THE CHURCH OF ELEVEN22, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

THE CHURCH OF ELEVEN22, INC.
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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated financial statements

We have audited the accompanying consolidated financial statements of The Church of Eleven22, Inc., which comprise the consolidated statement of financial position as of December 31, 2018, and the consolidated related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 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 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Church of Eleven22, Inc. as of December 31, 2018, 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.

James Moore & Co., P.L.

Gainesville, Florida
May 2, 2019

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Current assets		
Cash and cash equivalents	$	4,036,796
Other receivable - tenant improvements		300,000
Prepaid expenses and other current assets		460,071
Total current assets		4,796,867
Property and equipment, net		28,642,560
Total Assets	$	33,439,427

LIABILITIES AND NET ASSETS

Current liabilities		
Current portion of notes payable	$	1,987,834
Accounts payable and accrued expenses		1,697,876
Deferred revenue		26,965
Total current liabilities		3,712,675
Long-term liabilities		
Notes payable, less current portion, net of debt issuance costs		12,226,902
Total liabilities		15,939,577
Net assets		
Without donor restrictions		
Undesignated		3,072,026
Invested in property and equipment, net of related debt		14,427,824
Total net assets without restrictions		17,499,850
Total Liabilities and Net Assets	$	33,439,427

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

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Tithes and offerings	$ 17,295,491	$ -	$ 17,295,491
Ministry income	288,103	396,223	684,326
Thrift sales	1,965,689	-	1,965,689
Other product sales	1,404	-	1,404
Rental income	297,500	-	297,500
Interest income	942	-	942
Net assets released from restrictions:			
Mission trips	396,223	(396,223)	-
Total support and revenue	20,245,352	-	20,245,352
Expenses			
Church operations	12,126,091	-	12,126,091
Thrift store	3,493,291	-	3,493,291
Mission Trips	580,707	-	580,707
General and administrative	1,581,303	-	1,581,303
Total expenses	17,781,392	-	17,781,392
Change in net assets from operations	2,463,960	-	2,463,960
Other changes			
Gain on disposal of property and equipment	258	-	258
Change in net assets	2,464,218	-	2,464,218
Net assets, beginning of year	15,035,632	-	15,035,632
Net assets, end of year	$ 17,499,850	$ -	$ 17,499,850

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

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Church Operations	Thrift Store	Mission Trips	General and Administrative	Total
Expenses					
Personnel	$ 4,702,714	$ 1,743,928	$ 123,928	$ 1,238,362	$ 7,808,932
Occupancy	481,322	829,247	-	25,333	1,335,902
Tithe - charitable contributions	1,389,992	-	-	-	1,389,992
Insurance	147,044	65,389	623	12,035	225,091
Costs of goods sold	-	168,260	-	-	168,260
Depreciation	1,041,601	438,556	-	87,710	1,567,867
Office expense	144,854	55,870	1,514	-	202,238
Other operating	1,266,551	162,277	2,503	217,863	1,649,194
Other ministry	2,419,389	4,266	452,139	-	2,875,794
Interest and loan expenses	532,624	25,498	-	-	558,122
Total expenses	$ 12,126,091	$ 3,493,291	$ 580,707	$ 1,581,303	$ 17,781,392

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

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash flows from operating activities	
Change in net assets	$ 2,464,218
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Debt issuance costs charged to interest expense	40,502
Depreciation	1,567,867
Gain on sale of property and equipment	(258)
Changes in:	
Prepaid expenses and other current assets	(252,877)
Deposits	78,341
Accounts payable and accrued expenses	(476,192)
Deferred revenue	26,965
Net cash provided by operating activities	3,448,566
Cash flows from investing activities	
Purchases of property and equipment	(6,945,337)
Net cash used in investing activities	(6,945,337)
Cash flows from financing activities	
Payment of loan fees	(1,000)
Proceeds from notes payable	1,500,000
Principal payments on notes payable	(1,937,568)
Net cash used in financing activities	(438,568)
Net decrease in cash and cash equivalents	(3,935,339)
Cash and cash equivalents, beginning of year	7,972,135
Cash and cash equivalents, end of year	$ 4,036,796
Supplemental disclosure of cash flow information and noncash investing and financing activities	
Cash paid for interest	$ 465,011

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

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

(1) Summary of Significant Accounting Policies:

The consolidated 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 consolidated 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. The Church has four operational campus locations as of December 31, 2018 (San Pablo, Baymeadows, Arlington and Mandarin). The Church's mission is a movement for all people to discover and deepen a relationship with Jesus Christ.

In August 2015, the Church opened a retail thrift store called Hope's Closet Thrift, LLC ("Hope's Closet") adjacent to the San Pablo campus for the mission of glorifying God by providing affordable donated and new merchandise in a dignified retail setting that allows the Church to disciple people, help fund community transformation programs and support the Church's ministry partners. A second Hope's Closet location was added at the Arlington location in late 2017 and opened in April 2018. All proceeds from Hope's Closet fund ministry activities of the Church.

(b) **Basis of presentation, principles of consolidation, and revenue recognition**—The Church's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and include the financial activity of the Church and its wholly-owned subsidiary, Hope's Closet Thrift, LLC. All significant interorganization transactions have been eliminated in consolidation.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Any amounts not spent are recorded as restricted revenue if donor restrictions exist. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), the corresponding restricted net assets are reclassified to net assets without donor restrictions 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:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met either by actions of the Church and/or passage of time. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

There were no net assets with donor restrictions held at December 31, 2018.

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 due to the impracticality of determining values for the inventory, the quick turnover of the inventory, and its overall immateriality to the financial statements taken as a whole.

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

(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.

(d) **Property and equipment**—Acquisitions of property and equipment in excess of $5,000 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 three to forty years.

(e) **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 consolidated financial statements for those services since they do not meet the criteria for recognition under generally accepted accounting principles.

(f) **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 consolidated financial statements, due to the impracticality of determining values for the items (primarily used clothing), the quick turnover of the inventory, and its overall immateriality to the financial statements taken as a whole.

(g) **Pledges**—In addition to general contributions, the Church conducts capital campaigns that incorporate pledge cards for the amounts individuals intend to contribute 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.

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

(i) **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.

(j) **Use of estimates**—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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) **Subsequent events**—The Church has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through May 2, 2019, the date the consolidated financial statements were available to be issued, and determined that, other than disclosed in Note 7, no significant events occurred during that time period that impacted or required disclosure in the consolidated financial statements.

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

(l) **Recently issued accounting pronouncements**—The Financial Accounting Standards Board (FASB) issued new or modifications to, or interpretations of, existing accounting guidance during the years ended December 31, 2018 and earlier. 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 consolidated 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 June 2018, the FASB issued Accounting Standards Update 2018-08: *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify whether a transaction should be considered a contribution or an exchange transaction and to determine whether a contribution is conditional. The new standard is effective for fiscal years beginning after December 15, 2018 and may be adopted earlier. 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	$ 2,111,207
Equipment	879,300
Furniture and fixtures	283,864
Leasehold improvements	10,360,163
Building and improvements	15,937,998
Total property and equipment being depreciated	29,572,532
Less: Accumulated depreciation	4,828,690
Total property and equipment being depreciated, net	24,743,842
Construction in progress	3,898,718
Total property and equipment, net	$ 28,642,560

Depreciation expense totaled $1,567,867 for the year ended December 31, 2018.

(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, 2018 was $67,395.

Beginning in 2018, the Church began sponsoring a nonqualified deferred compensation plan for pastoral staff who receive housing allowances as a part of their compensation packages, which complies with the requirements of Internal Revenue Code section 409A. Eligible employees receive a match contributed by the Church on their housing allowance, which is not eligible for matching as part of the Church's 403B plan. The total amount contributed by the Church for the year ended December 31, 2018 was $124,069.

(4) Concentration of Credit Risk:

The Church has demand deposits with a regional bank at December 31, 2018, with bank balances amounting to $2,850,669. 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, 2018, uninsured cash balances totaled $2,600,669. The Church does not believe it is exposed to any significant credit risk on cash and cash equivalents.

(5) Liquidity and Availability:

Financial assets available within one year to meet cash needs for general expenditures through December 31, 2018 are as follows:

Financial assets available within one year, at year end:	
Cash	$ 4,036,796
Miscellaneous receivables	314,949
Financial assets available to meet cash needs for general expenditures within one year	$ 4,351,745

As more fully described in Note 6, the Church also has a committed line of credit of $2,000,000, which it could draw upon in the event of an unanticipated liquidity need. At December 31, 2018, $500,000 was available to be drawn on.

(6) Notes Payable:

Notes payable consists of the following:

Line of credit payable to a financial institution with a variable interest rate of LIBOR plus 1.50% and total allowable borrowings of up to $2,000,000 that matures in October 2019. The line is unsecured.	$ 1,500,000
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 of the Mandarin location.	2,646,942

(6) **Notes Payable:** (Continued)

Note payable to a financial institution with a fixed interest rate of 3.95% that matures in May 2022. The note is secured by real property and leasehold improvements of the San Pablo location.	$ 6,823,168
Note payable to a financial institution with a fixed interest rate of 3.95% that matures in November 2022. The note is secured by certain property of the Arlington location.	3,371,364
	14,341,474
Less: Current portion of notes payable	1,987,834
Less: Unamortized debt issuance costs	126,738
Notes payable, less current portion and unamortized debt issuance costs	$ 12,226,902

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

Year Ending December 31,	Amount
2019	$ 1,987,834
2020	507,155
2021	2,831,407
2022	9,015,078
2023	-
Thereafter	-
Total	$ 14,341,474

Under its debt agreement, 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, 2018.

(7) **Lease Commitments:**

The Church is obligated under a non-cancelable operating lease for the Arlington building space it occupies that extends until 2022 and a non-cancelable operating lease for the Arlington Hope's Closet building space it occupies that extends until 2025. The Arlington building lease has two five year renewal options and also contains a right to first offer option to purchase the property. The Arlington Hope's Closet building lease has two seven year renewal options and also contains a right to first offer option to purchase the property. Additionally, the Church is obligated under a non-cancelable operating lease for the San Pablo Hope's Closet building space and adjacent office space building space it occupies that extends until 2025. This lease has a purchase option for $2,920,422. In November of 2018, the Church signed an agreement to rent space for an additional church location at Fleming Island. This lease

(7) **Lease Commitments:** (Continued)

commenced on April 1, 2019 and extends through 2039. The annual base rent is $450,000 for years 1-5, which increases every five year period to conclude at $598,950 annually for years 16-20.The future minimum lease payments under the non-cancelable operating leases are as follows:

Years Ending December 31	Amount
2019	$ 1,208,412
2020	1,320,912
2021	1,334,448
2022	1,368,973
2023	1,135,398
Thereafter	11,305,293
	$ 17,673,436

Rental expense related to the above agreements was $879,042 for the year ended December 31, 2018.

In April 2019, the Church signed a cancellable agreement to rent space for an additional church location on the Northside, subject to the landlord meeting prescribed closing conditions. This lease will commence during 2019 and will cover a period of 10 years. Future fixed annual rent payments will range from $303,824 in the first year to $396,421 in the tenth year. The church will also be responsible for paying management fees of $93,426 annually.