

TRANSFORMATION CHURCH, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
AND
INDEPENDENT AUDITOR'S REPORT

FRANKLIN & FRANKLIN, PA
CERTIFIED PUBLIC ACCOUNTANTS

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TRANSFORMATION CHURCH, INC.
YEARS ENDED DECEMBER 31, 2018 AND 2017
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FRANKLIN & FRANKLIN, PA

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Transformation Church, Inc.
Indian Land, South Carolina

We have audited the accompanying financial statements of Transformation Church, Inc., (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes of net assets, functional expenses and cash flows for the years 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 the accounting principles generally accepted in the United States of America as described in Note 1; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Transformation Church, Inc. as of December 31, 2018 and 2017, and the changes in its net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Franklin & Franklin, PA

Matthews, North Carolina
April 30, 2019

TRANSFORMATION CHURCH, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents - Without Donor Restrictions	\$ 1,211,866	\$ 686,075
Cash and Cash Equivalents - With Donor Restrictions	8,229	15,491
Investments (at Fair Market Value)	25,720	4,258
	1,245,815	705,824
OTHER CURRENT ASSETS		
Inventory	24,793	29,775
Accounts Receivable	341	2,948
Prepaid Expenses	32,597	40,097
	57,731	72,820
TOTAL CURRENT ASSETS	1,303,546	778,644
PROPERTY		
Furniture	80,788	80,788
Computer and Equipment	1,298,781	901,649
Leasehold Improvements	235,860	235,860
Land and Building	8,661,846	8,500,354
	10,277,275	9,718,651
Less Accumulated Depreciation	(1,473,303)	(1,175,245)
PROPERTY, NET	8,803,972	8,543,406
OTHER ASSETS		
Intangibles, Net of Accumulated Amortization	30,405	33,982
Construction in Progress	34,165	-
Security Deposit	1,458	1,458
	66,028	35,440
TOTAL ASSETS	\$ 10,173,546	\$ 9,357,490
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable and Credit Card Payable	\$ 167,724	\$ 83,558
Payroll Liabilities	63,285	67,710
Promises to Give	-	30,000
Unearned Revenue	100	2,200
Current Portion, Long-Term Debt	120,892	74,166
TOTAL CURRENT LIABILITIES	352,001	257,634
LONG TERM LIABILITIES		
Long-Term Debt	4,476,591	4,665,831
TOTAL LIABILITIES	4,828,592	4,923,465
NET ASSETS		
Net Assets without Donor Restrictions	5,336,725	4,418,534
Net Assets with Donor Restrictions	8,229	15,491
TOTAL NET ASSETS	5,344,954	4,434,025
TOTAL LIABILITIES AND NET ASSETS	\$ 10,173,546	\$ 9,357,490

TRANSFORMATION CHURCH, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUE AND SUPPORT		
Offerings/Tithes	\$ 5,924,423	\$ 5,229,925
Investment Income	4,193	102
Other Income	37,079	39,838
TOTAL REVENUES AND OTHER INCOME WITHOUT DONOR RESTRICTIONS	<u>5,965,695</u>	<u>5,269,865</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Restriction Satisfied by School Appreciation Receipts	5,967	-
Restriction Satisfied by Back to School Receipts	-	650
Restriction Satisfied by Backpack Receipts	10,902	9,281
Restriction Satisfied by Roll Out Hope Receipts	14,389	15,790
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>31,258</u>	<u>25,721</u>
TOTAL REVENUE, OTHER INCOME AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	5,996,953	5,295,586
EXPENSES		
Program Expenses	3,110,078	3,076,132
Management and General Expenses	1,860,853	1,733,830
Fundraising Expenses	107,831	100,290
TOTAL EXPENSE	<u>5,078,762</u>	<u>4,910,252</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	918,191	385,334
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions:		
School Appreciation	5,967	-
Back to School	-	650
Backpacks	6,148	15,144
Roll Out Hope	11,881	15,990
Net Assets Released from Restrictions	(31,258)	(25,721)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(7,262)</u>	<u>6,063</u>
CHANGES IN NET ASSETS	910,929	391,397
NET ASSETS, BEGINNING OF YEAR	<u>4,434,025</u>	<u>4,042,628</u>
NET ASSETS, END OF YEAR	<u>\$ 5,344,954</u>	<u>\$ 4,434,025</u>

TRANSFORMATION CHURCH, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Expenses				Supporting Expenses			Total Expenses
	Church	Care	Outreach	Total Program	Management and General	Fundraising	Total	
EXPENSES								
Direct Expenses	\$ 111,578	\$ 3,526	\$ 1,121	\$ 116,225	\$ -	\$ -	\$ 116,225	
Salary and Wages	1,227,784	-	-	1,227,784	1,090,342	39,370	2,357,496	
Payroll Benefits	235,752	-	-	235,752	209,361	7,560	452,673	
Occupancy	4,570	6	-	4,576	4,064	146	8,786	
Professional and Contract Services	187,039	925	3,542	191,506	114,398	337	306,241	
Advertising and Promotion	-	-	-	-	-	1,188	1,187	
Conferences, Conventions, and Meetings	3,608	-	-	3,608	401	-	4,009	
Administration, Copying and Printing	46,575	1,402	552	48,529	5,175	-	53,704	
Credit Card and Other Service Charges	-	-	-	-	1,987	-	1,987	
Depreciation	115,201	-	-	115,201	143,807	51,927	310,935	
Equipment Rental	15,502	1,251	6,230	22,983	-	-	22,983	
Facilities	83,168	210	1,401	84,779	13,769	497	99,045	
Insurance	10,819	-	-	10,819	9,608	347	20,774	
Interest Expense	104,907	-	-	104,907	93,163	3,364	201,434	
Meals and Entertainment	17,761	1,283	1,827	20,871	11,238	-	32,109	
Benevolence	22	155,111	-	155,133	-	-	155,133	
Generosity	194,230	440	119,074	313,744	-	-	313,744	
Supplies and Other Expenses	19,430	-	20	19,450	9,987	27	29,464	
Supplies General	31,207	4,048	69,773	105,028	7,802	-	112,830	
Other Expenses	144,962	24,245	11,966	181,173	58,978	336	240,487	
Postage and Delivery	3,968	589	11	4,568	209	-	4,777	
Repairs and Maintenance	40,103	-	-	40,103	38,411	1,387	79,901	
Mileage	3,068	30	52	3,150	-	-	3,150	
Telecommunication	5,427	-	-	5,427	2,326	-	7,753	
Telephone	20,047	-	-	20,047	8,591	-	28,638	
Travel Expenses	24,461	430	7,894	32,785	-	-	32,785	
Utilities	41,930	-	-	41,930	37,236	1,345	80,511	
TOTAL EXPENSES	\$ 2,693,119	\$ 193,496	\$ 223,463	\$ 3,110,078	\$ 1,860,853	\$ 107,831	\$ 5,078,762	

TRANSFORMATION CHURCH, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Expenses				Supporting Expenses			Total Expenses
	Church	Care	Outreach	Total Program	Management and General	Fundraising	Total	
EXPENSES								
Direct Expenses	\$ 70,880	\$ 977	\$ 12,269	\$ 84,126	\$ -	\$ -	\$ 84,126	
Salary and Wages	1,198,566	-	-	1,198,566	1,012,407	37,322	2,248,295	
Payroll Benefits	214,481	-	-	214,481	181,168	6,679	402,328	
Occupancy	3,419	-	-	3,419	2,888	106	6,413	
Professional and Contract Services	210,971	5,510	3,346	219,827	71,509	288	291,624	
Advertising and Promotion	-	-	1,005	1,005	-	1,172	2,177	
Conferences, Conventions, and Meetings	11,163	998	-	12,161	1,351	-	13,512	
Administration, Copying and Printing	50,116	3,686	125	53,927	5,568	-	59,495	
Credit Card and Other Service Charges	-	45	-	45	3,383	-	3,428	
Depreciation	105,841	-	-	105,841	124,212	45,790	275,843	
Equipment Rental	17,728	4,137	13,563	35,428	-	-	35,428	
Facilities	74,343	298	1,928	76,569	9,590	354	86,513	
Insurance	12,166	-	-	12,166	10,276	379	22,821	
Interest Expense	129,932	-	-	129,932	109,751	4,046	243,729	
Meals and Entertainment	22,144	1,626	5,208	28,978	15,604	-	44,582	
Benevolence	-	106,726	-	106,726	-	-	106,726	
Generosity	144,600	492	235,963	381,055	-	-	381,055	
Supplies and Other Expenses	55,342	-	1,257	56,599	32,677	993	90,269	
Supplies General	40,239	947	19,262	60,448	10,060	-	70,508	
Other Expenses	107,383	22,978	17,286	147,647	54,227	287	202,161	
Postage and Delivery	4,358	1,025	22	5,405	229	-	5,634	
Repairs and Maintenance	43,472	1,504	877	45,853	41,920	1,545	89,318	
Mileage	6,156	-	-	6,156	-	-	6,156	
Telecommunication	8,030	-	-	8,030	3,441	-	11,471	
Telephone	17,542	-	-	17,542	7,518	-	25,060	
Travel Expenses	9,994	2,413	9,112	21,519	-	-	21,519	
Utilities	42,681	-	-	42,681	36,051	1,329	80,061	
TOTAL EXPENSES	\$ 2,601,547	\$ 153,362	\$ 321,223	\$ 3,076,132	\$ 1,733,830	\$ 100,290	\$ 4,910,252	

TRANSFORMATION CHURCH, INC.
STATEMENTS OF FUNCTIONAL EXPENSES - PROGRAM EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

EXPENSES	December 31, 2018				December 31, 2017			
	Program Expenses				Program Expenses			
	Church	Care	Outreach	Total Program	Church	Care	Outreach	Total Program
Direct Expenses	\$ 111,578	\$ 3,526	\$ 1,121	\$ 116,225	\$ 70,880	\$ 977	\$ 12,269	\$ 84,126
Salary and Wages	1,227,784	-	-	1,227,784	1,198,566	-	-	1,198,566
Payroll Benefits	235,752	-	-	235,752	214,481	-	-	214,481
Occupancy	4,570	6	-	4,576	3,419	-	-	3,419
Professional and Contract Services	187,039	925	3,542	191,506	210,971	5,510	3,346	219,827
Advertising and Promotion	-	-	-	-	-	-	1,005	1,005
Conferences, Conventions, and Meetings	3,608	-	-	3,608	11,163	998	-	12,161
Administration, Copying and Printing	46,575	1,402	552	48,529	50,116	3,686	125	53,927
Credit Card and Other Service Charges	-	-	-	-	-	45	-	45
Depreciation	115,201	-	-	115,201	105,841	-	-	105,841
Equipment Rental	15,502	1,251	6,230	22,983	17,728	4,137	13,563	35,428
Facilities	83,168	210	1,401	84,779	74,343	298	1,928	76,569
Insurance	10,819	-	-	10,819	12,166	-	-	12,166
Interest Expense	104,907	-	-	104,907	129,932	-	-	129,932
Meals and Entertainment	17,761	1,283	1,827	20,871	22,144	1,626	5,208	28,978
Benevolence	22	155,111	-	155,133	-	106,726	-	106,726
Generosity	194,230	440	119,074	313,744	144,600	492	235,963	381,055
Supplies and Other Expenses	19,430	-	20	19,450	55,342	-	1,257	56,599
Supplies General	31,207	4,048	69,773	105,028	40,239	947	19,262	60,448
Other Expenses	144,962	24,245	11,966	181,173	107,383	22,978	17,286	147,647
Postage and Delivery	3,968	589	11	4,568	4,358	1,025	22	5,405
Repairs and Maintenance	40,103	-	-	40,103	43,472	1,504	877	45,853
Mileage	3,068	30	52	3,150	6,156	-	-	6,156
Telecommunication	5,427	-	-	5,427	8,030	-	-	8,030
Telephone	20,047	-	-	20,047	17,542	-	-	17,542
Travel Expenses	24,461	430	7,894	32,785	9,994	2,413	9,112	21,519
Utilities	41,930	-	-	41,930	42,681	-	-	42,681
TOTAL EXPENSES	\$ 2,693,119	\$ 193,496	\$ 223,463	\$ 3,110,078	\$ 2,601,547	\$ 153,362	\$ 321,223	\$ 3,076,132

TRANSFORMATION CHURCH, INC.

STATEMENTS OF FUNCTIONAL EXPENSES - SUPPORTING SERVICES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	December 31, 2018		December 31, 2017	
	Management and General	Fundraising	Management and General	Fundraising
EXPENSES				
Direct Expenses	\$ -	\$ -	\$ -	\$ -
Salary and Wages	1,090,342	39,370	1,012,407	37,322
Payroll Benefits	209,361	7,560	181,168	6,679
Occupancy	4,064	146	2,888	106
Professional and Contract Services	1,114,398	337	71,509	288
Advertising and Promotion	-	1,188	-	1,172
Conferences, Conventions, and Meetings	401	-	1,351	-
Administration, Copying and Printing	5,175	-	5,568	-
Credit Card and Other Service Charges	1,987	-	3,383	-
Depreciation	143,807	51,927	124,212	45,790
Equipment Rental	-	-	-	-
Facilities	13,769	497	9,590	354
Insurance	9,608	347	10,276	379
Interest Expense	93,163	3,364	109,751	4,046
Meals and Entertainment	11,238	-	15,604	-
Benevolence	-	-	-	-
Generosity	-	-	-	-
Supplies and Other Expenses	9,987	27	32,677	993
Supplies General	7,802	-	10,060	-
Other Expenses	58,978	336	54,227	287
Postage and Delivery	209	-	229	-
Repairs and Maintenance	38,411	1,387	41,920	1,545
Mileage	-	-	-	-
Telecommunication	2,326	-	3,441	-
Telephone	8,591	-	7,518	-
Travel Expenses	-	-	-	-
Utilities	37,236	1,345	36,051	1,329
TOTAL EXPENSES	\$ 1,860,853	\$ 107,831	\$ 1,733,830	\$ 100,290

See accompanying notes and independent auditor's report.

TRANSFORMATION CHURCH, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 910,929	\$ 391,397
Adjustments to Reconcile to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	310,935	275,843
Net Gain on Sale of Assets	(9,300)	-
Change in:		
Investments	(21,462)	-
Inventory (books)	4,982	(24,414)
Accounts Receivable	2,607	(2,948)
Prepaid Expense	7,500	30,371
Accounts Payable and Credit Card Payable	84,166	(4,198)
Promise to Give	(30,000)	30,000
Unearned Revenue	(2,100)	2,100
Payroll Liabilities	(4,425)	44,420
Net Cash Provided by Operating Activities	1,253,832	742,571
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Intangible Assets	-	(35,771)
Proceeds from the Sale of Assets	9,300	-
Construction in Progress	(34,165)	-
Purchases of Property	(567,924)	(261,545)
Net Cash Used by Investing Activities	(592,789)	(297,316)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Loan	-	4,800,000
Payments of Loan	(142,514)	(4,844,373)
Net Cash Used by Financing Activities	(142,514)	(44,373)
Net Change in Cash and Equivalents	518,529	400,882
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
	701,566	300,684
CASH AND CASH EQUIVALENTS AT END OF YEAR		
	\$ 1,220,095	\$ 701,566

Interest expense was \$201,434 and \$243,729 for the years ended December 31, 2018 and 2017.

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 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.

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 December 31, 2018 and 2017, the Church had receivables of \$341 and \$2,948, respectively.

Inventory

The church has an inventory of books and apparel which are recorded as the lower of cost or market. As of December 31, 2018 and 2017, the inventory was \$24,793 and \$29,775, respectively.

Property and Equipment

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Property and equipment 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 and equipment 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.

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.

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2018 AND 2017

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.

New Accounting Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The church has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative year presented. The new standards change the following aspects of the church's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class had been renamed net assets without donor restrictions.

The changes have the following effect on net assets at December 31, 2017:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14 and Net Asset Restatement</u>
Unrestricted Net Assets	\$4,300,959	\$ -0-
Temporarily Restricted Net Assets	15,491	-0-
Net Assets without Donor Restrictions	-0-	4,418,534
Net Assets with Donor Restrictions	<u>-0-</u>	<u>15,491</u>
Total Net Assets	<u>\$4,316,450</u>	<u>\$4,434,025</u>

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

In addition, net assets were restated as of December 31, 2017. This adjustment was for deposits in transit as of December 31, 2016 in the amount of \$65,979 and deposits in transit as of December 31, 2017 in the amount of \$117,575.

The Church receives revenue primarily from contributions. The Church records gifts as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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. At December 31, 2018 and 2017, net assets with donor restrictions were \$8,229 and \$15,491, respectively.

Net Assets with Donor Restrictions:	<u>2018</u>	<u>2017</u>
Backpacks	\$ 8,229	\$ 12,983
Roll Out Hope	<u>-0-</u>	<u>2,508</u>
	<u>\$ 8,229</u>	<u>\$ 15,491</u>

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2018 AND 2017

Cost Allocation

Certain categories of expenses are attributable to program, supporting function and fundraising and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are compensation and benefits; which are allocated on the basis of estimates of time and effort; and direct expense, occupancy, professional and contract services, advertising and promotions, conferences, conventions and meetings, administrative, copying and printing, credit card and other services charges, depreciation, facilities, insurance, interest expense, meals and entertainment, supplies and other expenses, supplies – general, other expense, postage and delivery, repair and maintenance, telecommunications, telephone, and utilities which are allocated based on estimates made by management.

2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

	<u>2018</u>	<u>2017</u>
Financial assets, at year end	\$1,246,156	\$708,772
Less those unavailable for general expenditures within one year, due to: Subject to appropriation and satisfaction of donor restrictions	<u>(8,229)</u>	<u>(15,491)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$1,237,927</u>	<u>\$693,281</u>

The Church has \$1,246,156 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash and investments of \$1,245,815 and account receivable of \$341.

3. PROPERTY AND EQUIPMENT

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 and amortization expense for the years ended December 31, 2018 and 2017 was \$310,935 and \$275,843, respectively.

4. 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 \$13,572 and \$13,572 for the year ended December 31, 2018 and 2017, respectively, and is included in occupancy expense.

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2018 AND 2017

Minimum lease payments under operating leases as of December 31, 2018, are as follows:

Year Ending December 31:	
2019	\$10,656
2020	3,867
2021	415
2022	- 0 -
2023	- 0 -

5. 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 December 31, 2018 and 2017, the Church had funds above the federally insured limit in the amount of \$695,048 and \$225,619 respectively. Management believes that these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

6. PENSION AND HEALTH SAVING ACCOUNTS

The Church contributed \$90,500 and \$75,525 to employees' HSA accounts during December 31, 2018 and 2017, respectively. During the year ended December 31, 2016 the Church started contributing to retirement plans for its employees. As of December 31, 2018 and 2017 the church has contributed \$85,789 and \$69,987, respectively, to employees' retirement plans.

7. LONG-TERM DEBT

As of June 19, 2017, the Church refinanced its 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 December 31, 2018 and 2017, the loan balances were \$4,597,483 and \$4,739,997, respectively.

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

Year Ending December 31:	
2019	\$ 120,892
2020	126,131
2021	131,597
2022	137,300
2023	143,251
2024 and thereafter	<u>3,938,312</u>
	<u>\$ 4,597,483</u>

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2018 AND 2017

8. 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 December 31, 2018 and 2017, the Church has investment income of \$3,913 and \$-0-, and interest on bank accounts of \$280 and \$102, respectively.

9. RELATED PARTY TRANSACTIONS

The Church had no related party transactions during the years ending December 31, 2018 and 2017.

10. COMMITMENTS

The Church along with Burr & Berry Coffee has signed a construction contract to build a coffee shop on the church premises. The total cost is \$187,206. Once the coffee shop is built, the Church has a signed ground lease with the owner of the coffee shop to begin on the first day of operation for a total of ten years. The rent payments will have minimum annual rent of \$12,000 per year with a maximum annual rent of \$36,000 per year.

11. SUBSEQUENT EVENTS ANALYSIS

Management has evaluated subsequent events through April 30, 2019, the date on which the financial statements were available to be issued. During this period, there were no material recognizable subsequent events identified.