

**THE CHURCH OF ELEVEN22, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

**THE CHURCH OF ELEVEN22, INC.**  
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**DECEMBER 31, 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Elder Board,  
The Church of Eleven22, Inc.:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Church of Eleven22, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year 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 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 auditor's 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.

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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Church of Eleven22, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

James Moore & Co., P.L.

Gainesville, Florida  
May 2, 2017

**THE CHURCH OF ELEVEN22, INC.  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2016**

**ASSETS**

<b>Current assets</b>	
Cash and cash equivalents	\$ 3,885,228
Prepaid expenses and other current assets	230,702
Total current assets	<u>4,115,930</u>
<b>Property and equipment, net</b>	13,036,212
<b>Total Assets</b>	<u><u>\$ 17,152,142</u></u>

**LIABILITIES AND NET ASSETS**

<b>Current liabilities</b>	
Current portion of notes payable	\$ 933,606
Accounts payable and accrued expenses	841,242
Deferred revenue	2,086
Total current liabilities	<u>1,776,934</u>
<b>Long-term liabilities</b>	
Notes payable, less current portion, net of debt issuance costs	4,542,141
Total liabilities	<u>6,319,075</u>
<b>Net assets</b>	
Unrestricted	
Undesignated	3,217,090
Invested in property and equipment, net of related debt	7,560,465
Temporarily restricted	55,512
Total net assets	<u>10,833,067</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 17,152,142</u></u>

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

**THE CHURCH OF ELEVEN22, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and revenue</b>			
Tithes and offerings	\$ 12,787,143	\$ -	\$ 12,787,143
Ministry income	149,586	410,181	559,767
Product sales	1,318,199	-	1,318,199
Interest income	1,926	-	1,926
Net assets released from restrictions:			
Mission trips	413,999	(413,999)	-
Capital additions and mortgage payments	731,358	(731,358)	-
Total support and revenue	<u>15,402,211</u>	<u>(735,176)</u>	<u>14,667,035</u>
<b>Expenses</b>			
Operations, administration, and facilities	2,408,366	-	2,408,366
Communications	233,842	-	233,842
Multi-site development	435,100	-	435,100
Staffing	4,459,541	-	4,459,541
Care, outreach and partner support	1,176,870	-	1,176,870
Discipleship ministries	271,701	-	271,701
Information technology	208,917	-	208,917
NewGen	274,036	-	274,036
Worship and production	687,983	-	687,983
Cost of sales	75,703	-	75,703
Mission trips	414,843	-	414,843
Total expenses	<u>10,646,902</u>	<u>-</u>	<u>10,646,902</u>
<b>Change in net assets from operations</b>	<u>4,755,309</u>	<u>(735,176)</u>	<u>4,020,133</u>
<b>Other changes</b>			
Gain on disposal of property and equipment	2,005	-	2,005
<b>Change in net assets</b>	<u>4,757,314</u>	<u>(735,176)</u>	<u>4,022,138</u>
<b>Net assets, beginning of year</b>	6,020,241	790,688	6,810,929
<b>Net assets, end of year</b>	<u><u>\$ 10,777,555</u></u>	<u><u>\$ 55,512</u></u>	<u><u>\$ 10,833,067</u></u>

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

**THE CHURCH OF ELEVEN22, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Cash flows from operating activities</b>	\$ 4,022,138
Change in net assets	
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Debt issuance costs charged to interest expense	32,492
Depreciation	755,487
Gain on sale of property and equipment	(2,005)
Change in value of interest rate swap	(6,769)
Changes in:	
Prepaid expenses and other current assets	(80,757)
Accounts payable and accrued expenses	(751,463)
Deferred revenue	2,086
Net cash provided by operating activities	<u>3,971,209</u>
 <b>Cash flows from investing activities</b>	
Proceeds from sale of property and equipment	2,005
Purchases of property and equipment	<u>(1,820,033)</u>
Net cash used in investing activities	<u>(1,818,028)</u>
 <b>Cash flows from financing activities</b>	
Payment of loan fees	(34,477)
Principal payments on notes payable	<u>(2,189,101)</u>
Net cash used in financing activities	<u>(2,223,578)</u>
 <b>Net decrease in cash and cash equivalents</b>	<u>(70,397)</u>
 <b>Cash and cash equivalents, beginning of year</b>	3,955,625
 <b>Cash and cash equivalents, end of year</b>	<u><u>\$ 3,885,228</u></u>
 <b>Supplemental disclosure of cash flow information and noncash investing and financing activities</b>	
Cash paid for interest	\$ 139,857

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

**THE CHURCH OF ELEVEN22, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

(1) **Summary of Significant Accounting Policies:**

The financial statements of The Church of Eleven22, Inc. (the “Church”) have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

(a) **Nature of operations**—The Church is a religious organization located in Jacksonville, Florida, with the majority of its contributions obtained from members living in the Jacksonville area. The Church was incorporated on October 11, 2011, and began operations and worship services in September 2012.

In August 2015, the Church opened a retail thrift store called Hope’s Closet for the purpose of serving the community by providing affordable donated and new merchandise in a dignified retail setting, as well as to support and promote the ministry partners of the church. All proceeds from Hope’s Closet fund ministry activities of the Church.

(b) **Basis of presentation and revenue recognition**—The Church’s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. The Church records all revenues and gains that are spent in the year as unrestricted revenue. Any amounts not spent are recorded as either temporarily restricted or permanently restricted revenue if donor restrictions exist. When a 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.

Accordingly, net assets of the Church and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Church and/or the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that will not be met by either actions of the Church and/or the passage of time.

See Note 7 for balances of temporarily restricted net assets at December 31, 2016. No permanently restricted assets were held at December 31, 2016, and accordingly, these financial statements do not reflect any activity related to this class of net assets.

Contributions of clothing, household goods and other items to Hope’s Closet are recognized as product sales when, and if, sold. Inventories of and items in Hope’s Closet are not included as assets in the statement of financial position.

(c) **Cash and cash equivalents**—For purposes of reporting cash flows, cash and cash equivalents includes only investments with original maturities of three months or less.

**THE CHURCH OF ELEVEN22, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

(1) **Summary of Significant Accounting Policies:** (Continued)

(d) **Property and equipment**—Acquisitions of property and equipment in excess of \$1,200 are generally capitalized. Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. The cost of property and equipment is being charged to operations using the straight-line method of depreciation over estimated useful lives ranging from five to forty years.

(e) **Derivative instruments**—The Church entered into an interest rate swap agreement with a regional bank in order to manage its exposure to the variable interest rate related to its outstanding notes payable. The Church does not enter into financial instruments for trading or speculative purposes. The interest rate swap is recognized in the statement of financial position at fair value based upon a valuation performed by the regional bank. The value of the interest rate swap is based on the mathematical approximation of the market values derived from proprietary models as of a given date. These valuation models rely on certain assumptions and result in a significant estimate. It is reasonably possible that a change in the estimate could occur in the near term. The swap was terminated in 2016.

(f) **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 generally accepted accounting principles.

(g) **Donated assets**—Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. Noncash donations to Hope's Closet have not been reflected in the financial statements.

(h) **Pledges**—In addition to general contributions, the Church conducts capital campaigns that incorporate pledge cards for the amounts individuals intend to donate towards these campaigns. Since the pledges do not meet the criteria for revenue recognition under generally accepted accounting principles, they are not reflected as contributions in the statement of activities until the pledges are collected. Uncollected pledges are not legally enforceable against donors, and no receivable balance has been recorded.

(i) **Functional allocation of expenses**—The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(j) **Income taxes**—The Church is a non-profit corporation statutorily exempt from federal income taxes under the Internal Revenue Code, section 501(c)(3). Under Section 501(a), the Church is exempt from the requirement to file an annual information return.

(k) **Use of estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

(l) **Subsequent events**—The Church has evaluated events and transactions for potential recognition or disclosure in the financial statements through May 2, 2017, the date the financial statements were available to be issued, and determined that no significant events occurred during that time period that impacted or required disclosure in the financial statements.

**THE CHURCH OF ELEVEN22, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

(1) **Summary of Significant Accounting Policies:** (Continued)

(m) **Recently issued accounting pronouncements**—The Financial Accounting Standards Board (FASB) issued new or modifications to, or interpretations of, existing accounting guidance during the year ended December 31, 2016. The Church has considered the new pronouncements that altered accounting principles generally accepted in the United States of America, and other than as disclosed in the notes to the financial statements below, does not believe that any other new or modified principles will have a material impact on the Church’s reported financial position or operations in the near term.

In May 2014, the FASB issued Accounting Standards Update 2014-09: *Revenue from Contracts with Customers*, to clarify the principles used to recognize revenue for all entities. The new standard (as amended) is effective for fiscal years beginning after December 15, 2018, and may be adopted early. The Church is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In February 2016, the FASB issued Accounting Standards Update 2016-02: *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new standard is effective for fiscal years beginning after December 15, 2019, and may be adopted early. The Church is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB issued Accounting Standards Update 2016-14: *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, to make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities, including net asset classification requirements and the information presented about an entity’s liquidity, financial performance, and cash flows. The new standard is effective for fiscal years beginning after December 15, 2017, and may be adopted early. The Church is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

(2) **Property and Equipment:**

Property and equipment is summarized below as follows:

Audio visual and lighting equipment	\$ 1,325,952
Equipment	437,948
Furniture and fixtures	189,192
Leasehold improvements	5,305,533
Building and improvements	7,494,769
Total property and equipment being depreciated	<u>14,753,394</u>
Less: Accumulated depreciation	2,066,661
Total property and equipment being depreciated, net	<u>12,686,733</u>
Construction in progress	349,479
Total property and equipment, net	<u><u>\$ 13,036,212</u></u>

Depreciation expense totaled \$755,487 for the year ended December 31, 2016.

**THE CHURCH OF ELEVEN22, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

(3) **Retirement Plan:**

The Church sponsors a defined contribution retirement plan allowed under Internal Revenue Code section 403(b). The Church matches employee contributions up to 4% of an eligible participant's compensation. Total retirement plan expense for the year ended December 31, 2016 was \$22,508.

(4) **Concentration of Credit Risk:**

The Church has demand deposits with a regional bank at December 31, 2016, with bank balances amounting to \$3,430,573. The Church has no policy requiring collateral to support these deposits, although amounts held by the bank are federally insured up to FDIC limits. At December 31, 2016, uninsured cash balances totaled \$3,180,573. The Church does not believe it is exposed to any significant credit risk on cash and cash equivalents.

(5) **Notes Payable:**

Notes payable consists of the following:

Note payable to a financial institution with a fixed interest rate of 3.45% that matures in August 2021. The note is secured by real property and leasehold improvements.	\$ 2,856,322
Note payable to a financial institution with a fixed interest rate of 3.70% that matures in August 2020. The note is secured by real property and leasehold improvements.	1,547,710
Note payable to a financial institution with a fixed interest rate of 3.50% that matures in March 2018. The note is secured by all non-real property assets.	1,125,000
	5,529,032
Less: Current portion of notes payable	933,606
Less: Unamortized debt issuance costs	53,285
Notes payable, less current portion and unamortized debt issuance costs	\$ 4,542,141

Maturities on notes payable for the next five years and thereafter are as follows:

<b>Year Ending December 31,</b>	<b>Amount</b>
2017	\$ 933,606
2018	562,262
2019	191,048
2020	1,419,686
2021	2,422,430
Thereafter	-
Total	\$ 5,529,032

**THE CHURCH OF ELEVEN22, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

(5) **Notes Payable:** (Continued)

The Church is subject to compliance with certain restrictive covenants, including maintaining a minimum fixed charge coverage ratio, a minimum interest coverage ratio, minimum debt service coverage ratio and not exceeding a maximum ratio of debt to tangible net assets. The Church was in compliance with these covenants at December 31, 2016.

In 2016, the Church adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Amortization of the debt issuance costs is reported as interest expense in the statement of activities.

(6) **Restrictions on Net Assets:**

Temporarily restricted net assets are available for the following purposes:

	<b>2016</b>	<b>2015</b>
Missions	\$ 55,512	\$ 59,093
Capital campaign – Upon This Rock	-	195,390
Capital campaign – Restore	-	536,205
	\$ 55,512	\$ 790,688

The temporarily restricted net assets from the two capital campaigns may be used for either property and equipment expenditures or debt repayments associated with those capital projects. These two funds were completely spent down during the year ended December 31, 2016.

(7) **Lease Commitment:**

The Church is obligated under a non-cancelable operating lease for the building space it occupies that extends to August of 2017 and a non-cancelable operating lease for the Hope’s Closet building space it occupies that extends until 2025. The building lease has two five year renewal options and also contains a purchase option for the building for \$7,800,000. The Hope’s Closet building lease has a purchase option for \$2,920,422. This purchase option can only be exercised if the building purchase space has been purchased first. The Church also has a licensing agreement allowing them to use the space adjacent to the thrift store. Payments on this agreement are \$6,767 monthly and it is cancelable with thirty days’ notice. The future minimum lease payments under the non-cancelable operating leases are as follows:

<b>Years Ending December 31</b>	<b>Amount</b>
2017	\$ 568,011
2018	244,179
2019	247,104
2020	247,104
2021	247,104
Thereafter	835,866
	\$ 2,389,368

**SUPPLEMENTARY INFORMATION**

**THE CHURCH OF ELEVEN22, INC.**  
**DETAILED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**

<u><b>ASSETS</b></u>			
	<b>Church of Eleven22</b>	<b>Hope's Closet</b>	<b>Total</b>
<b>Current assets</b>			
Cash and cash equivalents	\$ 3,548,710	\$ 336,518	\$ 3,885,228
Prepaid expenses and other current assets	198,726	31,976	230,702
Total current assets	3,747,436	368,494	4,115,930
<b>Property and equipment, net</b>	12,896,487	139,725	13,036,212
<b>Total Assets</b>	\$ 16,643,923	\$ 508,219	\$ 17,152,142
<u><b>LIABILITIES AND NET ASSETS</b></u>			
<b>Current liabilities</b>			
Current portion of notes payable	\$ 933,606	\$ -	\$ 933,606
Accounts payable and accrued expenses	748,290	92,952	841,242
Deferred revenue	2,086	-	2,086
Total current liabilities	1,683,982	92,952	1,776,934
<b>Long-term liabilities</b>			
Notes payable, less current portion, net of debt issuance costs	4,542,141	-	4,542,141
Total liabilities	6,226,123	92,952	6,319,075
<b>Net assets</b>			
Unrestricted			
Undesignated	2,941,540	275,550	3,217,090
Invested in property and equipment, net of related debt	7,420,740	139,725	7,560,465
Temporarily restricted	55,512	-	55,512
Total net assets	10,417,792	415,275	10,833,067
<b>Total Liabilities and Net Assets</b>	\$ 16,643,915	\$ 508,227	\$ 17,152,142

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

**SCHEDULE II**

**THE CHURCH OF ELEVEN22, INC.  
 DETAILED STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Church of Eleven22</u>	<u>Hope's Closet</u>	<u>Total</u>
<b>Support and revenue</b>			
Tithes and offerings	\$ 12,787,143	\$ -	\$ 12,787,143
Ministry income	559,767	-	559,767
Product sales	10,360	1,307,839	1,318,199
Interest income	1,926	-	1,926
Total support and revenue	<u>13,359,196</u>	<u>1,307,839</u>	<u>14,667,035</u>
<b>Expenses</b>			
Operations, administration, and facilities	1,870,013	538,353	2,408,366
Communications	233,842	-	233,842
Multi-site development	435,100	-	435,100
Staffing	4,080,278	379,263	4,459,541
Care, outreach and partner support	1,176,870	-	1,176,870
Discipleship ministries	271,701	-	271,701
Information technology	208,917	-	208,917
NewGen	274,036	-	274,036
Worship and production	687,983	-	687,983
Cost of sales	-	75,703	75,703
Mission trips	414,843	-	414,843
Total expenses	<u>9,653,583</u>	<u>993,319</u>	<u>10,646,902</u>
<b>Change in net assets from operations</b>	<u>3,705,613</u>	<u>314,520</u>	<u>4,020,133</u>
<b>Other changes</b>			
Transfer to other fund	50,000	(50,000)	-
Gain on disposal of property and equipment	2,005	-	2,005
<b>Change in net assets</b>	<u>3,757,618</u>	<u>264,520</u>	<u>4,022,138</u>
<b>Net assets, beginning of year</b>	6,660,174	150,755	6,810,929
<b>Net assets, end of year</b>	<u>\$ 10,417,792</u>	<u>\$ 415,275</u>	<u>\$ 10,833,067</u>

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