

TRANSFORMATION CHURCH, INC.
FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
AND
ACCOUNTANT'S COMPILATION REPORT

FRANKLIN & FRANKLIN, PA
CERTIFIED PUBLIC ACCOUNTANTS

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TRANSFORMATION CHURCH, INC.
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

CONTENTS

Accountant's Compilation Report	1
Financial statements:	
Statements of Financial Position	2
Statements of Activities and Change in Net Assets.....	3
Statements of Functional Expenses	4-7
Statements of Cash Flows.....	8
Notes to Financial Statements	9-12

Transformation Church, Inc.
Indian Land, South Carolina

Management is responsible for the accompanying financial statements of Transformation Church, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the periods then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

A handwritten signature in cursive script that reads "Franklin & Franklin, PA". The signature is written in dark ink and is positioned above the printed name of the firm.

Matthews, North Carolina

August 21, 2018

TRANSFORMATION CHURCH, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents - Unrestricted	\$ 702,750	\$ 355,055
Cash and Cash Equivalents - Temporarily Restricted	12,847	12,614
Investments (at Fair Market Value)	9,519	4,258
	725,116	371,927
OTHER CURRENT ASSETS		
Inventory	25,443	8,432
Accounts Receivable	5,741	-
Prepaid Expenses	75,646	67,858
	106,830	76,290
TOTAL CURRENT ASSETS	831,946	448,217
PROPERTY		
Furniture	80,788	80,788
Computers and Equipment	1,051,597	839,993
Leasehold Improvements	235,860	214,978
Land and Building	8,661,846	8,500,354
	10,030,091	9,636,113
Less Accumulated Depreciation	(1,318,000)	(1,036,087)
PROPERTY, NET	8,712,091	8,600,026
OTHER ASSETS		
Security Deposit	1,458	1,458
Intangible Assets	40,271	40,271
Less Accumulated Amortization	(8,077)	(5,394)
	33,652	36,335
TOTAL ASSETS	\$ 9,577,689	\$ 9,084,578
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable and Credit Card Payable	\$ 104,838	\$ 45,198
Payroll Liabilities	24,045	37,327
Current Portion, Long-Term Debt	118,389	99,970
TOTAL CURRENT LIABILITIES	247,272	182,495
LONG TERM LIABILITIES		
Long-Term Debt	4,550,283	4,700,030
TOTAL LIABILITIES	4,797,555	4,882,525
NET ASSETS		
Unrestricted	4,767,287	4,189,439
Temporarily Restricted	12,847	12,614
TOTAL NET ASSETS	4,780,134	4,202,053
TOTAL LIABILITIES AND NET ASSETS	\$ 9,577,689	\$ 9,084,578

See accompanying notes and accountant's compilation report.

TRANSFORMATION CHURCH, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUE AND SUPPORT		
Offerings/Tithes	\$ 2,785,942	\$ 2,541,126
Ministry Income	73,349	43,108
Apparel and Book Income	5,276	1,658
Investment Income	2,103	31
Proceeds from Sale of Assets	9,300	-
Other Income	11,548	22,903
TOTAL INCOME	2,887,518	2,608,826
 NET ASSETS RELEASED FROM RESTRICTIONS	 20,214	 5,299
 TOTAL UNRESTRICTED REVENUE AND SUPPORT	 2,907,732	 2,614,125
 EXPENSES		
Program Expenses	1,501,771	1,539,561
Management and General Expenses	910,641	821,976
Fundraising Expenses	28,992	30,370
TOTAL EXPENSE	2,441,404	2,391,907
 CHANGE IN UNRESTRICTED NET ASSETS	 466,328	 222,218
 TEMPORARILY RESTRICTED NET ASSETS		
Contributions and Program Revenue	17,570	8,485
Net Assets Released from Restrictions	(20,214)	(5,299)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(2,644)	3,186
 CHANGE IN NET ASSETS	 463,684	 225,404
 NET ASSETS, BEGINNING OF YEAR	 4,316,450	 3,976,649
 NET ASSETS, END OF YEAR	 \$ 4,780,134	 \$ 4,202,053

See accompanying notes and accountant's compilation report.

TRANSFORMATION CHURCH INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2018

	Program Expenses				Supporting Expenses		Total Expenses
	Church	Care	Outreach	Program	Management and General	Fundraising	
EXPENSES							
Direct Expenses	\$ 43,500	\$ 2,045	\$ 97	\$ 45,642	\$ -	\$ -	\$ 45,642
Salaries and Wages	582,863	-	-	582,863	519,644	18,383	1,120,890
Payroll Benefits	117,159	-	-	117,159	104,452	3,695	225,306
Occupancy	1,839	6	-	1,845	1,645	58	3,548
Professional Fees	110,114	909	40	111,063	51,791	163	163,017
Advertising and Promotion	-	-	-	-	-	427	427
Conferences, Conventions, and Meetings	653	-	-	653	73	-	726
Administration, Copying and Printing	22,556	724	137	23,417	2,506	-	25,923
Credit Card and Other Service Charges	-	-	-	-	1,131	-	1,131
Depreciation	79,998	-	-	79,998	71,322	2,523	153,843
Equipment Rental	8,600	1,251	-	9,851	-	-	9,851
Facilities	43,049	210	155	43,414	8,219	291	51,924
Insurance	5,208	-	-	5,208	4,643	164	10,015
Interest Expense	52,338	-	-	52,338	46,661	1,651	100,650
Meals and Entertainment	11,257	809	780	12,846	6,917	-	19,763
Benevolence	-	71,285	-	71,285	-	-	71,285
Generosity	90,102	440	38,092	128,634	-	-	128,634
Supplies and Other Expenses	5,833	-	20	5,853	4,727	156	10,736
Office Supplies	17,575	2,661	6,045	26,281	4,394	-	30,675
Other Expenses	86,225	21,194	3,309	110,728	40,503	182	151,413
Postage and Delivery	1,756	505	10	2,271	92	-	2,363
Repairs and Maintenance	18,172	-	-	18,172	17,100	605	35,877
Mileage	926	30	52	1,008	-	-	1,008
Telecommunication	3,109	-	-	3,109	1,332	-	4,441
Telephone	8,950	-	-	8,950	3,836	-	12,786
Travel Expenses	11,717	430	4,993	17,140	-	-	17,140
Utilities	22,043	-	-	22,043	19,653	694	42,390
TOTAL EXPENSES	\$ 1,345,542	\$ 102,499	\$ 53,730	\$ 1,501,771	\$ 910,641	\$ 28,992	\$ 2,441,404

See accompanying notes and accountant's compilation report.

TRANSFORMATION CHURCH INC
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2017

	Program Expenses				Supporting Expenses		Total Expenses
	Church	Care	Outreach	Program	Management and General	Fundraising	
EXPENSES							
Direct Expenses	\$ 51,380	\$ 828	\$ 29	\$ 52,237	\$ -	\$ -	\$ 52,237
Salaries and Wages	599,719	-	-	599,719	445,429	18,183	1,063,331
Payroll Benefits	110,858	-	-	110,858	82,338	3,361	196,557
Occupancy	1,964	-	-	1,964	1,459	60	3,483
Professional Fees	107,174	2,804	149	110,127	51,354	162	161,643
Advertising and Promotion	-	-	-	-	-	966	966
Conferences, Conventions, and Meetings	10,189	-	-	10,189	1,132	-	11,321
Administration, Copying and Printing	23,243	2,210	26	25,479	2,583	-	28,062
Credit Card and Other Service Charges	-	-	-	-	2,166	-	2,166
Depreciation	76,586	-	-	76,586	56,882	2,322	135,790
Equipment Rental	14,241	4,137	-	18,378	-	-	18,378
Facilities	35,072	298	-	35,370	3,939	161	39,470
Insurance	5,326	-	-	5,326	3,956	161	9,443
Interest Expense	75,722	-	-	75,722	56,241	2,296	134,259
Meals and Entertainment	12,573	751	436	13,760	7,409	-	21,169
Benevolence	-	47,400	-	47,400	-	-	47,400
Generosity	38,100	103	103,071	141,274	-	-	141,274
Supplies and Other Expenses	40,111	-	100	40,211	32,474	1,069	73,754
Office Supplies	20,618	748	7,626	28,992	5,155	-	34,147
Other Expenses	49,192	20,391	1,604	71,187	26,039	117	97,343
Postage and Delivery	2,087	560	5	2,652	110	-	2,762
Repairs and Maintenance	23,990	-	-	23,990	19,628	801	44,419
Mileage	1,620	817	-	2,437	-	-	2,437
Telecommunication	4,677	-	-	4,677	2,005	-	6,682
Telephone	9,941	-	-	9,941	4,260	-	14,201
Travel Expenses	5,263	978	1,393	7,634	-	-	7,634
Utilities	23,451	-	-	23,451	17,417	711	41,579
TOTAL EXPENSES	\$ 1,343,097	\$ 82,025	\$ 114,439	\$ 1,539,561	\$ 821,976	\$ 30,370	\$ 2,391,907

See accompanying notes and accountant's compilation report.

TRANSFORMATION CHURCH INC.
STATEMENTS OF FUNCTIONAL EXPENSES - PROGRAM EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018				June 30, 2017			
	Church	Care	Outreach	Total Program	Church	Care	Outreach	Total Program
EXPENSES								
Direct Expenses	\$ 43,500	\$ 2,045	\$ 97	\$ 45,642	\$ 51,380	\$ 828	\$ 29	\$ 52,237
Salaries and Wages	582,863	-	-	582,863	599,719	-	-	599,719
Payroll Benefits	117,159	-	-	117,159	110,858	-	-	110,858
Occupancy	1,839	6	-	1,845	1,964	-	-	1,964
Professional Fees	110,114	909	40	111,063	107,174	2,804	149	110,127
Advertising and Promotion	-	-	-	-	-	-	-	-
Conferences, Conventions, and Meetings	653	-	-	653	10,189	-	-	10,189
Administration, Copying and Printing	22,556	724	137	23,417	23,243	2,210	26	25,479
Credit Card and Other Service Charges	-	-	-	-	-	-	-	-
Depreciation	79,998	-	-	79,998	76,586	-	-	76,586
Equipment Rental	8,600	1,251	-	9,851	14,241	4,137	-	18,378
Facilities	43,049	210	155	43,414	35,072	298	-	35,370
Insurance	5,208	-	-	5,208	5,326	-	-	5,326
Interest Expense	52,338	-	-	52,338	75,722	-	-	75,722
Meals and Entertainment	11,257	809	780	12,846	12,573	751	436	13,760
Benevolence	-	71,285	-	71,285	-	47,400	-	47,400
Generosity	90,102	440	38,092	128,634	38,100	103	103,071	141,274
Supplies and Other Expenses	5,833	-	20	5,853	40,111	-	100	40,211
Office Supplies	17,575	2,661	6,045	26,281	20,618	748	7,626	28,992
Other Expenses	86,225	21,194	3,309	110,728	49,192	20,391	1,604	71,187
Postage and Delivery	1,756	505	10	2,271	2,087	560	5	2,652
Repairs and Maintenance	18,172	-	-	18,172	23,990	-	-	23,990
Mileage	926	30	52	1,008	1,620	817	-	2,437
Telecommunication	3,109	-	-	3,109	4,677	-	-	4,677
Telephone	8,950	-	-	8,950	9,941	-	-	9,941
Travel Expenses	11,717	430	4,993	17,140	5,263	978	1,393	7,634
Utilities	22,043	-	-	22,043	23,451	-	-	23,451
TOTAL EXPENSES	\$ 1,345,542	\$ 102,499	\$ 53,730	\$ 1,501,771	\$ 1,343,097	\$ 82,025	\$ 114,439	\$ 1,539,561

See accompanying notes and accountant's compilation report.

TRANSFORMATION CHURCH INC.
 STATEMENTS OF FUNCTIONAL EXPENSES - SUPPORTING SERVICES
 FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018		June 30, 2017	
	Management and General	Fundraising	Management and General	Fundraising
EXPENSES				
Direct Expenses	\$ -	\$ -	\$ -	\$ -
Salaries and Wages	519,644	18,383	445,429	18,183
Payroll Benefits	104,452	3,695	82,338	3,361
Occupancy	1,645	58	1,459	60
Professional Fees	51,791	163	51,354	162
Advertising and Promotion	-	427	-	966
Conferences, Conventions, and Meetings	73	-	1,132	-
Administration, Copying and Printing	2,506	-	2,583	-
Credit Card and Other Service Charges	1,131	-	2,166	-
Depreciation	71,322	2,523	56,882	2,322
Equipment Rental	-	-	-	-
Facilities	8,219	291	3,939	161
Insurance	4,643	164	3,956	161
Interest Expense	46,661	1,651	56,241	2,296
Meals and Entertainment	6,917	-	7,409	-
Benevolence	-	-	-	-
Generosity	-	-	-	-
Supplies and Other Expenses	4,727	156	32,474	1,069
Office Supplies	4,394	-	5,155	-
Other Expenses	40,503	182	26,039	117
Postage and Delivery	92	-	110	-
Repairs and Maintenance	17,100	605	19,628	801
Mileage	-	-	-	-
Telecommunication	1,332	-	2,005	-
Telephone	3,836	-	4,260	-
Travel Expenses	-	-	-	-
Utilities	19,653	694	17,417	711
TOTAL EXPENSES	\$ 910,641	\$ 28,992	\$ 821,976	\$ 30,370

See accompanying notes and accountant's compilation report.

TRANSFORMATION CHURCH, INC.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 463,684	\$ 225,404
Adjustments to Reconcile to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	153,843	135,790
Gain on Sale of Assets	(9,300)	-
Investments	(5,261)	-
Inventory	4,332	(3,071)
Accounts Receivable	2,663	-
Prepaid Expense	(35,549)	2,610
Accounts Payable and Credit Card Payable	21,280	(42,558)
Promise to Give	(30,000)	-
Unearned Revenue	(2,200)	(100)
Payroll Liabilities	(49,121)	14,037
	514,371	332,112
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property	(320,740)	(179,007)
Purchase of Intangible Asset	-	(35,771)
Proceeds from Sale of Fixed Assets	9,300	-
Net Cash Used by Investing Activities	(311,440)	(214,778)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Loan	-	4,800,000
Payments of Loan	(71,325)	(4,784,370)
Net Cash Provided (Used) by Financing Activities	(71,325)	15,630
Net Change in Cash and Equivalents	131,606	132,964
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	583,991	234,705
CASH AND CASH EQUIVALENTS AT END OF YEAR		
	\$ 715,597	\$ 367,669
CASH AND CASH EQUIVALENTS:		
Unrestricted	\$ 702,750	\$ 355,055
Temporarily Restricted	12,847	12,614
	\$ 715,597	\$ 367,669
CASH AND CASH EQUIVALENTS AT END OF YEAR		
	\$ 715,597	\$ 367,669

Interest expense was \$100,650 and \$134,259 June 30, 2018 and 2017.

See accompanying notes and accountant's compilation report.

TRANSFORMATION CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Transformation Church, Inc. (the “Church”) was incorporated as a non-profit organization in South Carolina in April, 2010. The Church is a multi-ethnic, multi-generational, mission-shaped community that loves God completely (Upward), ourselves correctly (Inward) and our neighbors compassionately (Outward).

Basis of Financial Statement Preparation

The financial statements of the Church have been prepared using the accrual basis of accounting.

Financial Statement Presentation—In accordance with Financial Accounting Standards Board ASC Topic 958, *Financial Statements for Not-For-Profit Entities*, the Church is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

The Church considers all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents.

Accounts and Other Receivables

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts if necessary. At June 30, 2018 and 2017, the Church had receivables of \$5,741 and \$-0-, respectively.

Inventory

The church has an inventory of books and apparel which are recorded as the lower of cost or market. As of June 30, 2018 and 2017, the inventory was \$25,443 and \$8,432, respectively.

Property

Property is stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Property acquisitions are capitalized if they are in excess of \$1,000. Depreciation, including depreciation of assets under capital leases, is provided over the estimated useful lives of the respective assets on a straight-line basis. The cost of property sold or retired and the related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is included in revenue or expense.

Restricted and Unrestricted Revenue

Under ASC Topic 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. At June 30, 2018 and 2017 temporarily restricted net assets were \$12,847 and \$12,614 respectively.

TRANSFORMATION CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

Donated Services

Donated services are provided by volunteers but not reflected herein inasmuch as the amount of the services is indeterminable.

Income Taxes

The Church has received a determination letter from the Internal Revenue Service stating that the Church is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Functional Allocation of Expenses

Expenses are allocated to program expenses, management and general, and fund raising based on management's estimates of time spent and various allocation methods appropriate to the type of expense.

Vacation Payroll Accrual

Due to the calculations involved to calculate the accrued vacation liability as of June 30, 2018 and 2017, the amount has not been calculated nor accrued in the financial statements.

Reclassifications

Certain June 30, 2017 amounts have been reclassified to conform to the June 30, 2018 financial statement presentations. These reclassifications have no effect on the change in net assets for the six months ended June 30, 2017.

2. PROPERTY

The Church records property at cost and provides for depreciation using the straight-line method over the estimated useful life of the asset (furniture and fixtures and office equipment; five—ten years). Maintenance and repairs are expensed as paid; major renewals or betterments over \$1,000 are capitalized. Depreciation expense for the six months ended June 30, 2018 and 2017 was \$153,843 and \$135,790, respectively.

TRANSFORMATION CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

3. OPERATING LEASES

The Church has multiple operating leases, primarily for various forms of equipment that expire on various dates as well as office and church buildings. Those leases generally contain renewal options and require the Church to pay all executor costs such as taxes, maintenance and insurance. Lease expense was \$6,786 and \$6,786 for the six months ended June 30, 2018 and 2017, respectively, and is included in building operations expense and equipment lease expense.

Minimum lease payments under operating leases as of June 30, 2018, are as follows:

Period Ending June 30:	
2019	\$ 6,282
2020	4,824
2021	1,372
2022	-0-
2023	-0-

4. CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Church to concentrations of credit risk, consist principally of cash, cash equivalents and member receivables. The Church maintains its cash and cash equivalents with a federally insured financial institution located in South Carolina. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2018 and 2017, the Church had funds above the federally insured limit in the amount of \$346,601 and \$54,784 respectively. Management believes that these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

5. PENSION AND HEALTH SAVING ACCOUNTS

As an employee benefit, the Church contributes funds to both an employees' health saving account and to their retirement plan. The Church contributed \$46,198 and \$39,953 to employees' HSA accounts during June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017 the church has contributed \$41,623 and \$32,011, respectively, to employee's retirement plans.

6. LONG-TERM DEBT

As of June 19, 2017, the Church refinanced their two construction loans and obtained one new loan in the amount of \$4,800,000. The initial interest rate of this loan is 4.25% for the first 60 months. As of June 19, 2022 the interest rate shall be adjusted to a rate equal to 2.26% greater than the Interest Rate Swap Rate. The loan commences on August 1, 2017 with 300 payments of \$26,162 each month. The "Maturity Date" on the loan is June 19, 2027 at which time any unpaid principal and accrued but unpaid interest shall be immediately due and payable. This promissory note is secured by the property and a \$100,000 cash reserve at First Bank. At June 30, 2018 and 2017, the loan balances were \$4,668,672 and \$4,800,000, respectively

TRANSFORMATION CHURCH, INC.
NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2018 AND 2017

A summary of principal payments on debt for future years is as follows:

Period Ending June 30:	
2019	\$ 118,389
2020	122,937
2021	128,265
2022	133,824
2023	139,623
2024 and thereafter	<u>4,025,634</u>
	<u>\$4,668,672</u>

7. INVESTMENTS

The Church has several investment accounts used to receive stock from contributors. The process is to immediately convert the stock to cash and issue a check to the Church for the donation. At times the investment companies do not immediately convert the stocks to cash which has left amounts at year end in these brokerage accounts. As of June 30, 2018 and 2017, the Church has recorded \$1,983 and \$-0- in investment income on stock, respectively. The Church has recorded interest on bank accounts of \$120 and \$31, respectively, as of June 30, 2018 and 2017.

8. RELATED PARTY TRANSACTIONS

The Church had no related party transactions during the six month period ending June 30, 2018 and 2017.

9. SUBSEQUENT EVENTS ANALYSIS

Management has evaluated subsequent events through August 21, 2018, the date on which the financial statements were available to be issued. The Church is in the process of swapping land in which there will be no outlay of cash. The fair market value of the land that will be given and the land that will be received are considered the same value. In addition, the Church is in the process of clearing land for a coffee shop. The church is in the process of finalizing a ground lease for the coffee shop. During this period, there were no other material recognizable subsequent events identified.