

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

THE CHURCH OF ELEVEN22, INC.
TABLE OF CONTENTS
DECEMBER 31, 2021 AND 2020

	<u>Page(s)</u>
Independent Auditors' Report	1 – 2
Consolidated financial statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5 – 6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8 – 16

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Church of Eleven22 and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Church of Eleven22 and its subsidiaries as of December 31, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Church of Eleven22, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Church of Eleven22's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

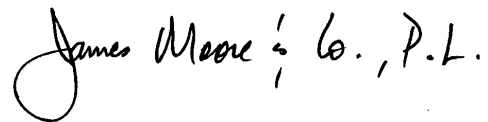
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Church of Eleven22's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Church of Eleven22's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

James Moore & Co., P.L.

Gainesville, Florida
April 26, 2022

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 6,701,028	\$ 3,182,903
Prepaid expenses and other current assets	1,243,616	743,839
Total current assets	7,944,644	3,926,742
Property and equipment, net	72,689,912	72,532,368
Total Assets	\$ 80,634,556	\$ 76,459,110
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Current portion of notes payable	\$ 5,271,821	5,374,709
Deferred advance - PPP program	-	1,730,965
Accounts payable and accrued expenses	1,742,305	1,882,100
Deferred revenue	103,732	144,246
Total current liabilities	7,117,858	9,132,020
Long-term liabilities		
Notes payable, less current portion, net of debt issuance costs	38,062,504	39,528,240
Total liabilities	45,180,362	48,660,260
Net assets		
Without donor restrictions		
Undesignated	6,098,607	169,431
Invested in property and equipment, net of related debt	29,355,587	27,629,419
Total net assets without restrictions	35,454,194	27,798,850
Total Liabilities and Net Assets	\$ 80,634,556	\$ 76,459,110

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

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Without Donor Restrictions	
	2021	2020
Support and revenue		
Tithes and offerings	\$ 33,107,978	\$ 29,392,801
Ministry income	455,462	195,664
Thrift sales	3,209,732	2,305,445
Retreat center program fees	450,184	6,750
Total support and revenue	37,223,356	31,900,660
Expenses		
Church operations	23,319,100	19,766,367
Thrift store	3,095,296	2,555,346
Mission trips	327,836	313,888
The Retreat Center	2,420,786	833,331
General and administrative	2,869,693	2,831,449
Total expenses	32,032,711	26,300,381
Change in net assets from operations	5,190,645	5,600,279
Other changes		
Other income	714,249	-
Interest income	19,487	35,946
Forgiveness of debt, Paycheck Protection Program	1,730,965	-
Total other changes	2,464,701	35,946
Change in net assets	7,655,346	5,636,225
Net assets, beginning of year	27,798,850	22,162,625
Net assets, end of year	\$ 35,454,196	\$ 27,798,850

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

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31 2021
(WITH SUMMARIZED TOTALS FOR 2020)

	<u>Church Operations</u>	<u>Thrift Store</u>	<u>Mission Trips</u>	<u>The Retreat Center</u>	<u>General and Administrative</u>	<u>Total</u>	<u>2020</u>
Expenses							
Personnel	\$ 9,181,859	\$ 1,713,452	\$ 46,184	\$ 651,352	\$ 1,488,621	\$ 13,081,468	\$ 11,686,858
Occupancy	2,061,004	712,317	-	74,720	28,173	2,876,214	2,641,633
Tithe - charitable contributions	2,197,140	-	174,902	-	-	2,372,042	2,051,948
Insurance	123,099	39,746	-	205,564	184,050	552,459	340,063
Costs of goods sold	-	185,125	-	-	-	185,125	158,159
Depreciation, amortization, and non-capital expenses	3,118,606	74,333	-	287,249	-	3,480,188	2,833,791
Office expense	235,233	51,354	-	2,652	11,130	300,369	129,989
Other operating	617,311	295,973	106,750	824,463	597,157	2,441,654	2,350,356
Other ministry	4,398,946	-	-	-	560,562	4,959,508	2,778,685
Interest and loan expenses	1,385,902	22,996	-	374,786	-	1,783,684	1,328,899
Total expenses	<u>\$ 23,319,100</u>	<u>\$ 3,095,296</u>	<u>\$ 327,836</u>	<u>\$ 2,420,786</u>	<u>\$ 2,869,693</u>	<u>\$ 32,032,711</u>	<u>\$ 26,300,381</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, 2020

	<u>Church Operations</u>	<u>Thrift Store</u>	<u>Mission Trips</u>	<u>The Retreat Center</u>	<u>General and Administrative</u>	<u>Total</u>
Expenses						
Personnel	\$ 8,481,045	\$ 1,289,320	\$ 246,059	\$ 178,359	\$ 1,492,075	\$ 11,686,858
Occupancy	1,872,966	725,146	-	21,008	22,513	2,641,633
Tithe - charitable contributions	2,051,948	-	-	-	-	2,051,948
Insurance	60,353	25,765	-	72,886	181,059	340,063
Costs of goods sold	-	158,159	-	-	-	158,159
Depreciation, amortization, and non-capital expenses	2,366,902	83,960	-	382,917	12	2,833,791
Office expense	85,650	38,226	-	527	5,586	129,989
Other operating	1,146,436	210,955	67,829	99,093	826,043	2,350,356
Other ministry	2,474,524	-	-	-	304,161	2,778,685
Interest and loan expenses	1,226,543	23,815	-	78,541	-	1,328,899
Total expenses	<u>\$ 19,766,367</u>	<u>\$ 2,555,346</u>	<u>\$ 313,888</u>	<u>\$ 833,331</u>	<u>\$ 2,831,449</u>	<u>\$ 26,300,381</u>

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

THE CHURCH OF ELEVEN22, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 7,655,346	\$ 5,636,225
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Debt issuance costs charged to interest expense	88,157	68,363
Depreciation	3,423,435	2,169,817
Changes in:		
Prepaid expenses and other current assets	(499,777)	537,548
Accounts payable and accrued expenses	(139,795)	(334,249)
Deferred advance - PPP program	(1,730,965)	1,730,965
Deferred revenue	(40,514)	78,891
Net cash provided by operating activities	8,755,887	9,887,560
Cash flows from investing activities		
Purchases of property and equipment	(3,580,981)	(12,172,904)
Net cash used in investing activities	(3,580,981)	(12,172,904)
Cash flows from financing activities		
Payment of loan fees	(44,306)	(386,468)
Proceeds from borrowings	1,655,745	3,250,000
Principal payments on notes payable	(3,268,220)	(3,715,802)
Net cash used in financing activities	(1,656,781)	(852,270)
Net increase (decrease) in cash and cash equivalents	3,518,125	(3,137,614)
Cash and cash equivalents, beginning of year	3,182,903	6,320,517
Cash and cash equivalents, end of year	\$ 6,701,028	\$ 3,182,903
Supplemental disclosure of cash flow information and noncash investing and financing activities		
Cash paid for interest	\$ 1,497,055	\$ 1,181,995
Purchases of property and equipment with debt financing	-	24,000,000
Refinancing of debt through new debt issuance	2,344,255	-
Forgiveness of Paycheck Protection Program Note Payable	1,730,965	-

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, 2021 AND 2020

(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 six operational campus locations (San Pablo, Baymeadows, Arlington, Mandarin, St. Johns, and Fleming Island) as of December 31, 2021. On March 28, 2021, the Church began a portable campus in St. Johns County, Florida. The Church also has two prison campuses (Baker Correctional Institution and Union Correctional Institution). Unfortunately in October 2021, the Baker Correctional Institution campus was one of several prisons closed by the Florida Department of Corrections. The Church continues its ministry at the Union Correctional Institution campus, while also providing access to sermon series materials for all male and female correctional institutions in the state of Florida. 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.

In July 2020, the Church formed Woodbine Acquisition, LLC, a wholly owned subsidiary of the Church, to acquire property to engage religious, educational, charitable, and other similar purposes for expression of the Christian faith. In September 2020, the Church purchased property (“The Retreat Center”) in South Georgia for these purposes. The Retreat Center is an extension of the church to help people discover and deepen their relationship with Jesus Christ.

(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 subsidiaries, Hope’s Closet Thrift, LLC, The Retreat Center, LLC, and Woodbine Acquisition, LLC. Woodbine Acquisition, LLC and The Retreat Center, LLC collectively own and operate The Retreat Center. All significant interorganizational 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.

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

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, 2021 and 2020.

Revenue Recognition Associated with Hope's Closet

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. In 2020, Hope's Closet applied for a religious exemption from the collection and remittance of sales taxes, and was granted this exemption on August 7, 2020. From that date forward, no sales taxes are collected related to sales through Hope's Closet. 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.

Revenue Recognition Associated with The Retreat Center.

Revenue associated with The Retreat Center consists of fees paid by individuals and groups that use the facilities at The Retreat Center. These amounts are recognized into revenue based upon the associated time period of use by those individuals or groups.

(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 CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

(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) **Contributions (tithes and offerings)**—Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

(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 consolidated 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 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.

(h) **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.

(i) **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.

(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 501a., the Church is exempt from the requirement to file an annual information return.

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

(k) **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.

(l) **Subsequent events**—The Church has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through April 26, 2022, the date the financial statements were available to be issued. No subsequent events have been disclosed.

(m) **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, 2021 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.

In September 2020, the FASB issued Accounting Standards Update 2020-07: *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The new standard is effective for fiscal years beginning after June 15, 2021, and may be adopted early.

(2) **Retirement Plans:**

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 years ended December 31, 2021 and 2020 was \$176,850 and \$167,248, respectively.

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 years ended December 31, 2021 and 2020 was \$54,982 and \$33,081, respectively.

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(3) **Property and Equipment:**

Property and equipment is summarized below as of December 31:

	<u>2021</u>	<u>2020</u>
Audio visual and lighting equipment	\$ 7,291,343	\$ 6,572,048
Equipment	2,205,017	2,017,966
Furniture and fixtures	1,084,018	947,120
Land and land improvements	13,881,018	14,125,534
Leasehold improvements	15,117,309	15,102,352
Building and improvements	41,390,724	39,569,031
Vehicles	737,453	708,258
Total property and equipment being depreciated	81,706,882	79,042,309
Less: Accumulated depreciation	12,346,749	8,923,313
Total property and equipment being depreciated, net	69,360,133	70,118,996
Construction in progress	3,329,779	2,413,372
Total property and equipment, net	<u>\$ 72,689,912</u>	<u>\$ 72,532,368</u>

Depreciation expense totaled \$3,423,435 and \$2,169,817 for the years ended December 31, 2021 and 2020, respectively.

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

The Church has demand deposits with a regional bank at December 31, 2021 and 2020, with bank balances amounting to \$1,248,400 and \$1,409,752 respectively. 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, 2021 and 2020, uninsured cash balances totaled \$4,841,755 and \$1,159,752. 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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Financial assets available within one year, at year end:		
Cash	\$ 6,701,028	\$ 3,182,903
Miscellaneous receivables	106,376	23,847
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,807,404</u>	<u>\$ 3,206,750</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, 2021, \$2,000,000 was available to be drawn on.

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(6) Notes Payable:

Notes payable consists of the following as of December 31:

	2021	2020
Line of credit payable to a financial institution with a variable interest rate of LIBOR plus 2.25% and total allowable borrowings of up to \$2,000,000 that matures in October 2022. The line is unsecured.	\$ -	\$ 1,000,000
Note payable to a financial institution with a fixed interest rate of 3.95% that matures in September 2031. The note is secured by real property and leasehold improvements of the Mandarin location.	3,966,990	2,422,660
Note payable to a financial institution with a fixed interest rate of 3.95% that matures in May 2024. The note is secured by real property and leasehold improvements of the San Pablo location.	6,024,332	6,301,562
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.	2,992,275	3,123,111
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.	4,642,932	4,806,517
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.	1,915,593	2,493,490
Note payable to a financial institution with a fixed interest rate of 3.82% that matures in January 2026. The note is secured by certain property of the San Pablo location.	14,536,730	15,000,000
Note payable to a financial institution with a fixed interest rate of 4.25% that matures October 2030. The note is secured by real property of The Retreat Center.	8,658,216	8,952,203
Notes payable to three individual third-parties with a fixed interest rate of 0.35% that matures in September 2025. The notes are unsecured.	1,000,000	1,250,000
	43,737,068	45,349,543
Less: Current portion of notes payable	5,271,821	5,374,709
Less: Unamortized debt issuance costs	402,743	446,594
Notes payable, less current portion and unamortized debt issuance costs	\$ 38,062,504	\$ 39,528,240

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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

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

Year Ending December 31,	Amount
2022	\$ 5,271,821
2023	2,364,040
2024	11,674,691
2025	1,402,550
2026	12,797,641
Thereafter	10,226,325
Total	\$ 43,737,068

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, 2021 and 2020.

(7) **Loan Forgiveness – Paycheck Protection Program:**

On April 9, 2020, the Church received loan proceeds in the amount of \$1,730,965, under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides funding to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business.

During the year ended December 31, 2021, the loan was forgiven for the entirety of the principal and accrued interest. The church has recognized the contribution as debt forgiveness income on the Statement of Activities.

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(8) Lease Commitments:

The Church is obligated under a non-cancelable operating lease for the Arlington church building space it occupies that extends until 2023. This lease has three five-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 Arlington Hope’s Closet building space it occupies that extends until 2025. This lease has two seven-year renewal options and also contains a right to first offer option to purchase the property.

The Church is obligated under a non-cancelable operating lease for the San Pablo Hope’s Closet building space and adjacent office space it occupies that extends until 2025. This lease has a purchase option for \$2,920,422.

The Church is obligated under a non-cancelable operating lease for the Fleming Island building space that 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 cancelable lease agreement for the North Jacksonville building space that extends through 2029. 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 future minimum lease payments under the non-cancelable operating leases are as follows:

Years Ending December 31	Amount
2022	\$ 1,735,502
2023	1,474,871
2024	1,525,669
2025	1,025,922
2026	865,944
Thereafter	7,634,960
	\$ 14,262,868

Rental expense related to the above agreements was \$2,088,061 and \$2,025,145 for the years ended December 31, 2021 and 2020, respectively.

THE CHURCH OF ELEVEN22, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(9) **Risks and Uncertainties:**

During the year ended December 31, 2020, local, U.S., and world governments 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. For the year ended December 31, 2021, there remains unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them.

Due to the effects of the global pandemic, most industries experienced, and continue to experience, disruption to business operations and reduced consumer spending and charitable contributions. These disruptions affected areas such as labor costs, construction and operating expenses, inflation, and rising interest rates. Accordingly, while management cannot quantify the financial and other impact to the Church as of April 26, 2022, management believes that a material impact on results of future operations is possible.