THE CHURCH OF ELEVEN22, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

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 statement of financial position as of December 31, 2017, and the related statements of activities 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, 2017, 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 9, 2018

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

Current assets	
Cash and cash equivalents	$ 7,972,135
Prepaid expenses and other current assets	207,194
Total current assets	8,179,329
Property and equipment, net	23,564,832
Deposits	78,341
Total Assets	$ 31,822,502

LIABILITIES AND NET ASSETS

Current liabilities	
Current portion of notes payable	$ 550,000
Accounts payable and accrued expenses	2,174,068
Total current liabilities	2,724,068
Long-term liabilities	
Notes payable, less current portion, net of debt issuance costs	14,062,802
Total liabilities	16,786,870
Net assets	
Unrestricted	
Undesignated	6,083,602
Invested in property and equipment, net of related debt	8,952,030
Total unrestricted net assets	15,035,632
Total Liabilities and Net Assets	$ 31,822,502

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, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Tithes and offerings	$ 14,960,093	$ -	$ 14,960,093
Ministry income	80,697	398,102	478,799
Thrift sales	1,339,042	-	1,339,042
Other product sales	2,274	-	2,274
Rental income	269,839	-	269,839
Interest income	1,116	-	1,116
Net assets released from restrictions:			
Mission trips	453,614	(453,614)	-
Total support and revenue	17,106,675	(55,512)	17,051,163
Expenses			
Operations	8,611,720	-	8,611,720
Ministry	2,629,421	-	2,629,421
Missions	461,602	-	461,602
Thrift	1,146,105	-	1,146,105
Total expenses	12,848,848	-	12,848,848
Change in net assets from operations	4,257,827	(55,512)	4,202,315
Other changes			
Gain on disposal of property and equipment	250	-	250
Change in net assets	4,258,077	(55,512)	4,202,565
Net assets, beginning of year	10,777,555	55,512	10,833,067
Net assets, end of year	$ 15,035,632	$ -	$ 15,035,632

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, 2017

Cash flows from operating activities	
Change in net assets	$ 4,202,565
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Debt issuance costs charged to interest expense	26,239
Depreciation	1,198,272
Gain on sale of property and equipment	(250)
Changes in:	
Prepaid expenses and other current assets	23,508
Deposits	(78,341)
Accounts payable and accrued expenses	1,332,826
Deferred revenue	(2,086)
Net cash provided by operating activities	6,702,733
Cash flows from investing activities	
Purchases of property and equipment	(4,518,642)
Net cash used in investing activities	(4,518,642)
Cash flows from financing activities	
Payment of loan fees	(139,194)
Proceeds from notes payable	3,500,000
Principal payments on notes payable	(1,457,990)
Net cash provided by financing activities	1,902,816
Net increase in cash and cash equivalents	4,086,907
Cash and cash equivalents, beginning of year	3,885,228
Cash and cash equivalents, end of year	$ 7,972,135
Supplemental disclosure of cash flow information and noncash investing and financing activities	
Cash paid for interest	$ 332,366
Purchases of property and equipment with debt financing	$ 7,208,000

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

(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 had three operational campus locations as of December 31, 2017 (San Pablo, Baymeadows, and Mandarin). A fourth location (Arlington) was added in late 2017 and opened in January 2018. 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 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, 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 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.

There were no temporarily restricted net assets or permanently restricted assets held at December 31, 2017.

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 $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) **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 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.

(h) **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.

(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 9, 2018, the date the consolidated financial statements were available to be issued, and determined that, other than disclosed in Note 6, 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, 2017 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 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	$ 1,856,740
Equipment	745,972
Furniture and fixtures	273,964
Leasehold improvements	7,943,791
Building and improvements	15,414,876
Total property and equipment being depreciated	26,235,343
Less: Accumulated depreciation	3,261,835
Total property and equipment being depreciated, net	22,973,508
Construction in progress	591,324
Total property and equipment, net	$ 23,564,832

Depreciation expense totaled $1,198,272 for the year ended December 31, 2017.

(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, 2017 was $51,342.

(4) Concentration of Credit Risk:

The Church has demand deposits with a regional bank at December 31, 2017, with bank balances amounting to $7,127,587. 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, 2017, uninsured cash balances totaled $6,877,587. 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 of the Mandarin location.	$ 2,753,460
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 of the Baymeadows location.	1,466,962
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.	7,069,089
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.	3,489,531
	14,779,042
Less: Current portion of notes payable	550,000
Less: Unamortized debt issuance costs	166,240
Notes payable, less current portion and unamortized debt issuance costs	$ 14,062,802

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

Year Ending December 31,	Amount
2018	$ 550,000
2019	568,582
2020	1,812,621
2021	2,831,418
2022	9,016,421
Thereafter	-
Total	$ 14,779,042

(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, 2017.

(6) 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 it occupies that extends until 2025. This lease has a purchase option for $2,920,422. 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:

Years Ending December 31	Amount
2018	$ 695,379
2019	698,304
2020	698,304
2021	711,840
2022	740,565
Thereafter	1,041,753
	$ 4,586,145

Rental expense related to the above agreements was $539,933 for the year ended December 31, 2017.

The Church purchased property during 2017 that it previously rented under an operating lease. As a result of this purchase, the Church assumed the lease of another tenant of the property. This non-cancelable lease extends to March 2019 with a renewal option. The tenant notified the Church in 2017 that they will not exercise the renewal option and will allow the lease to expire in March 2019. In March 2018, the Church reached an agreement with the tenant for early termination of this lease agreement, and received a settlement per the agreement of $227,500.

Subsequent to year-end, in March of 2018, the Church signed an amendment to their lease for the San Pablo Hope's Closet building space to double the amount of square footage leased associated with that location. The annual base rent associated with the additional expansion space is approximately $170,000 per year, and the lease term runs through August of 2025.