

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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, 2019, 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 consolidated financial position of The Church of Eleven22, Inc. as of December 31, 2019, 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.

Gainesville, Florida
April 30, 2020

James Moore & Co., P.L.

**THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019**

ASSETS

Current assets	
Cash and cash equivalents	\$ 6,320,517
Other receivable - tenant improvements	460,000
Prepaid expenses and other current assets	795,537
Total current assets	7,576,054
Property and equipment, net	38,529,281
Total Assets	\$ 46,105,335

LIABILITIES AND NET ASSETS

Current liabilities	
Current portion of notes payable	\$ 2,669,619
Accounts payable and accrued expenses	2,190,499
Deferred revenue	65,355
Total current liabilities	4,925,473
Long-term liabilities	
Notes payable, less current portion, net of debt issuance costs	19,017,237
Total liabilities	23,942,710
Net assets	
Without donor restrictions	
Undesignated	5,320,200
Invested in property and equipment, net of related debt	16,842,425
Total net assets without restrictions	22,162,625
Total Liabilities and Net Assets	\$ 46,105,335

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, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
Tithes and offerings	\$ 24,737,926	\$ -	\$ 24,737,926
Ministry income	358,449	447,164	805,613
Thrift sales	2,363,231	-	2,363,231
Net assets released from restrictions:			
Mission trips	447,164	(447,164)	-
Total support and revenue	<u>27,906,770</u>	<u>-</u>	<u>27,906,770</u>
Expenses			
Church operations	17,428,979	-	17,428,979
Thrift store	2,666,951	-	2,666,951
Mission trips	668,769	-	668,769
General and administrative	2,507,714	-	2,507,714
Total expenses	<u>23,272,413</u>	<u>-</u>	<u>23,272,413</u>
Change in net assets from operations	<u>4,634,357</u>	<u>-</u>	<u>4,634,357</u>
Other changes			
Change in fair value of investments	23,067	-	23,067
Other income	3,812	-	3,812
Interest income	1,539	-	1,539
Change in net assets	<u>4,662,775</u>	<u>-</u>	<u>4,662,775</u>
Net assets, beginning of year	17,499,850	-	17,499,850
Net assets, end of year	<u>\$ 22,162,625</u>	<u>\$ -</u>	<u>\$ 22,162,625</u>

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, 2019**

	<u>Church Operations</u>	<u>Thrift Store</u>	<u>Mission Trips</u>	<u>General and Administrative</u>	<u>Total</u>
Expenses					
Personnel	\$ 7,237,288	\$ 1,169,730	\$ 205,980	\$ 1,182,225	\$ 9,795,223
Occupancy	1,220,050	897,003	-	21,549	2,138,602
Tithe - charitable contributions	2,019,439	-	-	16,354	2,035,793
Insurance	43,481	19,668	-	130,442	193,591
Costs of goods sold	-	162,777	-	-	162,777
Depreciation, amortization, and non-capital expenses	2,313,905	146,994	-	-	2,460,899
Office expense	80,684	46,302	-	5,009	131,995
Other operating	1,066,012	199,197	104	1,047,118	2,312,431
Other ministry	2,804,935	760	462,685	105,017	3,373,397
Interest and loan expenses	643,185	24,520	-	-	667,705
Total expenses	<u>\$ 17,428,979</u>	<u>\$ 2,666,951</u>	<u>\$ 668,769</u>	<u>\$ 2,507,714</u>	<u>\$ 23,272,413</u>

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, 2019

Cash flows from operating activities	
Change in net assets	\$ 4,662,775
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Debt issuance costs charged to interest expense	32,833
Depreciation	1,924,805
Changes in:	
Prepaid expenses and other current assets	(12,399)
Accounts payable and accrued expenses	492,623
Fair value of investments	(23,067)
Deferred revenue	38,390
Net cash provided by operating activities	<u>7,115,960</u>
Cash flows from investing activities	
Purchases of property and equipment	<u>(4,271,526)</u>
Net cash used in investing activities	<u>(4,271,526)</u>
Cash flows from financing activities	
Payment of loan fees	(34,584)
Principal payments on notes payable	<u>(526,129)</u>
Net cash used in financing activities	<u>(560,713)</u>
Net increase in cash and cash equivalents	<u>2,283,721</u>
Cash and cash equivalents, beginning of year	4,036,796
Cash and cash equivalents, end of year	<u><u>\$ 6,320,517</u></u>
Supplemental disclosure of cash flow information and noncash investing and financing activities	
Cash paid for interest	\$ 634,872
Purchases of property and equipment with debt financing	\$ 8,000,000

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, 2019

(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 five operational campus locations (San Pablo, Baymeadows, Arlington, Mandarin and Fleming Island) and two prison campuses (Baker Correctional Institution and Union Correctional Institution) as of December 31, 2019. 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, 2019.

Revenue Recognition Associated with Hope’s Closet

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The rules establish a core principle requiring the recognition of revenue to depict the

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(1) **Summary of Significant Accounting Policies:** (Continued)

transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. Prior to the amendment, contract revenue was recognized based on the performance of the contract as a whole on the percentage-of-completion basis. The new rule requires an entity to (1) identify the contract, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue as each performance obligation is completed on the percentage-of-completion basis. The Church adopted ASC 606 as of January 1, 2019.

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.

For the Hope's Closet locations, the revenue related to product sales is recognized as the customer obtains control of the goods offered by Hope's Closet (i.e., when the customer checks out and pays for the product). All sales at Hope's Closet locations are considered final and no returns are permitted. The transaction price typically includes some portion of sales or taxes as levied in the respective jurisdiction. Those taxes that are collected for remittance to governmental entities on a pass through basis are not recognized as revenue and they are recorded to a liability account until they are paid. The Hope's Closet customers typically use a mixture of cash, checks, credit cards and debit cards to pay for the products as they are received. They have accounts receivable from the various credit/debit card providers at any point in time related to product sales made on credit cards and debit cards. These receivables are typically collected in two to seven days, depending on the terms with the particular credit/debit card providers. Payment fees retained by the credit/debit card providers are recorded as other operating expenses.

(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.

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(1) **Summary of Significant Accounting Policies:** (Continued)

(g) **Pledges**—In addition to general contributions, the Church conducts 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 April 30, 2020, the date the financial statements were available to be issued. See Note 8 for subsequent events disclosed.

(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, 2019 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 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, 2021, 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.

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(2) **Property and Equipment:**

Property and equipment is summarized below as follows:

Audio visual and lighting equipment	\$ 3,109,542
Equipment	999,519
Furniture and fixtures	502,864
Land and land improvements	402,695
Leasehold improvements	15,012,695
Building and improvements	18,026,088
Vehicles	125,867
Total property and equipment being depreciated	38,179,270
Less: Accumulated depreciation	6,753,496
Total property and equipment being depreciated, net	31,425,774
Construction in progress	7,103,507
Total property and equipment, net	\$ 38,529,281

Depreciation expense totaled \$1,924,805 for the year ended December 31, 2019.

The Church has entered into long-term construction contracts for the renovation and expansion of the San Pablo Campus in the amount of \$23,018,000 (including change orders.) At December 31, 2019, approximately \$17,550,000 of such contract commitments had not yet been incurred.

(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, 2019 was \$120,405.

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, 2019 was \$26,773.

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

The Church has demand deposits with a regional bank at December 31, 2019, with bank balances amounting to \$5,487,018. 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, 2019, uninsured cash balances totaled \$5,237,018. The Church does not believe it is exposed to any significant credit risk on cash and cash equivalents.

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(5) **Liquidity and Availability:**

Financial assets available within one year to meet cash needs for general expenditures through December 31, 2019 are as follows:

Financial assets available within one year, at year end:	
Cash	\$ 6,320,517
Miscellaneous receivables	496,623
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,817,140</u>

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, 2019, \$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 2020. 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.	2,536,637
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.	6,567,217
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.	3,249,538
Note payable to a financial institution with a fixed interest rate of 4.65% that matures in April 2024. The note is secured by certain property of the Fleming Island location.	4,961,953
Note payable to a financial institution with a fixed interest rate of 3.50% that matures in January 2025. The note is secured by certain property of the San Pablo location.	<u>3,000,000</u>
	21,815,345
Less: Current portion of notes payable	2,669,619
Less: Unamortized debt issuance costs	128,489
Notes payable, less current portion and unamortized debt issuance costs	<u>\$19,017,237</u>

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

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

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

Year Ending December 31,	Amount
2020	\$ 2,669,619
2021	3,572,724
2022	4,049,285
2023	1,100,022
2024	10,369,132
Thereafter	54,563
Total	\$ 21,815,345

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, 2019.

(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. Additionally, the Church is obligated under a lease agreement to rent space for an additional church location at Fleming Island. This lease 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 Church is obligated under a cancellable lease agreement for the North Jacksonville building space that extends through 2030. The North Jacksonville building lease includes two five year renewal options and also contains a right of refusal to purchase the building. 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. The future minimum lease payments under the non-cancelable operating leases are as follows:

Years Ending December 31	Amount
2020	\$ 1,627,017
2021	1,649,733
2022	1,693,720
2023	1,469,880
2024	1,531,779
Thereafter	9,649,933
	\$ 17,622,062

Rental expense related to the above agreements was \$1,449,736 for the year ended December 31, 2019.

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(8) **Subsequent Events:**

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending and charitable contributions. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Church as of April 30, 2020, management believes that a material impact on the Church's financial position and results of future operations is reasonably possible.

As a result of the uncertainty of the COVID-19 crisis, the Church was required to move from in-person to online gatherings. Additionally, the Church was required to close its thrift stores. Management took several actions to protect the Church's assets and operations. On March 18, 2020, management paid \$1,500,000 on the line of credit, bringing it down to a zero balance. On March 23, 2020, the Church transferred \$8 million to a well-capitalized financial institution to diversify its deposit base. In addition, out of prudence to mitigate some of the known and unknown impact of COVID-19, on April 9, 2020, the Church entered into a Payroll Protection Program loan agreement for \$1,730,965 under the CARES Act. The purpose of the loan is for the payment of payroll, mortgage interest, lease payments and/or utilities expenses. The Church expects to qualify, under the terms of the legislation as originally enacted, for a substantial portion of loan forgiveness on that loan in 2020 after payment of qualifying expenses over an eight week period from receipt of the loan.

In January 2020, the Church entered into a debt agreement with a financial institution for a construction loan in the amount of \$15,000,000 to finance the renovation and expansion of the San Pablo Campus. The note is secured by certain property of the San Pablo location.