,700
Children's	73,000
Benevolence and assistance	33,200
Cuba Fund	80,900
Counseling	700
Special Offering	<u>100</u>
	<u>\$ 3,663,900</u>

NOTE 11: UNRESTRICTED NET ASSETS

Unrestricted net assets consist of certain board designated amounts and general unrestricted amounts available for all Church operations. The components of board designated net assets at March 31, 2016 were approximately as follows:

Designated surplus	\$ 472,800
TxDOT/59 Access Rd	523,000
Reserve fund	34,000
Health reimbursement reserve	<u>25,800</u>
	<u>\$ 1,055,600</u>

NOTE 12: RETIREMENT PLAN

The Church has a voluntary 403(b) retirement plan for all full-time employees which is administered by a third-party entity. Employees can make contributions, subject to certain limitations, on a pretax basis. The Church may make discretionary matching contributions as well as non-elective contributions. Discretionary contributions relate to amounts determined by the church governing body. The participating employees become vested based on years of service as follows: 1 year – 20%; 2 years – 40%; 3 years – 60%; 4 years – 80%; and 5 years – 100%. In the fiscal year ended March 31, 2016, the Church's contribution was \$109,881.

River Pointe Community Church, Inc.
Notes to Financial Statements
March 31, 2016

NOTE 13: RELATED MINISTRY

During the year ended March 31, 2012, a ministry started by the Church in March 2011, named Attack Poverty, became a separate, independent 501(c)(3) nonprofit organization. This ministry does not share Board members or management; however, one member of Church management is on the ministry's Board. At the time of separation, the temporarily restricted funds held by the Church were transferred to the ministry.

The Church has continued to receive contributions restricted for the related ministry, and accounts for these as a liability. Approximately \$115,000 was collected by the Church and remitted to Attack Poverty during the year ended March 31, 2016. As of March 31, 2016, the Church owed Attack Poverty \$2,330.

NOTE 14: SUBSEQUENT EVENTS

In October 2016, the Church entered into an agreement for the construction of a parking lot with an expected completion date of December 2016. Construction costs are agreed to be approximately \$1,500,000.

In November 2016, the Church purchased 18.896 acres of land in Missouri City, Texas for \$1,750,000.