

TRANSFORMATION CHURCH, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2023 AND 2022
AND
INDEPENDENT AUDITOR'S REPORT

FRANKLIN & FRANKLIN, PA
CERTIFIED PUBLIC ACCOUNTANTS

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TRANSFORMATION CHURCH, INC.
YEARS ENDED DECEMBER 31, 2023 AND 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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

Franklin & Franklin, PA
Matthews, North Carolina

March 8, 2024

TRANSFORMATION CHURCH, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - without donor restrictions	\$ 4,723,470	\$ 3,846,059
Cash and cash equivalents - with donor restrictions	3,230	3,677
Investments (at fair market value)	1,987,514	1,461,938
	<u>6,714,214</u>	<u>5,311,674</u>
OTHER CURRENT ASSETS		
Inventory	4,268	4,621
Accounts receivable	-	10,267
Prepaid expenses	133,893	59,498
	<u>138,161</u>	<u>74,386</u>
TOTAL CURRENT ASSETS	<u>6,852,375</u>	<u>5,386,060</u>
PROPERTY		
Furniture	91,748	96,784
Computer and equipment	2,240,057	1,911,646
Leasehold improvements	312,614	312,614
Land and building	9,333,714	9,333,714
	<u>11,978,133</u>	<u>11,654,758</u>
Less accumulated depreciation	(3,269,399)	(2,854,405)
PROPERTY, NET	<u>8,708,734</u>	<u>8,800,353</u>
OTHER ASSETS		
Intangibles, net of accumulated amortization	20,831	28,215
Right-of-use asset, net of accumulated amortization	1,443,952	-
Other deposits	-	34,400
Security deposits	28,401	400
	<u>1,493,184</u>	<u>63,015</u>
TOTAL ASSETS	<u>\$ 17,054,293</u>	<u>\$ 14,249,428</u>
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and credit card payable	\$ 122,159	\$ 50,651
Payroll liabilities	208,366	199,818
Current portion, long-term debt	160,513	152,441
Operating lease liability, current	255,093	-
TOTAL CURRENT LIABILITIES	<u>746,131</u>	<u>402,910</u>
LONG TERM LIABILITIES		
Note payable	3,550,300	3,782,083
Operating lease liability, noncurrent	1,236,559	-
TOTAL LONG TERM LIABILITIES	<u>4,786,859</u>	<u>3,782,083</u>
TOTAL LIABILITIES	<u>5,532,990</u>	<u>4,184,993</u>
NET ASSETS		
Net assets without donor restrictions	11,518,073	10,060,758
Net assets with donor restrictions	3,230	3,677
TOTAL NET ASSETS	<u>11,521,303</u>	<u>10,064,435</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,054,293</u>	<u>\$ 14,249,428</u>

TRANSFORMATION CHURCH, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE AND OTHER INCOME		
Offerings/tithes	\$ 8,349,162	\$ 7,851,795
Investment income	123,693	15,339
Ministry income	230,297	294,421
Other income	11,169	33,117
TOTAL REVENUE AND OTHER INCOME	8,714,321	8,194,672
WITHOUT DONOR RESTRICTIONS		
Net assets released from restrictions	284,737	252,957
TOTAL REVENUE AND OTHER INCOME	8,999,058	8,447,629
WITHOUT DONOR RESTRICTIONS		
EXPENSES		
Program expenses	5,740,292	5,402,098
Management and general expenses	1,705,862	1,550,095
Fundraising expenses	99,265	97,113
TOTAL EXPENSE	7,545,419	7,049,305
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,453,639	1,398,324
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	287,967	256,634
Net assets released from restrictions	(284,737)	(252,957)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	3,230	3,677
CHANGES IN NET ASSETS	1,456,869	1,402,001
NET ASSETS, BEGINNING OF YEAR	10,064,434	8,662,433
NET ASSETS, END OF YEAR	\$11,521,303	\$ 10,064,434

TRANSFORMATION CHURCH, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2023

EXPENSES	Program Expenses			Total Program	Supporting Expenses		2023 Total Expenses
	Church	Care	Outreach		Management and General	Fundraising	
Direct expenses	\$ 21,472	\$ -	\$ 1,210	\$ 22,682	\$ -	\$ -	\$ 22,682
Salary and wages	2,513,903	-	-	2,513,903	977,866	67,991	3,559,760
Payroll benefits	353,560	-	-	353,560	137,529	9,562	500,651
Occupancy	33,980	-	-	33,980	13,217	919	48,116
Professional and contract services	553,707	290	31,866	585,863	126,744	-	712,607
Advertising and promotion	-	-	-	-	-	969	969
Conferences, conventions, and meetings	56,032	748	80	56,860	6,318	-	63,178
Administration, copying and printing	23,446	-	-	23,446	2,605	-	26,051
Credit card and other service charges	-	-	-	-	1,313	-	1,313
Depreciation and amortization	356,324	-	-	356,324	155,813	10,834	522,971
Amortization of right-of-use asset	31,242	-	-	31,242	12,153	845	44,240
Equipment rental	46,699	-	3,411	50,110	-	-	50,110
Facilities	142,004	-	2,585	144,589	7,302	508	152,399
Insurance	23,458	-	-	23,458	9,125	634	33,217
Interest expense	92,942	-	-	92,942	42,074	2,925	137,941
Interest on right of use liability	10,750	-	-	10,750	4,182	291	15,223
Meals and entertainment	45,906	2,653	3,727	52,286	28,154	-	80,440
Benevolence	-	48,844	-	48,844	-	-	48,844
Generosity	260,642	2,014	507,904	770,560	-	-	770,560
Supplies and other expenses	8,971	-	-	8,971	5,455	-	14,426
Supplies general	44,683	1,979	10,711	57,373	11,171	-	68,544
Other expenses	254,578	6,422	20,893	281,893	90,394	7	372,294
Postage and delivery	1,803	20	72	1,895	95	-	1,990
Repairs and maintenance	71,211	-	185	71,396	28,166	1,958	101,520
Mileage	1,197	-	-	1,197	-	-	1,197
Telecommunication	1,522	-	-	1,522	653	-	2,175
Telephone	45,056	-	-	45,056	19,310	-	64,366
Travel expenses	30,449	-	1,728	32,177	-	-	32,177
Utilities	67,413	-	-	67,413	26,222	1,823	95,458
TOTAL EXPENSES	\$ 5,092,949	\$ 62,970	\$ 584,372	\$ 5,740,292	\$ 1,705,862	\$ 99,265	\$ 7,545,419

TRANSFORMATION CHURCH, INC.

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

EXPENSES	Program Expenses			Total Program	Supporting Expenses		2022 Total Expenses
	Church	Care	Outreach		Management and General	Fundraising	
Direct expenses	\$ 26,314	\$ -	\$ 7,292	\$ 33,606	\$ -	\$ -	\$ 33,606
Salary and wages	2,315,390	-	-	2,315,390	900,647	62,622	3,278,659
Payroll benefits	351,862	-	-	351,862	136,868	9,516	498,246
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	\$ 4,837,661	\$ 109,806	\$ 454,631	\$ 5,402,098	\$ 1,550,095	\$ 97,113	\$ 7,049,305

TRANSFORMATION CHURCH, INC.

STATEMENTS OF FUNCTIONAL EXPENSES - PROGRAM EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

EXPENSES	December 31, 2023 Program Expenses				December 31, 2022 Program Expenses			
	Church	Care	Outreach	Total Program	Church	Care	Outreach	Total Program
	Direct expenses	\$ 21,472	\$ -	\$ 1,210	\$ 22,682	\$ 26,314	\$ -	\$ 7,292
Salary and wages	2,513,903	-	-	2,513,903	2,315,390	-	-	2,315,390
Payroll benefits	353,560	-	-	353,560	351,862	-	-	351,862
Occupancy	33,980	-	-	33,980	3,802	-	-	3,802
Professional and contract services	553,707	290	31,866	585,863	460,914	375	20,107	481,396
Conferences, conventions, and meetings	56,032	748	80	56,860	12,466	-	-	12,466
Administration, copying and printing	23,446	-	-	23,446	14,879	-	-	14,879
Credit card and other service charges	-	-	-	-	-	-	-	-
Depreciation and amortization	356,324	-	-	356,324	364,493	-	-	364,493
Amortization of right-of-use asset	31,242	-	-	31,242	-	-	-	-
Equipment rental	46,699	-	3,411	50,110	17,978	-	938	18,916
Facilities	142,004	-	2,585	144,589	125,078	-	7,661	132,739
Insurance	23,458	-	-	23,458	25,104	-	-	25,104
Interest expense	92,942	-	-	92,942	103,473	-	-	103,473
Interest on right of use liability	10,750	-	-	10,750	-	-	-	-
Meals and entertainment	45,906	2,653	3,727	52,286	25,899	2,872	2,431	31,202
Benevolence	-	48,844	-	48,844	-	84,941	-	84,941
Generosity	260,642	2,014	507,904	770,560	373,263	20	97,238	470,521
Supplies and other expenses	8,971	-	-	8,971	23,740	-	-	23,740
Supplies general	44,683	1,979	10,711	57,373	56,022	514	308,926	365,462
Other expenses	254,578	6,422	20,893	281,893	294,921	20,992	7,812	323,725
Postage and delivery	1,803	20	72	1,895	1,134	92	160	1,386
Repairs and maintenance	71,211	-	185	71,396	84,752	-	364	85,116
Mileage	1,197	-	-	1,197	29	-	-	29
Telecommunication	1,522	-	-	1,522	6,290	-	-	6,290
Telephone	45,056	-	-	45,056	25,713	-	-	25,713
Travel expenses	30,449	-	1,728	32,177	63,624	-	1,702	65,326
Utilities	67,413	-	-	67,413	60,522	-	-	60,522
TOTAL EXPENSES	\$ 5,092,949	\$ 62,970	\$ 584,372	\$ 5,740,292	\$ 4,837,661	\$ 109,806	\$ 454,631	\$ 5,402,098

TRANSFORMATION CHURCH, INC.

STATEMENTS OF FUNCTIONAL EXPENSES - SUPPORTING SERVICES

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

EXPENSES	December 31, 2023 Supporting Expenses		December 31, 2022 Supporting Expenses	
	Management and General	Fundraising	Management and General	Fundraising
	\$	\$	\$	\$
Direct expenses	-	-	-	-
Salary and wages	977,866	67,991	900,647	62,622
Payroll benefits	137,529	9,562	136,868	9,516
Occupancy	13,217	919	1,479	103
Professional and contract services	126,744	-	75,405	-
Advertising and promotion	-	969	-	6,135
Conferences, conventions, and meetings	6,318	-	1,385	-
Administration, copying and printing	2,605	-	1,653	-
Credit card and other service charges	1,313	-	2,307	-
Depreciation and amortization	155,813	10,834	141,782	9,858
Amortization of right-of-use asset	12,153	845	-	-
Equipment rental	-	-	-	-
Facilities	7,302	508	8,505	517
Insurance	9,125	634	9,765	679
Interest expense	42,074	2,925	40,250	2,799
Interest on right of use liability	4,182	291	-	-
Meals and entertainment	28,154	-	16,801	-
Benevolence	-	-	-	-
Generosity	-	-	-	-
Supplies and other expenses	5,455	-	19,744	676
Supplies general	11,171	-	14,006	-
Other expenses	90,394	7	109,200	278
Postage and delivery	95	-	60	-
Repairs and maintenance	28,166	1,958	32,979	2,293
Mileage	-	-	-	-
Telecommunication	653	-	2,696	-
Telephone	19,310	-	11,020	-
Travel expenses	-	-	-	-
Utilities	26,222	1,823	23,542	1,637
TOTAL EXPENSES	\$ 1,705,862	\$ 99,265	\$ 1,550,095	\$ 97,113

TRANSFORMATION CHURCH, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,456,869	\$ 1,402,001
Adjustments to reconcile to net cash		
Provided (used) by operating activities:		
Depreciation and amortization	522,971	516,133
Amortization of right of use asset	44,240	-
Net loss on disposal of assets	5,108	15,695
Change in:		
Investments	(525,576)	(1,310,972)
Inventory (books)	353	(923)
Accounts receivable	10,267	(10,251)
Prepaid expense	(74,395)	2,781
Other deposits	34,400	15,600
Security deposit	(28,001)	-
Accounts payable and credit card payable	71,508	(32,559)
Payroll liabilities	8,548	32,683
Operating lease liability	1,491,652	-
Net cash provided by operating activities	3,017,944	630,188
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of assets	-	6,500
Purchase of intangible assets	-	(25,098)
Payment from right of use asset	(1,491,652)	-
Purchases of property	(425,616)	(144,372)
Net cash (used) by investing activities	(1,917,268)	(162,970)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of note payable	-	4,125,000
Payments of notes payables	(223,711)	(4,298,553)
Net cash (used) by financing activities	(223,711)	(173,553)
Net change in cash and equivalents	876,965	293,665
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF YEAR	3,849,735	3,556,070
CASH AND CASH EQUIVALENTS		
AT END OF YEAR	\$ 4,726,700	\$ 3,849,735

Interest expense was \$153,164 and \$146,522 for the years ended December 31, 2023 and 2022.

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2023 AND 2022

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, 2023 and 2022, the Church had receivables of \$-0- and \$10,267, 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, 2023 and 2022, the inventory was \$4,268 and \$4,621, 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, 2023 AND 2022

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, 2023 and 2022, net assets with donor restrictions were \$3,230 and \$3,677, respectively.

Net Assets with Donor Restrictions:	<u>2023</u>	<u>2022</u>
Backpacks	\$ 3,230	\$ 3,677

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.

2. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets, at year end	<u>2023</u>	<u>2022</u>
	\$6,714,214	\$5,321,941
Less those unavailable for general expenditures within one year, due to:		
Subject to appropriation and satisfaction of donor restrictions	<u>(3,230)</u>	<u>(3,677)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$6,710,984</u>	<u>\$5,318,264</u>

The Church has \$6,710,984 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 \$6,710,984 and account receivable of \$-0-.

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 \$2,500 are capitalized. Depreciation and amortization expense for the years ended December 31, 2023 and 2022 was \$567,211 and \$516,133, respectively.

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2023 AND 2022

4. OPERATING LEASES

The Church has multiple operating leases, primarily for equipment that expires on various dates and the lease detailed in Note 5. Those leases generally contain renewal options and require the Church to pay all executor costs such as taxes, maintenance and insurance. Lease expense was \$4,071 and \$3,828 for the year ended December 31, 2023 and 2022, respectively, and is included in occupancy expense.

Minimum lease payments under operating leases as of December 31, 2023, are as follows:

Year Ending December 31:	
2024	3,468
2025	2,601
2026	-0-
2027	-0-
2028	-0-
2029 and thereafter	-0-

5. NEW ACCOUNTING STANDARD

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-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position. Generally, operating leases with a term of 12 months or less or those that are immaterial are not recorded on the statement of financial position. The Church has considered this new pronouncement and has identified that one real property lease is subject to this pronouncement. This lease has a monthly lease payment ranging of \$28,001 with annual increases. Lease payments are scheduled through October 2028.

The Church implemented the new accounting standard during the current year as this is the first year for the lease. The lease arrangement is and operating lease and has been recorded in the Statements of Financial Position as right-of-use assets in other assets and the corresponding liability in current and non-current liabilities. The discount rate used is 6%.

Right of use assets-operating lease	\$ 1,488,192
Current portion of operating lease liability	\$ 255,094
Non-current portion of operation lease liability	\$1,236,558

Future maturities of lease liabilities are presented in the following table, for the fiscal years ending December 31:

2024	\$ 255,094
2025	281,231
2026	309,257
2027	339,396
2028 and thereafter	306,674
Total	<u>\$1,491,652</u>

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2023 AND 2022

6. 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, 2023 and 2022, the Church had funds above the federally insured limit in the amount of \$3,982,889 and \$3,146,197 respectively. Management believes that these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal.

7. PENSION AND HEALTH SAVING ACCOUNTS

The Church contributed \$78,914 and \$79,952 to employees' HSA accounts during December 31, 2023 and 2022, respectively. During the year ended December 31, 2016 the Church started contributing to retirement plans for its employees. As of December 31, 2023 and 2022 the Church contributed \$117,329 and \$99,129, respectively, to employees' retirement plans.

8. 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 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, 2023 and 2022, the loan balances were \$3,710,813 and \$3,934,524 respectively.

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

Year Ending December 31:	
2024	\$ 160,513
2025	166,305
2026	172,306
2027	178,523
2028	184,965
2029 and thereafter	<u>2,848,201</u>
	<u>\$ 3,710,813</u>

9. INVESTMENTS

The Church has several investment accounts used to receive stock from contributors. As of December 31, 2023 and 2022, the Church has an increase in investment of \$8,772 and \$8,322, and interest income of \$99,596 and \$6,784, respectively. In addition, for December 31, 2023, the church sold stock for a total cash value of \$14,487.

TRANSFORMATION CHURCH, INC.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2023 AND 2022

10. COMMITMENTS

The church had three contracts as of December 31, 2023. One for signage installation in the amount of \$10,938, one for a guest speaker in the amount of \$10,000, and one for architecture services in the amount of \$96,628. In addition, subsequent to year-end, the church signed additional contracts for a total of \$39,658. The primary cost of these contracts is for conference facility usage.

11. SUBSEQUENT EVENTS ANALYSIS

Management has evaluated subsequent events through March 8, 2024, 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.