

EVERGREEN COMMUNITY CHURCH
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

**EVERGREEN COMMUNITY CHURCH
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Evergreen Community Church
Bloomington, Minnesota

We have audited the accompanying financial statements of Evergreen Community Church (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2016 and 2015, and the related statements of support, revenue, and expenses – modified cash basis and cash flows – modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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.

Board of Trustees
Evergreen Community Church

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Evergreen Community Church as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with the modified cash basis of accounting.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 16, 2017

**EVERGREEN COMMUNITY CHURCH
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS
MODIFIED CASH BASIS
DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS		
ASSETS		
Cash and Cash Equivalents	\$ 838,571	\$ 829,181
Investments	4,206,989	3,387,798
Privately Held Securities	18,750	18,750
Property and Equipment, Net of Accumulated Depreciation	10,587,060	10,855,406
Total Assets	\$ 15,651,370	\$ 15,091,135
LIABILITIES AND NET ASSETS		
LIABILITIES		
Long-Term Debt	\$ 3,812,413	\$ 3,997,050
Other Liabilities	-	400
Total Liabilities	3,812,413	3,997,450
NET ASSETS		
Unrestricted:		
Undesignated	9,511,808	9,438,330
Board Designated	1,360,009	1,178,468
Total Unrestricted Net Assets	10,871,817	10,616,798
Temporarily Restricted	967,140	476,887
Total Net Assets	11,838,957	11,093,685
Total Liabilities and Net Assets	\$ 15,651,370	\$ 15,091,135

See accompanying Notes to Financial Statements.

EVERGREEN COMMUNITY CHURCH
STATEMENTS OF SUPPORT, REVENUE, AND EXPENSES
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Offerings	\$ 4,700,659	\$ 169,755	\$ 4,870,414	\$ 4,695,526	\$ 26,197	\$ 4,721,723
Ministry Income	374,355	-	374,355	268,095	-	268,095
Capital Campaign Income	-	634,645	634,645	-	38,353	38,353
Other Income	157,529	103,965	261,494	150,968	119,067	270,035
Investment Return	188,367	-	188,367	(40,392)	-	(40,392)
Net Assets Released from Purpose Restrictions	418,112	(418,112)	-	263,019	(263,019)	-
Total Support and Revenue	<u>5,839,022</u>	<u>490,253</u>	<u>6,329,275</u>	<u>5,337,216</u>	<u>(79,402)</u>	<u>5,257,814</u>
EXPENSES						
Program Expenses	4,777,994	-	4,777,994	4,463,498	-	4,463,498
General and Administrative Expense	801,961	-	801,961	770,831	-	770,831
Fundraising Expense	4,048	-	4,048	78	-	78
Total Expenses	<u>5,584,003</u>	<u>-</u>	<u>5,584,003</u>	<u>5,234,407</u>	<u>-</u>	<u>5,234,407</u>
CHANGE IN NET ASSETS	255,019	490,253	745,272	102,809	(79,402)	23,407
Net Assets - Beginning	<u>10,616,798</u>	<u>476,887</u>	<u>11,093,685</u>	<u>10,513,989</u>	<u>556,289</u>	<u>11,070,278</u>
NET ASSETS - ENDING	<u>\$ 10,871,817</u>	<u>\$ 967,140</u>	<u>\$ 11,838,957</u>	<u>\$ 10,616,798</u>	<u>\$ 476,887</u>	<u>\$ 11,093,685</u>

See accompanying Notes to Financial Statements.

**EVERGREEN COMMUNITY CHURCH
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 745,272	\$ 23,407
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	512,645	492,960
Gain on Sale of Fixed Assets	(2,041)	(4,435)
Realized and Unrealized (Gain) Loss on Investments	(105,099)	115,821
Changes in Operating Assets and Liabilities:		
Other Liabilities	(400)	(951)
Net Cash Provided by Operating Activities	1,150,377	626,802
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(244,299)	(295,528)
Proceeds from Sale of Property and Equipment	2,041	16,291
Purchase of Investments	(1,577,496)	(3,583,181)
Proceeds from Sale of Investments	863,404	3,237,938
Net Cash Used by Investing Activities	(956,350)	(624,480)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(184,637)	(173,289)
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,390	(170,967)
Cash and Cash Equivalents - Beginning	829,181	1,000,148
CASH AND CASH EQUIVALENTS - ENDING	\$ 838,571	\$ 829,181
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 172,690	\$ 174,722

See accompanying Notes to Financial Statements.

**EVERGREEN COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operation

Evergreen Community Church (the Church) is a nondenominational Christian church located in the Twin Cities area of Minnesota. Jesus Christ is worshipped, the Bible is believed, and the Gospel is made relevant to everyday life. All types of people from all kinds of religious and nonreligious backgrounds comprise the congregation. The congregation meets at five different locations while functioning as one large united church. Together, all parts of Evergreen are working to make Christ attractive to our community.

Basis of Presentation

The Church prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The Church capitalizes and depreciates its property and equipment and records its investments at fair value. These are generally accepted modifications of the cash basis of accounting. All other items of income and expense are recorded on a cash basis.

Financial Statement Presentation

Net assets, revenues, gains and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Church and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of trustees has discretionary control. Designated amounts represent those revenues which the board members have set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Church or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Church. Currently, the Church has no permanently restricted assets.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with the modified cash basis of accounting. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

The Church deposits its temporary cash balances in high credit quality financial institutions. At times, the amounts on deposit may exceed the federally insured limits. Cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less with the exception of cash designated for investment purposes.

**EVERGREEN COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair value, based on quoted market prices, with realized and unrealized gains and losses recognized in the statements of support, revenue, and expenses - modified cash basis.

Privately Held Securities

Privately held securities consist of certain shares of an investment donated in 2009 that are not publicly traded. The Church recorded the initial contribution at fair value. The Church has elected to not adjust the carrying value of the investment to fair value on recurring basis. The investment is not considered impaired at December 31, 2016.

Property and Equipment

Property and equipment in excess of \$500 are capitalized and stated at cost. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted.

The Church provides for depreciation of property and equipment on a straight-line basis over the estimated useful lives of the assets as follows:

Building and Building Improvements	8-40 Years
Furniture and Equipment	3-5 Years
Land Improvements	3-10 Years

Fair Value Measurements

In accordance with fair value measurements, the Church categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

**EVERGREEN COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Subsequent to initial recognition, the Church may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Accounting standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Church has elected to measure financial instruments at cost where allowed unless specifically elected by the Church to be measured at fair value.

Functional Allocation of Expenses

The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the statements of support, revenue, and expenses – modified cash basis. Accordingly, the Church allocates costs directly to program and supporting services.

Tax-Exempt Status

The Church is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes and generally is not subject to income taxes. Accordingly, no provision of federal or state taxes has been made. However, any unrelated business income may be subject to taxation.

The Church follows the provisions of Accounting for Uncertainty in Income Taxes. The Church is not aware of any activities that would jeopardize its tax-exempt status. However, should that status be challenged in the future, all years since inception would be subject to review and examination by federal and state authorities.

Subsequent Events

In preparing these financial statements, the Church has evaluated events and transactions for potential recognition or disclosure through May 16, 2017, the date the financial statements were available to be issued.

**EVERGREEN COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 INVESTMENTS

Investments at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Mutual Funds - Equities	\$ 1,604,016	\$ 1,067,628
Mutual Funds - Fixed Income	2,602,973	2,320,170
Total	<u>\$ 4,206,989</u>	<u>\$ 3,387,798</u>

Components of investment return at December 31 consist of the following:

	<u>2016</u>	<u>2015</u>
Interest and Dividends	\$ 103,305	\$ 96,615
Realized and Unrealized Gains (Losses)	105,099	(115,821)
Investment Fees	(20,037)	(21,186)
Total	<u>\$ 188,367</u>	<u>\$ (40,392)</u>

NOTE 3 FAIR VALUE HIERARCHY

The Church's assets and liabilities carried at fair value on a recurring basis at December 31, 2016 and 2015 are categorized as follows:

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual Funds - Equities	\$ 1,604,016	\$ -	\$ -	\$ 1,604,016
Mutual Funds - Fixed Income	2,602,973	-	-	2,602,973
Totals	<u>\$ 4,206,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,206,989</u>
<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual Funds - Equities	\$ 1,067,628	\$ -	\$ -	\$ 1,067,628
Mutual Funds - Fixed Income	2,320,170	-	-	2,320,170
Totals	<u>\$ 3,387,798</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,387,798</u>

**EVERGREEN COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Building and Building Improvements	\$ 12,000,279	\$ 11,834,155
Furniture and Equipment	1,135,191	1,117,387
Land and Land Improvements	1,975,644	1,954,044
Construction in Progress	10,229	-
Total	<u>15,121,343</u>	<u>14,905,586</u>
Less: Accumulated Depreciation	<u>(4,534,283)</u>	<u>(4,050,180)</u>
Total	<u><u>\$ 10,587,060</u></u>	<u><u>\$ 10,855,406</u></u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$512,645 and \$492,960, respectively.

NOTE 5 LONG-TERM DEBT

Long-term debt is summarized as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
Note Payable - Bremer Bank, N.A., interest at 7.00% was fixed until May 31, 2010 at which time it was reset to 4.95%; as of September 12, 2012 the interest rate has again been reset to 4.22%. The note matures August 31, 2019. The note was payable in monthly interest only payments through June 1, 2010 with lump sum principal reduction payments at June 1, 2010. Commencing October 1, 2012, remaining balance is payable in monthly interest and principal payments based on a 20-year amortization with balloon payment at August 31, 2019.	\$ 1,442,380	\$ 1,506,555
Note Payable - Bremer Bank, N.A., interest at 7.00% was fixed until June 30, 2010 at which time it was reset to 4.85%; as of September 12, 2012 the interest rate has again been reset to 4.22%. The note matures August 31, 2019. The note was payable in monthly interest only payments through July 1, 2010 with lump sum principal reduction payments at July 1, 2010. Commencing October 1, 2012, remaining balance is payable in monthly interest and principal payments based on a 20-year amortization with balloon payment at August 31, 2019.	2,367,881	2,483,179
Note Payable - Center for Energy and Environment, interest 0.00% fixed. The remaining balance is payable in monthly principal payments with the final payment due on 5/27/2017.	<u>2,152</u>	<u>7,316</u>
Total	3,812,413	3,997,050
Less: Current Portion	<u>(178,578)</u>	<u>(174,313)</u>
Total Long-Term Debt	<u><u>\$ 3,633,835</u></u>	<u><u>\$ 3,822,737</u></u>

**EVERGREEN COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 LONG-TERM DEBT (CONTINUED)

The following summarizes future maturities of long-term debt as of December 31, 2016:

Year Ending December 31,	Amount
2017	\$ 178,578
2018	184,017
2019	3,449,818
Total	\$ 3,812,413

Collateral

The two notes payable are secured by the furniture and equipment and all deposit accounts held by the Lakeville and Bloomington locations. The notes payable are further secured by the capital campaign accounts and any cash, securities, pledges, or other assets related to the Lakeville and Bloomington capital campaigns. Capital campaign accounts are required to be in the name of Evergreen Community Church.

Notes Payable Covenants

Under the terms of the agreements, the Church has agreed, among other matters, to maintain a debt service coverage ratio of not less than 1.10:1 at December 31, as defined by the agreements.

Subsequent Events

On January 17, 2017, the Church refinanced its debt with Bremer Bank and replaced with debt from Thrivent Financial. The Church signed two notes payable with Thrivent Financial for the Bloomington and Lakeville locations. The Bloomington note is for \$2,493,202, with an interest rate of 3.95%, and a maturity date of February 1, 2033. The Lakeville note is for \$1,517,118, with an interest rate of 4.375%, and a maturity date of February 1, 2037.

NOTE 6 RESTRICTIONS ON NET ASSETS

Temporarily Restricted

Temporarily restricted net assets consist of the following at December 31, 2016 and 2015:

	2016	2015
Restricted to Purpose:		
Building	\$ 907,882	\$ 441,378
Mission Trip	3,487	18,746
Ministries	55,771	16,763
Total Temporarily Restricted Net Assets	\$ 967,140	\$ 476,887

**EVERGREEN COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 RESTRICTIONS ON NET ASSETS (CONTINUED)

Net Assets Released from Restriction

Net assets released from restriction during 2016 and 2015 consist of the following:

	2016	2015
Restricted to Purpose:		
Building	\$ 168,140	\$ 144,716
Mission Trip	62,939	84,038
Ministries	187,033	34,265
Total	\$ 418,112	\$ 263,019

NOTE 7 OPERATING LEASES

The Church entered into two lease agreements in 2012, one agreement in 2014 and another agreement in 2016, all for office equipment. The four separate lease agreements will expire in 2016, 2017, 2018, and 2021. Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 13,047
2018	9,696
2019	7,056
2020	7,056
2021	6,468
Total	\$ 43,323

Rent expense for the years ended December 31, 2016 and 2015 was \$15,784 and \$15,550, respectively.

NOTE 8 RETIREMENT PLAN

The Church participates in a Section 403(b) retirement investment plan which covers all employees who meet certain eligibility requirements. These employees may elect to defer a portion of their salary under the 403(b) portion of the plan and receive dollar-for-dollar matching contributions from the Church up to an amount designated by the Board. The Church contributions for 2016 and 2015 were \$93,025 and \$89,006, respectively.

**EVERGREEN COMMUNITY CHURCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 RELATED PARTIES

Evergreen Community Church and five other churches compose the Northlands Region (the Region), an unincorporated joint venture, of the Great Commission Churches (GCC). The members of the Region remit 10% of their revenue to the Region. The Region, in turn, remits 10% of its revenue to the GCC. All of the revenue and expense activity of the Region is managed by Evergreen Community Church and all such activity is included in these financial statements. During the years ended December 31, 2016 and 2015, \$119,057 and \$123,070, respectively, was received by Evergreen Community Church from the Region's other member churches and are included in Other Income in the statements of support, revenue, and expenses. Contributions, from all participating churches, totaling \$60,706 and \$59,999, were made to GCC during the years ended December 31, 2016 and 2015, respectively, and are included in Program Expenses in the statements of support, revenue, and expenses.