

THE CHURCH OF ELEVEN22, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2014

**THE CHURCH OF ELEVEN22, INC.
FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Church of Eleven22, Inc., which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Church of Eleven22, Inc. as of December 31, 2014, 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
April 17, 2015

**THE CHURCH OF ELEVEN22, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014**

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,743,994
Prepaid expenses and other current assets	200,878
Total current assets	<u>2,944,872</u>
Property and equipment, net	4,978,984
Debt issuance costs, net	34,156
Total Assets	<u><u>\$ 7,958,012</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Current portion of notes payable	\$ 1,096,866
Accounts payable and accrued expenses	338,401
Total current liabilities	<u>1,435,267</u>
Long-term liabilities	
Notes payable, less current portion	1,713,134
Accrued loss on interest rate swap	14,367
Total long-term liabilities	<u>1,727,501</u>
Total liabilities	<u>3,162,768</u>
Net assets	
Unrestricted	3,660,015
Temporarily restricted	1,135,229
Total net assets	<u>4,795,244</u>
Total Liabilities and Net Assets	<u><u>\$ 7,958,012</u></u>

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

THE CHURCH OF ELEVEN22, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue			
Tithes and offerings	\$ 5,127,645	\$ -	\$ 5,127,645
Capital campaign contributions	-	1,249,230	1,249,230
Ministry income	36,542	474,234	510,776
Product sales	2,689	-	2,689
Interest income	2,568	-	2,568
Net assets released from restrictions:			
Capital additions	166,649	(166,649)	-
Mission trips	522,267	(522,267)	-
Mortgage payments	1,376,667	(1,376,667)	-
Total support and revenue	<u>7,235,027</u>	<u>(342,119)</u>	<u>6,892,908</u>
Expenses			
Administrative	651,624	-	651,624
Spiritual formation	69,807	-	69,807
Staffing	2,267,271	-	2,267,271
Worship	409,045	-	409,045
Communications	130,706	-	130,706
Development	224,165	-	224,165
Facilities	626,778	-	626,778
Tithing	456,424	-	456,424
Information technology	111,154	-	111,154
Mission trips	575,327	-	575,327
NewGen	137,479	-	137,479
Total expenses	<u>5,659,780</u>	<u>-</u>	<u>5,659,780</u>
Change in net assets	<u>1,575,247</u>	<u>(342,119)</u>	<u>1,233,128</u>
Net assets, beginning of year	2,084,768	1,477,348	3,562,116
Net assets, end of year	<u><u>\$ 3,660,015</u></u>	<u><u>\$ 1,135,229</u></u>	<u><u>\$ 4,795,244</u></u>

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

**THE CHURCH OF ELEVEN22, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Cash flows from operating activities	
Change in net assets	\$ 1,233,128
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Amortization of debt issuance costs	12,916
Depreciation	460,372
Change in value of interest rate swap	(5,595)
Changes in:	
Prepaid expenses and other current assets	(47,470)
Accounts payable and accrued expenses	(519,687)
Net cash provided by operating activities	<u>1,133,664</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(234,099)</u>
Cash flows from financing activities	
Borrowings on notes payable	1,171,168
Principal payments on notes payable	<u>(1,376,667)</u>
Net cash used in financing activities	(205,499)
Net increase in cash and cash equivalents	<u>694,066</u>
Cash and cash equivalents, beginning of year	2,049,928
Cash and cash equivalents, end of year	<u><u>\$ 2,743,994</u></u>
Supplemental disclosure of cash flow information	
Cash paid for interest	\$ 85,553

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

THE CHURCH OF ELEVEN22, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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

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

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

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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. The Church records all revenues and gains that are spent in the same fiscal year as unrestricted revenue. Any amounts not spent are recorded as either temporarily restricted or permanently restricted revenue if donor restrictions exist. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

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

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

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

See Note 7 for balances of temporarily restricted net assets at December 31, 2014. No permanently restricted assets were held at December 31, 2014, and accordingly, these financial statements do not reflect any activity related to this class of net assets.

(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.

THE CHURCH OF ELEVEN22, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

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

(e) **Debt issuance costs**—Debt issuance costs are capitalized and amortized over the terms of the related debt agreements on a straight-line basis, which approximates, and is not materially different from, the effective interest method of amortization. Accumulated amortization of debt issuance costs as of December 31, 2014, was \$26,645.

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

(g) **Contributed services**—The Church receives a substantial amount of services donated by its members in carrying out the Church's ministry. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under generally accepted accounting principles.

(h) **Donated assets**—Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

(i) **Pledges**—In addition to general contributions, the Church has conducted two 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.

(j) **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.

(k) **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.

(l) **Use of estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(m) **Subsequent events**—The Church has evaluated events and transactions for potential recognition or disclosure in the financial statements through April 17, 2015, the date the financial statements were available to be issued. See Note 9 for disclosure of subsequent events.

THE CHURCH OF ELEVEN22, INC.
NOTES TO FINANCIAL STATEMENTS
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(2) **Property and Equipment:**

Property and equipment is summarized below as of December 31, 2014:

Audio visual and lighting equipment	\$	606,284
Equipment		147,548
Furniture and fixtures		98,536
Leasehold improvements		4,920,595
Construction in progress		47,500
		5,820,463
Less: Accumulated depreciation		(841,479)
Total property and equipment	\$	4,978,984

Depreciation expense totaled \$460,372 for the year ended December 31, 2014.

(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, 2014 was \$24,824.

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

The Church has demand deposits with a regional bank at December 31, 2014, with bank balances amounting to \$2,550,798. 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, 2014, uninsured cash balances totaled \$2,300,798. The Church does not believe it is exposed to any significant credit risk on cash and cash equivalents.

(5) **Notes Payable:**

Notes payable consist of the following at December 31, 2014:

Note payable to a financial institution with a variable interest rate of 2.25% above LIBOR (2.404% at December 31, 2014) that matures in May 2017. The note is secured by equipment and leasehold improvements.	\$	1,130,000
Note payable to a financial institution with a variable interest rate of 2.75% above LIBOR (2.904% at December 31, 2014) that matures in January 2018. The note is secured by equipment and leasehold improvements.		1,680,000
		2,810,000
Less: Current portion of notes payable		(1,096,866)
Notes payable, less current portion	\$	1,713,134

THE CHURCH OF ELEVEN22, INC.
NOTES TO FINANCIAL STATEMENTS
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(5) **Notes Payable:** (Continued)

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

Year Ending December 31,	Amount
2015	1,096,867
2016	493,732
2017	859,401
2018	360,000
Thereafter	-
Total	\$ 2,810,000

The Church is subject to compliance with certain restrictive covenants, including maintaining a minimum fixed charge coverage ratio, a minimum interest 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, 2014.

To minimize the effect of changes in the variable rate component of the notes payable, the Church entered into an interest rate swap agreement in October 2013, which became effective in April 2014. Under the terms of the interest rate swap, the Church pays interest at a fixed rate of 4.1% and receives interest at the 1-month LIBOR plus 2.75%. The notional amount of the interest rate swap at the beginning date in April 2014 was \$1,920,000, and decreases subsequent to that date in a manner that mirrors the amortization of the related note payable. The interest rate swap contract matures in January 2018. The accrued loss on the interest rate swap contract at December 31, 2014, was \$14,367 and is included as a liability in the accompanying statement of financial position. The change in the accrued loss on the interest rate swap during the year ended December 31, 2014, totaled a positive \$5,595, and is included in development expense in the accompanying statement of activities.

(6) **Fair Value Measurements:**

The fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 – Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

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NOTES TO FINANCIAL STATEMENTS
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(6) **Fair Value Measurements:** (Continued)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Interest rate swap agreement – The Church’s interest rate swap is not exchange traded and therefore quoted market prices are not readily available for it. The fair value of the interest rate swap is derived using models that use primarily market observable inputs, such as interest rate yield curves and credit curves but also incorporate significant assumptions that are unobservable. The impacts of the derivative liabilities for the Church’s and the counterparties’ non-performance risk to the derivative trades is considered when measuring the fair value of derivative liabilities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Church believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following table summarizes the liabilities of the Church for which fair values are determined on a recurring basis:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
December 31, 2014:				
Interest rate swap agreement	\$ -	\$ -	\$ 14,367	\$ 14,367
Total liabilities at fair value	\$ -	\$ -	\$ 14,367	\$ 14,367

The table below summarizes the changes in the fair value of the Level 3 liabilities measured at fair value for the year ended December 31, 2014:

Interest Rate Swap Agreement	
Balance at December 31, 2013	\$ (19,962)
Unrealized gain included in earnings	5,595
Balance at December 31, 2014	\$ (14,367)
Change in unrealized gains for the year included in changes in net assets for liabilities held at the reporting date	\$ 5,595

THE CHURCH OF ELEVEN22, INC.
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(7) **Restrictions on Net Assets:**

Temporarily restricted net assets are available for the following purposes at December 31, 2014:

Missions	\$ 61,515
Capital campaign – Upon This Rock	215,315
Capital campaign – Restore	858,399
	\$ 1,135,229

The temporarily restricted net assets from the two capital campaigns may be used for either property and equipment expenditures or debt repayments associated with those capital projects.

(8) **Lease Commitment:**

The Church is obligated under a non-cancelable operating lease for the building space it occupies that extends to August of 2017. This lease has two five year renewal options and also contains a purchase option for the building for \$7,800,000. The future minimum lease payments under the non-cancelable operating lease are as follows:

Years Ending December 31	Amount
2015	\$ 338,460
2016	338,460
2017	225,640
Thereafter	-
	\$ 902,560

(9) **Subsequent Events:**

Effective March 11, 2015, the Church entered into a ten year lease agreement to rent space for the operation of a thrift store. This lease has two five year renewal options and contains a purchase option for a price specified in the lease agreement. Under the terms of this lease agreement, the Church has the option to lease additional space. The rent amounts for the additional space are specified in the lease agreement. The future minimum lease payments for the next five years and thereafter under this non-cancelable operating lease are as follows:

Years Ending December 31	Amount
2015	\$ 191,295
2016	229,554
2017	229,554
2018	244,179
2019	247,104
Thereafter	1,329,354
	\$ 2,471,040

Additionally, the Church executed a purchase and sale agreement effective April 8, 2015 to purchase a building for a price of \$2,600,000. This purchase required a deposit of \$100,000 to be made in escrow on April 9, 2015.