

TRANSFORMATION CHURCH, INC.  
FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2022 AND 2021  
AND  
INDEPENDENT AUDITOR'S REPORT

FRANKLIN & FRANKLIN, PA  
CERTIFIED PUBLIC ACCOUNTANTS

PHONE: 704-845-1195 ~ FAX: 704-845-1194

**TRANSFORMATION CHURCH, INC.**  
YEARS ENDED DECEMBER 31, 2022 AND 2021

---

TABLE OF CONTENTS

Independent Auditor's Report.....	1 – 2
Financial statements:	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets.....	4
Statements of Functional Expenses.....	5-8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10-13

# FRANKLIN & FRANKLIN, PA

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
of Transformation Church, Inc.

### ***Opinion***

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, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the changes in its net assets and its 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. 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 Transformation Church, Inc. 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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, including omissions, 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 Transformation Church, Inc.'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Transformation Church, Inc.'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.



Franklin & Franklin, PA  
Matthews, North Carolina

March 16, 2023

# TRANSFORMATION CHURCH, INC.

## STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - without donor restrictions	\$ 3,846,059	\$ 3,556,070
Cash and cash equivalents - with donor restrictions	3,677	-
Investments (at fair market value)	1,461,938	150,966
	<u>5,311,674</u>	<u>3,707,036</u>
OTHER CURRENT ASSETS		
Inventory	4,621	3,698
Accounts receivable	10,267	16
Prepaid expenses	59,498	62,279
	<u>74,386</u>	<u>65,993</u>
TOTAL CURRENT ASSETS	5,386,060	3,773,029
PROPERTY		
Furniture	96,784	85,112
Computer and equipment	1,911,646	1,820,983
Leasehold improvements	312,614	312,614
Land and building	9,333,714	9,333,714
	<u>11,654,758</u>	<u>11,552,423</u>
Less accumulated depreciation	<u>(2,854,405)</u>	<u>(2,380,304)</u>
PROPERTY, NET	8,800,353	9,172,119
OTHER ASSETS		
Intangibles, net of accumulated amortization of \$7,384 and \$20,964 as of December 31, 2022 and 2021	28,215	25,307
Other deposits	34,400	50,000
Security deposits	400	400
	<u>63,015</u>	<u>75,707</u>
TOTAL ASSETS	<u>\$ 14,249,428</u>	<u>\$ 13,020,855</u>
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and credit card payable	\$ 50,651	\$ 83,210
Payroll liabilities	199,818	167,135
Current portion, long-term debt	152,441	200,360
TOTAL CURRENT LIABILITIES	<u>402,910</u>	<u>450,705</u>
LONG TERM LIABILITIES		
Note payable	3,782,083	3,907,717
TOTAL LONG TERM LIABILITIES	<u>3,782,083</u>	<u>3,907,717</u>
TOTAL LIABILITIES	4,184,993	4,358,422
NET ASSETS		
Net assets without donor restrictions	10,060,758	8,662,433
Net assets with donor restrictions	3,677	-
TOTAL NET ASSETS	<u>10,064,435</u>	<u>8,662,433</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,249,428</u>	<u>\$ 13,020,855</u>

**TRANSFORMATION CHURCH, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE AND OTHER INCOME		
Offerings/tithes	\$ 7,851,795	\$ 7,177,080
Investment income	15,339	43,733
Ministry income	294,421	121,166
Other income	33,117	19,009
TOTAL REVENUE AND OTHER INCOME	8,194,672	7,360,988
WITHOUT DONOR RESTRICTIONS		
Net assets released from restrictions	252,957	131,904
TOTAL REVENUE AND OTHER INCOME	8,447,629	7,492,892
WITHOUT DONOR RESTRICTIONS		
EXPENSES		
Program expenses	5,402,097	4,731,861
Management and general expenses	1,550,094	1,262,055
Fundraising expenses	97,113	68,846
TOTAL EXPENSE	7,049,304	6,062,762
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,398,325	1,430,130
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	256,634	109,336
Net assets released from restrictions	(252,957)	(131,904)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	3,677	(22,568)
CHANGES IN NET ASSETS	1,402,002	1,407,562
NET ASSETS, BEGINNING OF YEAR	8,662,433	7,254,871
NET ASSETS, END OF YEAR	\$ 10,064,435	\$ 8,662,433

# TRANSFORMATION CHURCH, INC.

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2022

	Program Expenses				Supporting Expenses		2022
	Church	Care	Outreach	Total Program	Management and General	Fundraising	Total Expenses
EXPENSES							
Direct expenses	\$ 26,314	\$ -	\$ 7,292	\$ 33,606	\$ -	\$ -	\$ 33,606
Salary and wages	2,315,389	-	-	2,315,389	900,647	62,622	3,278,658
Payroll benefits	351,861	-	-	351,861	136,868	9,516	498,245
Occupancy	3,802	-	-	3,802	1,479	103	5,384
Professional and contract services	460,914	375	20,107	481,396	75,405	-	556,801
Advertising and promotion	-	-	-	-	-	6,135	6,135
Conferences, conventions, and meetings	12,466	-	-	12,466	1,385	-	13,851
Administration, copying and printing	14,879	-	-	14,879	1,653	-	16,532
Credit card and other service charges	-	-	-	-	2,307	-	2,307
Depreciation and amortization	364,493	-	-	364,493	141,782	9,858	516,133
Equipment rental	17,978	-	938	18,916	-	-	18,916
Facilities	125,078	-	7,661	132,739	8,505	517	141,761
Insurance	25,104	-	-	25,104	9,765	679	35,548
Interest expense	103,473	-	-	103,473	40,250	2,799	146,522
Meals and entertainment	25,899	2,872	2,431	31,202	16,801	-	48,003
Benevolence	-	84,941	-	84,941	-	-	84,941
Generosity	373,263	20	97,238	470,521	-	-	470,521
Supplies and other expenses	23,740	-	-	23,740	19,744	676	44,160
Supplies general	56,022	514	308,926	365,462	14,006	-	379,468
Other expenses	294,921	20,992	7,812	323,725	109,200	278	433,203
Postage and delivery	1,134	92	160	1,386	60	-	1,446
Repairs and maintenance	84,752	-	364	85,116	32,979	2,293	120,388
Mileage	29	-	-	29	-	-	29
Telecommunication	6,290	-	-	6,290	2,696	-	8,986
Telephone	25,713	-	-	25,713	11,020	-	36,733
Travel expenses	63,624	-	1,702	65,326	-	-	65,326
Utilities	60,522	-	-	60,522	23,542	1,637	85,701
TOTAL EXPENSES	<u>\$ 4,837,660</u>	<u>\$ 109,806</u>	<u>\$ 454,631</u>	<u>\$ 5,402,097</u>	<u>\$ 1,550,094</u>	<u>\$ 97,113</u>	<u>\$ 7,049,304</u>

# TRANSFORMATION CHURCH, INC.

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Expenses				Supporting Expenses		2021
	Church	Care	Outreach	Total Program	Management and General	Fundraising	Total Expenses
EXPENSES							
Direct expenses	\$ 7,418	\$ -	\$ -	\$ 7,418	\$ -	\$ -	\$ 7,418
Salary and wages	2,179,006	-	-	2,179,006	695,322	42,291	2,916,619
Payroll benefits	418,285	-	-	418,285	133,474	8,118	559,877
Occupancy	3,214	-	-	3,214	1,026	62	4,302
Professional and contract services	383,662	290	5,631	389,583	64,409	-	453,992
Advertising and promotion	-	-	-	-	-	4,571	4,571
Conferences, conventions, and meetings	8,692	388	-	9,080	1,009	-	10,089
Administration, copying and printing	11,363	700	-	12,063	1,263	-	13,326
Credit card and other service charges	-	-	-	-	1,304	-	1,304
Depreciation and amortization	388,346	-	-	388,346	123,921	7,537	519,804
Equipment rental	9,720	-	1,193	10,913	-	-	10,913
Facilities	87,604	-	674	88,278	9,261	563	98,102
Insurance	26,478	-	-	26,478	8,449	514	35,441
Interest expense	136,229	-	-	136,229	43,470	2,644	182,343
Meals and entertainment	21,626	1,546	1,186	24,358	13,116	-	37,474
Benevolence	-	68,226	-	68,226	-	-	68,226
Generosity	265,300	5,000	62,500	332,800	-	-	332,800
Supplies and other expenses	2,077	-	-	2,077	3,009	-	5,086
Supplies general	47,118	2,609	236,368	286,095	11,779	-	297,874
Other expenses	138,300	14,980	10,482	163,762	97,850	105	261,717
Postage and delivery	3,158	128	52	3,338	166	-	3,504
Repairs and maintenance	62,788	-	-	62,788	20,065	1,220	84,073
Mileage	92	-	-	92	-	-	92
Telecommunication	5,933	-	-	5,933	2,543	-	8,476
Telephone	24,605	-	-	24,605	10,545	-	35,150
Travel expenses	25,988	-	-	25,988	-	-	25,988
Utilities	62,906	-	-	62,906	20,074	1,221	84,201
TOTAL EXPENSES	<u>\$ 4,319,908</u>	<u>\$ 93,867</u>	<u>\$ 318,086</u>	<u>\$ 4,731,861</u>	<u>\$ 1,262,055</u>	<u>\$ 68,846</u>	<u>\$ 6,062,762</u>



# TRANSFORMATION CHURCH, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES - PROGRAM EXPENSES FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	December 31, 2022				December 31, 2021			
	Program Expenses				Program Expenses			
	Church	Care	Outreach	Total Program	Church	Care	Outreach	Total Program
EXPENSES								
Direct expenses	\$ 26,314	\$ -	\$ 7,292	\$ 33,606	\$ 7,418	\$ -	\$ -	\$ 7,418
Salary and wages	2,315,389	-	-	2,315,389	2,179,006	-	-	2,179,006
Payroll benefits	351,861	-	-	351,861	418,285	-	-	418,285
Occupancy	3,802	-	-	3,802	3,214	-	-	3,214
Professional and contract services	460,914	375	20,107	481,396	383,662	290	5,631	389,583
Advertising and promotion	-	-	-	-	-	-	-	-
Conferences, conventions, and meetings	12,466	-	-	12,466	8,692	388	-	9,080
Administration, copying and printing	14,879	-	-	14,879	11,363	700	-	12,063
Credit card and other service charges	-	-	-	-	-	-	-	-
Depreciation and amortization	364,493	-	-	364,493	388,346	-	-	388,346
Equipment rental	17,978	-	938	18,916	9,720	-	1,193	10,913
Facilities	125,078	-	7,661	132,739	87,604	-	674	88,278
Insurance	25,104	-	-	25,104	26,478	-	-	26,478
Interest expense	103,473	-	-	103,473	136,229	-	-	136,229
Meals and entertainment	25,899	2,872	2,431	31,202	21,626	1,546	1,186	24,358
Benevolence	-	84,941	-	84,941	-	68,226	-	68,226
Generosity	373,263	20	97,238	470,521	265,300	5,000	62,500	332,800
Supplies and other expenses	23,740	-	-	23,740	2,077	-	-	2,077
Supplies general	56,022	514	308,926	365,462	47,118	2,609	236,368	286,095
Other expenses	294,921	20,992	7,812	323,725	138,300	14,980	10,482	163,762
Postage and delivery	1,134	92	160	1,386	3,158	128	52	3,338
Repairs and maintenance	84,752	-	364	85,116	62,788	-	-	62,788
Mileage	29	-	-	29	92	-	-	92
Telecommunication	6,290	-	-	6,290	5,933	-	-	5,933
Telephone	25,713	-	-	25,713	24,605	-	-	24,605
Travel expenses	63,624	-	1,702	65,326	25,988	-	-	25,988
Utilities	60,522	-	-	60,522	62,906	-	-	62,906
TOTAL EXPENSES	<u>\$ 4,837,660</u>	<u>\$ 109,806</u>	<u>\$ 454,631</u>	<u>\$ 5,402,097</u>	<u>\$ 4,319,908</u>	<u>\$ 93,867</u>	<u>\$ 318,086</u>	<u>\$ 4,731,861</u>

**TRANSFORMATION CHURCH, INC.**  
 STATEMENTS OF FUNCTIONAL EXPENSES - SUPPORTING SERVICES  
 FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	December 31, 2022		December 31, 2021	
	Supporting Expenses		Supporting Expenses	
	Management and General	Fundraising	Management and General	Fundraising
EXPENSES				
Direct expenses	\$ -	\$ -	\$ -	\$ -
Salary and wages	900,647	62,622	695,322	42,291
Payroll benefits	136,868	9,516	133,474	8,118
Occupancy	1,479	103	1,026	62
Professional and contract services	75,405	0	64,409	-
Advertising and promotion	-	6,135	-	4,571
Conferences, conventions, and meetings	1,385	-	1,009	-
Administration, copying and printing	1,653	-	1,263	-
Credit card and other service charges	2,307	-	1,304	-
Depreciation and amortization	141,782	9,858	123,921	7,537
Equipment rental	-	-	-	-
Facilities	8,505	517	9,261	563
Insurance	9,765	679	8,449	514
Interest expense	40,250	2,799	43,470	2,644
Meals and entertainment	16,801	-	13,116	-
Benevolence	-	-	-	-
Generosity	-	-	-	-
Supplies and other expenses	19,744	676	3,009	-
Supplies general	14,006	-	11,779	-
Other expenses	109,200	278	97,850	105
Postage and delivery	60	-	166	-
Repairs and maintenance	32,979	2,293	20,065	1,220
Mileage	-	-	-	-
Telecommunication	2,696	-	2,543	-
Telephone	11,020	-	10,545	-
Travel expenses	-	-	-	-
Utilities	23,542	1,637	20,074	1,221
TOTAL EXPENSES	<u>\$ 1,550,094</u>	<u>\$ 97,113</u>	<u>\$ 1,262,055</u>	<u>\$ 68,846</u>

# TRANSFORMATION CHURCH, INC.

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,402,002	\$ 1,407,562
Adjustments to reconcile to net cash		
Provided (used) by operating activities:		
Depreciation and amortization	516,133	519,804
Net loss on disposal of assets	15,695	1,802
Change in:		
Investments	(1,310,972)	(73,562)
Inventory (books)	(923)	4,178
Accounts receivable	(10,251)	-
Prepaid expense	2,781	(6,727)
Other deposits	15,600	(50,000)
Security deposit	-	(400)
Accounts payable and credit card payable	(32,559)	35,057
Unearned revenue	-	(200)
Payroll liabilities	32,683	36,668
Net cash provided by operating activities	630,189	1,874,182
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets	6,500	-
Purchase of intangible assets	(25,098)	-
Purchases of property	(144,372)	(158,656)
Net cash (used) by investing activities	(162,970)	(158,656)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of note payable	4,125,000	-
Payments of notes payables	(4,298,553)	(259,212)
Net cash (used) by financing activities	(173,553)	(259,212)
Net change in cash and equivalents	293,666	1,456,314
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,556,070	2,099,756
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,849,736	\$ 3,556,070

Interest expense was \$146,522 and \$182,343 for the years ended December 31, 2022 and 2021.

# TRANSFORMATION CHURCH, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

---

### 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 receivables are stated at unpaid balances, less an allowance for doubtful accounts if necessary. At December 31, 2022 and 2021, the Church had receivables of \$10,267 and \$16, 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, 2022 and 2021, the inventory was \$4,621 and \$3,698, 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 \$2,500. 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, 2022 AND 2021

### 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.

### Revenue and Restricted Assets

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, 2022 and 2021, net assets with donor restrictions were \$3,677 and \$-0-, respectively.

Net Assets with Donor Restrictions:	<u>2022</u>	<u>2021</u>
Backpacks	\$ 3,677	\$ -0-

### 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. Compensation and benefits are allocated based on estimates of time and effort, while all other expenses are allocated based on estimates made by management.

### New Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued additional ASUs, which amend and clarify Topic 842. Implementation of this pronouncement is effective for years beginning after December 15, 2021. The most significant change in the new leasing guidance is the requirement to recognize right-to-use (ROU) assets and lease liabilities for operating leases on the statement of financial position. The Church has considered this new pronouncement and it has identified that it has one lease subject to this pronouncement. Due to the immaterial amount of the lease, the Church has expensed the payments based on the previous pronouncement.

## 2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets, at year end	<u>2022</u>	<u>2021</u>
	\$5,321,941	\$3,707,052
Less those unavailable for general expenditures within one year, due to:		
Subject to appropriation and satisfaction of donor restrictions	<u>(3,677)</u>	<u>(-0-)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$5,318,264</u>	<u>\$3,707,052</u>

The Church has \$5,318,264 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 \$5,307,997 and account receivable of \$10,267.

# TRANSFORMATION CHURCH, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

---

### 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, 2022 and 2021 was \$516,133 and \$519,804, respectively.

### 4. OPERATING LEASES

The Church has multiple operating leases, primarily for various forms of equipment that expire on various dates. Those leases generally contain renewal options and require the Church to pay all executor costs such as taxes, maintenance and insurance. Lease expense was \$3,828 and \$3,800 for the year ended December 31, 2022 and 2021, respectively, and is included in occupancy expense.

Minimum lease payments under operating leases as of December 31, 2022, are as follows:

Year Ending December 31:	
2023	\$ 3,468
2024	3,468
2025	2,601
2026	-0-
2027	-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, 2022 and 2021, the Church had funds above the federally insured limit in the amount of \$3,146,197 and \$2,954,030 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 \$79,952 and \$93,923 to employees' HSA accounts during December 31, 2022 and 2021, respectively. During the year ended December 31, 2016 the Church started contributing to retirement plans for its employees. As of December 31, 2022 and 2021 the church contributed \$99,129 and \$92,100, 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. On June 19, 2022, the interest rate would have been adjusted to a rate equal to 2.26% greater than the Interest Rate Swap Rate, but the church refinanced the loan on January 26, 2022. The new loan commenced on January 26, 2022 with 120 payments of \$24,138 each month. The "Maturity Date" on the loan is January

# TRANSFORMATION CHURCH, INC.

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2022 AND 2021

26, 2032 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 must maintain funds and investments at Truist Bank. At December 31, 2022 and 2021, the loan balances were \$3,934,524 and \$4,052,238 respectively.

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

Year Ending December 31:	
2023	\$ 152,441
2024	157,941
2025	163,640
2026	169,545
2027	175,663
2028 and thereafter	<u>3,115,294</u>
	<u>\$ 3,934,524</u>

### 8. INVESTMENTS

The Church has several investment accounts used to receive stock from contributors. As of December 31, 2022 and 2021, the Church has an increase in investment of \$8,322 and \$43,613, and interest income of \$6,784 and \$120, respectively. In addition, for December 31, 2022, the church sold stock for a total cash value of \$233.

### 9. CAPITAL LEASE

The Church entered into a long-term capital lease during the year ended December 31, 2019. The terms of the lease are 36 payments of \$5,693 beginning in November 2019. The lease was an interest free lease. The Church has used an imputed interest rate of 4.25%. The church has recorded both a fixed asset and a note payable of \$192,112. The balance of the note payable as of December 31, 2022 and 2021, are \$-0- and \$55,839, respectively. There are no future principal payments.

### 10. COMMITMENTS

The church had two contracts as of December 31, 2022. One for rental equipment in the amount of \$8,235 and for a guest speaker in the amount of \$9,550. In addition, subsequent to year-end, the church signed additional contracts for a total of \$218,464. The primary cost of these contracts is for security camera upgrades.

### 11. SUBSEQUENT EVENTS ANALYSIS

Management has evaluated subsequent events through March 16, 2023, the date on which the financial statements were available to be issued. During this period, the Church has entered into multiple contracts which is disclosed in the commitment footnote above. In addition, the church is in the process of implementing a nonqualified deferred compensation agreement. There were no other subsequent events noted.