

churchhome™

**FY 2017 - 18
ANNUAL REPORT**

We believe that all the money that comes into the church belongs to God. Tithes, offerings, gifts and other donations, as well as income from tuition and other ministry activities are all given to us in trust. As church leaders we are accountable to God and to the people who have given to the church to be excellent fiduciaries of God's money. All offerings and donations given for a designated purpose or project are used 100% for that purpose or project.

Our Governance and Management

Churchome is a 501(c)(3) tax-exempt nonprofit corporation that is governed by a board of directors. We call them our “elders,” since that is the term used in the New Testament for the individuals who oversee and are accountable for a local church.

Our board of elders receives regular updates and information about the ministries and finances of the church and meets in person with our Lead Pastor a minimum of twice a year to provide oversight for areas such as the vision and mission of the church, doctrinal issues, ministry approach and philosophy, executive staff, licensing and ordination of pastors, real estate transactions, annual budget and finances, and the overall health and effectiveness of the church.



Troy Anderson
Onsite Elder
Churchome



Jude Fouquier
Lead Pastor
The City Church Ventura



Leon Sandberg
Onsite Elder
Churchome



Chelsea Smith
Lead Pastor
Churchome



Gini Smith
Founding Pastor
The City Church



Judah Smith
Lead Pastor
Churchome



Mark Strong
Lead Pastor
Life Change Church



Ken Wilde
Senior Pastor
Capital Church

Annual Budgets and Financial Controls

Our executive team prepares and our board of elders reviews and approves an annual budget for each fiscal year. We carefully track our income and expenses to ensure we are staying within our budget and we have appropriate management and internal controls to help ensure that all of our operations are carried out and all of our resources are used in a biblical and responsible manner and in conformity with applicable laws and regulations. Our whistle-blower policy provides a way for employees and church members to confidentially report concerns about suspected financial misconduct, dishonesty, or fraud.

Annual Audit and Financial Statements

We prepare complete and accurate financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Our financial statements are audited annually by an outside accounting firm with expertise in nonprofit, tax-exempt organizations.

Compensation Practices and Our Compensation Committee

The salary and other compensation of each employee of the church is determined using compensation surveys and other relevant information regarding what similar churches and other nonprofits pay for similar positions. All employee compensation is set within these parameters.

In addition, the compensation of our Lead Pastor and other executive level employees is reviewed and approved by an outside compensation committee in accordance with IRS regulations.

Churchhome Expenditures

(\$21,330,299)

33%

General Administration

Support personnel, finance, human resources, business executive, information technology, outsourced services.

67%

Ministry Services

26%

Personnel

21%

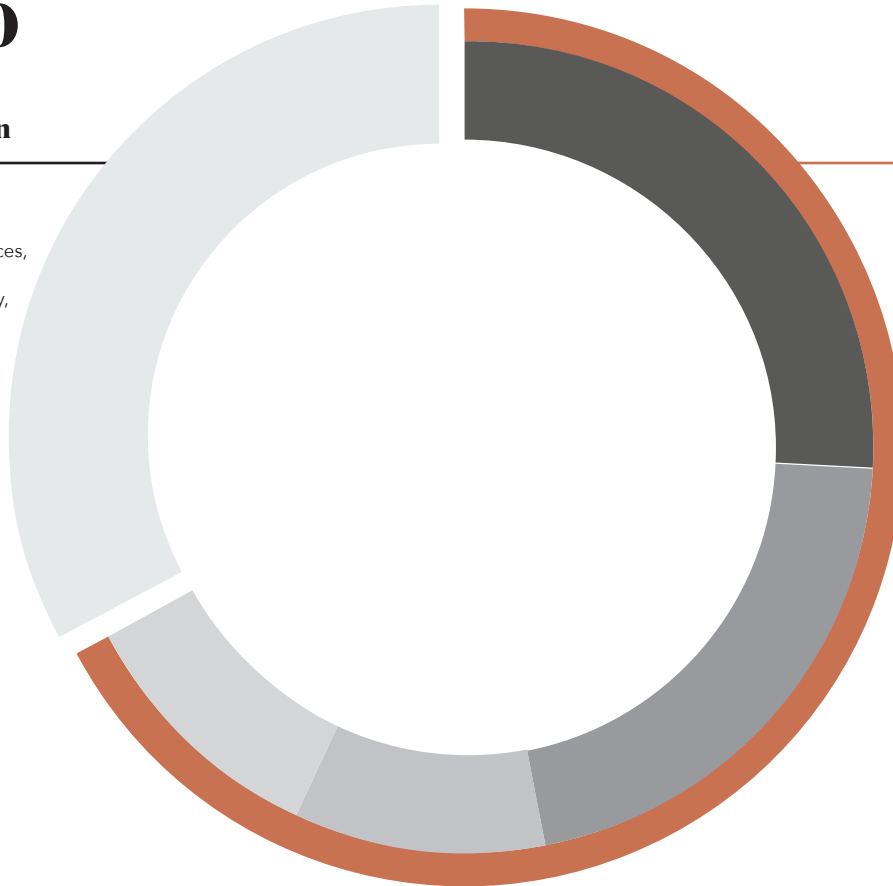
Building Costs

10%

Gatherings, Special Events, and Camps

10%

Missions and Outreach

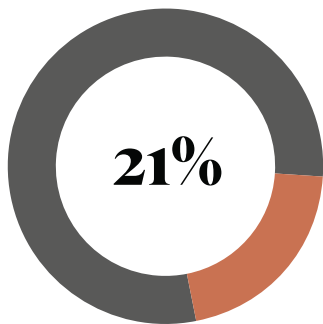
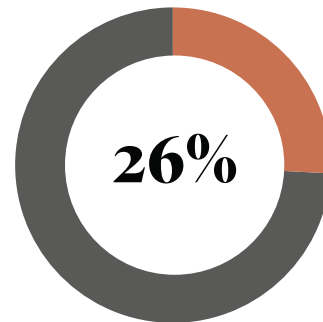


*All financials are independently audited and certified by Clark Nuber P.S

Churchome Revenue Allocation Ministry Services Spending Detail

Personnel

Pastors and Central ministry teams.

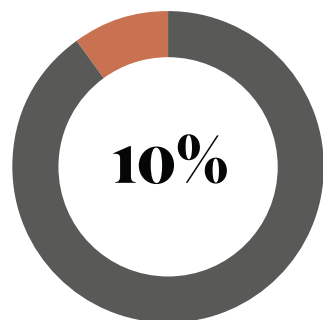
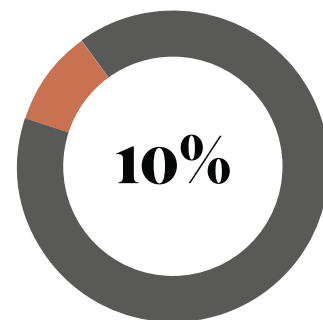


Building Costs

Depreciation, occupancy costs, interest.

Gatherings, Special Events, and Camps

Including general operating costs.



Missions and Outreach

Uplift Projects, Missions, and Global Ministry support.

CHURCHOME

Consolidated Financial Statements

For the Years Ended June 30, 2018 and 2017

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Independent Auditor's Report

**To the Board of Elders
Churchome
Kirkland, Washington**

We have audited the accompanying consolidated financial statements of Churchome and its subsidiaries (collectively, the Church), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Church as of June 30, 2018 and 2017, 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.

Clark Nuber P.S.

Certified Public Accountants
October 14, 2018

CHURCHOME**Consolidated Statements of Financial Position - Assets**
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,472,964	\$ 4,675,636
Prepaid expenses	106,032	217,091
Other assets	69,608	164,498
	<u>4,648,604</u>	<u>5,057,225</u>
Property and Equipment:		
Buildings and improvements	25,588,763	25,418,964
Land	5,203,960	5,203,960
Furniture, equipment and technology	11,429,171	10,837,056
Construction in progress	44,819	89,045
	<u>42,266,713</u>	<u>41,549,025</u>
Accumulated depreciation	<u>(21,917,788)</u>	<u>(20,059,857)</u>
Total Property and Equipment	20,348,925	21,489,168
Other Assets:		
Property held for sale	20,560,667	20,560,667
Deferred compensation	3,172,998	2,618,500
Security deposit	489,058	
	<u>24,222,723</u>	<u>23,179,167</u>
Total Other Assets	24,222,723	23,179,167
Total Assets	<u>\$ 49,220,252</u>	<u>\$ 49,725,560</u>

See accompanying notes.

CHURCHOME

Consolidated Statements of Financial Position - Liabilities and Net Assets
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 502,679	\$ 403,684
Other current liabilities	813,047	788,870
Current portion of notes payable	<u>1,296,546</u>	<u>1,238,791</u>
Total Current Liabilities	2,612,272	2,431,345
Notes payable, net	19,766,903	21,020,070
Deferred compensation	<u>3,433,891</u>	<u>3,045,487</u>
Total Liabilities	25,813,066	26,496,902
Net Assets:		
Unrestricted	23,037,345	23,011,573
Temporarily restricted net assets	<u>369,841</u>	<u>217,085</u>
Total Net Assets	<u>23,407,186</u>	<u>23,228,658</u>
Total Liabilities and Net Assets	<u>\$ 49,220,252</u>	<u>\$ 49,725,560</u>

See accompanying notes.

CHURCHHOME**Consolidated Statements of Activities
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Change in Unrestricted Net Assets		
Revenue and Support:		
Tithes and offerings	\$ 18,552,440	\$ 17,036,723
Tuition and fees	295,065	371,738
Other ministries	181,861	187,447
Events	579,430	487,865
Rental income	555,111	152,457
Other income	48,093	24,805
Total Revenue and Support	20,212,000	18,261,035
Net assets released from restrictions	1,144,071	1,131,482
Total Revenue, Support, and Net Assets Released From Restriction	21,356,071	19,392,517
Expenses:		
Personnel costs	9,341,331	8,540,681
Events, conferences and retreats	2,154,838	3,423,237
Benevolence, missions and outreach	2,146,377	2,251,903
Occupancy costs	1,893,950	747,713
Depreciation	1,868,419	1,541,827
General operating costs	1,556,598	1,565,749
Professional and temporary services	1,311,445	707,687
Interest	1,057,341	1,114,285
Total Expenses	21,330,299	19,893,082
Change in Unrestricted Net Assets Before Gains and Losses	25,772	(500,565)
Gains and Losses:		
Loss on impairment of asset group		(256,899)
Loss on sale of assets		(86,873)
Total Change in Unrestricted Net Assets	25,772	(844,337)

See accompanying notes.

CHURCHOME

Consolidated Statements of Activities (Continued)
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Change in Temporarily Restricted Net Assets		
Mission offerings	365,442	643,119
Offerings designated for various ministry programs	931,385	329,134
Net assets released from restrictions	<u>(1,144,071)</u>	<u>(1,131,482)</u>
Total Change in Temporarily Restricted Net Assets	<u>152,756</u>	<u>(159,229)</u>
Total Change in Net Assets	178,528	(1,003,566)
Net assets, beginning of year	<u>23,228,658</u>	<u>24,232,224</u>
Net Assets, End of Year	<u>\$ 23,407,186</u>	<u>\$ 23,228,658</u>

See accompanying notes.

CHURCHHOME

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018**

	Total	Program Services					Support Services
		Ministry Services	Pastoral Ministries	Youth Ministries	Missions and Outreach	Total Program Services	General and Administrative
Personnel costs	\$ 9,341,331	\$ 1,269,961	\$ 3,171,364	\$ 897,509	\$ 130,067	\$ 5,468,901	\$ 3,872,430
Events, conferences and retreats	2,154,838	344,987	1,148,805	296,101	13,446	1,803,339	351,499
Benevolence, missions and outreach	2,146,377		123,933	36,457	1,902,468	2,062,858	83,519
Occupancy costs	1,893,950	94,034	1,614,939	179,642	5,335	1,893,950	
Depreciation	1,868,419	286,690	640,390	677,380	8,710	1,613,170	255,249
General operating costs	1,556,598	163,165	105,993	76,207		345,365	1,211,233
Professional and temporary services	1,311,445	11,179	58,832	579	439	71,029	1,240,416
Interest	1,057,341	72,194	426,828	413,957	4,216	917,195	140,146
	<u>\$ 21,330,299</u>	<u>\$ 2,242,210</u>	<u>\$ 7,291,084</u>	<u>\$ 2,577,832</u>	<u>\$ 2,064,681</u>	<u>\$ 14,175,807</u>	<u>\$ 7,154,492</u>

See accompanying notes.

CHURCHOME

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2017**

	Total	Program Services					Support Services
		Ministry Services	Pastoral Ministries	Youth Ministries	Missions and Outreach	Total Program Services	General and Administrative
Personnel costs	\$ 8,540,681	\$ 1,486,455	\$ 3,515,917	\$ 757,730	\$ 129,550	\$ 5,889,652	\$ 2,651,029
Events, conferences and retreats	3,423,237	184,292	2,025,065	462,999	4,253	2,676,609	746,628
Benevolence, missions and outreach	2,251,903	1,072	10,694	18,018	2,108,720	2,138,504	113,399
Occupancy costs	747,713	176,649	131,777	286,890	5,182	600,498	147,215
Depreciation	1,541,827	467,302	285,102	547,205	7,417	1,307,026	234,801
General operating costs	1,565,749	174,479	34,093	62,890	227	271,689	1,294,060
Professional and temporary services	707,687	12,136	56,243	15,268		83,647	624,040
Interest	1,114,285	299,052	196,723	422,269	4,443	922,487	191,798
	<u>\$ 19,893,082</u>	<u>\$ 2,801,437</u>	<u>\$ 6,255,614</u>	<u>\$ 2,573,269</u>	<u>\$ 2,259,792</u>	<u>\$ 13,890,112</u>	<u>\$ 6,002,970</u>

See accompanying notes.

CHURCHOME

**Consolidated Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Total change in net assets	\$ 178,528	\$ (1,003,566)
Adjustments to reconcile total change in net assets to cash provided by operating activities-		
Depreciation	1,868,419	1,541,827
Financing cost amortization	29,671	28,348
Loss on impairment of asset group		256,899
Loss on sale of assets		86,873
In-kind donation of assets	12,565	
Changes in assets and liabilities:		
Prepaid expenses	111,059	(55,143)
Other assets and security deposit	(394,168)	(111,083)
Accounts payable	123,903	(365,600)
Other current liabilities	24,177	212,315
Net Cash Provided by Operating Activities	1,954,154	590,870
Cash Flows From Investing Activities:		
Purchases of property and equipment	(765,649)	(3,389,951)
Proceeds from sale of property		1,021,899
Deferred compensation payments	(166,094)	(159,485)
Net Cash Used by Investing Activities	(931,743)	(2,527,537)
Cash Flows From Financing Activities:		
Proceeds from notes payable		1,160,000
Payments on notes payable	(1,225,083)	(1,164,992)
Net Cash Used by Financing Activities	(1,225,083)	(4,992)
Net Change in Cash and Cash Equivalents	(202,672)	(1,941,659)
Cash and cash equivalents, beginning of year	4,675,636	6,617,295
Cash and Cash Equivalents, End of Year	\$ 4,472,964	\$ 4,675,636
Supplementary Cash Flow Information:		
Property and equipment purchases in accounts payable	\$ -	\$ 24,908
Cash paid for interest	\$ 1,011,565	\$ 1,058,611

See accompanying notes.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

Note 1 - Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities and Basis of Consolidation - Effective October 1, 2017, The City Church changed its legal name to Churchome. Churchome and its subsidiaries (collectively, the "Church") are headquartered in Kirkland, Washington and are organized for the purposes of carrying on the affairs and ministries of a local church body.

Churchome was incorporated as a nonprofit religious corporation under the laws of the State of Washington in March 1992. Churchome operates church locations in the greater Seattle and Los Angeles areas and the Intern Program. Churchome is primarily supported by the tithes and offerings of its members.

The consolidated financial statements include the accounts of Churchome and its consolidated subsidiaries described below. All material inter-entity transactions have been eliminated.

The City Church Los Angeles - An affiliate of Churchome and is organized as a separate nonprofit corporation to operate a church in Los Angeles, CA.

17th Avenue LLC - A wholly-owned subsidiary of Churchome formed to purchase and hold the Church's property in Seattle's University District.

Plateau Campus LLC - A wholly-owned subsidiary of Churchome formed to purchase and hold the Church's property on the Issaquah plateau.

North Sound Campus, A Nonprofit Corporation - A wholly-owned subsidiary of Churchome formed to hold the Church's donated property in Stanwood and Camano Island, Washington. This property was sold during the year ended June 30, 2017 (Note 7) and the subsidiary was dissolved during the year ended June 30, 2018.

Alderwood Campus LLC - A wholly-owned subsidiary of Churchome formed to operate a church in Lynnwood, Washington.

Parson Properties LLC - A wholly-owned subsidiary of Churchome formed to purchase and hold the Church's residential property in Kirkland.

Student Fourplex LLC - A wholly-owned subsidiary of Churchome formed to purchase and hold the Church's student housing property in Kirkland.

Safe Travel LLC - A wholly-owned subsidiary of Churchome formed to purchase and hold the Church's vehicles.

Basis of Accounting - The Church presents consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

CHURCHHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

Note 1 - Continued

Basis of Presentation - The Church follows U.S. GAAP as applied to nonprofit organizations, which require the Church 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.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Church and/or the passage of time. Temporarily restricted net assets consisted of amounts restricted for missions and other ministry programs.

Permanently Restricted Net Assets - Permanently restricted net assets must be maintained by the Church in perpetuity, the income of which is expendable for operations. Permanently restricted net assets increase when the Church receives contributions for which donor-imposed restrictions limiting the Church's use of an asset for its economic benefits neither expire with the passage of time nor can be removed by the Church meeting certain requirements. The Church had no permanently restricted net assets at June 30, 2018 and 2017.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, cash and cash equivalents includes time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. Amounts on deposit with banks may occasionally exceed the FDIC insurance limit of \$250,000. It is the Church's policy to evaluate the financial condition of the banks in which funds are on deposit on a regular basis, to determine the extent of credit risk for deposits in excess of FDIC insurance limits. Cash and cash equivalents include \$2,500,000 and \$4,000,000 of commercial paper as of June 30, 2018 and 2017, respectively.

Property, Equipment and Depreciation - Property and equipment purchases are stated at cost. Donated assets are stated at fair value on the date of receipt. Donated services that enhance nonfinancial assets are capitalized at fair value at the date the services are provided. Depreciation is provided by use of the straight-line method over the estimated useful lives of the related assets ranging from five to ten years for equipment and thirty to forty years for buildings and improvements. All acquisitions of property and equipment in excess of \$2,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Financing Costs - Financing costs are recorded as a deduction to the related debt liability on the statements of financial position. Financing costs are amortized over the term of the applicable debt using the effective yield method. Amortization of financing costs are included as a component of interest expense on the statements of activities.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

Note 1 - Continued

Fair Value Measurements - U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 - Assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets.

Level 2 - Assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets.

Level 3 - Assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Federal Income Tax - Churchome, The City Church Los Angeles, and North Sound Campus are nonprofit corporations and have been notified by the Internal Revenue Service (IRS) that they are exempt from federal income tax under Internal Revenue Code Section (IRC) 501(c)(3), except to the extent of unrelated business taxable income, if any. All wholly-owned subsidiaries of Churchome and their activities generally fall under the tax-exempt status of Churchome.

Contributions Received - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Gifts received of long-lived assets, in the absence of donor-imposed use restrictions, are reported as unrestricted support.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Donated Services and Materials - A large number of people have contributed significant amounts of time to the activities of the Church without compensation.

The consolidated financial statements do not reflect the value of those contributed services because, although clearly substantial, the services do not meet the recognition criteria required by U.S. GAAP and no reliable basis exists for determining an appropriate value for those services. The Church's policy is to recognize donated materials in the consolidated financial statements at their estimated fair values as of the date of their receipt.

Subsequent Events - Churchome has evaluated subsequent events through October 14, 2018, the date which the consolidated financial statements were available to be issued.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

Note 2 - Notes Payable

Notes payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Bank note payable in monthly installments of principal and interest beginning March 1, 2015 with the balance due upon maturity, February 5, 2020. Payments are fixed at \$169,793 per month with a fixed interest rate of 4.57%. The note payable is secured by a deed of trust on the Issaquah Plateau property. This loan will be remargined if the outstanding principal of the loan is greater than 70% of the fair market value of the collateralized property, as further described in the loan documents.	\$ 18,322,382	\$ 19,481,563
Bank note payable in monthly installments of principal and interest beginning June 1, 2016 with the balance due upon maturity, May 1, 2021. The note includes a call option that allows the bank to call for full repayment of the outstanding balance if the Church repays in full the other bank note described above. Payments are fixed at \$10,073 per month with a fixed interest rate of 4.72%. The note payable is secured by a deed of trust on residential property in Los Angeles. This loan will be remargined if the outstanding principal of the loan is greater than 80% of the fair market value of the collateralized property, as further described in the loan documents.	1,677,758	1,717,304
Bank note payable in monthly installments of principal and interest beginning September 1, 2016 with the balance due upon maturity, August 1, 2021. The note includes a call option that allows the bank to call for full repayment of the outstanding balance if the Church repays in full the first bank note described above. Payments are fixed at \$6,522 per month with a fixed interest rate of 4.54%. The note payable is secured by a deed of trust on residential property in Kirkland, WA. This loan will be remargined if the outstanding principal of the loan is greater than 80% of the fair market value of the collateralized property, as further described in the loan documents.	<u>1,113,145</u>	<u>1,139,501</u>
	21,113,285	22,338,368
Less current portion of notes payable	(1,296,546)	(1,238,791)
Less unamortized financing costs	<u>(49,836)</u>	<u>(79,507)</u>
Notes Payable, Net	<u>\$ 19,766,903</u>	<u>\$ 21,020,070</u>

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

Note 2 - Continued

Total interest expense for the years ended June 30, 2018 and 2017 was \$1,057,341 and \$1,114,285, respectively, and includes \$29,671 and \$28,348, respectively, of deferred financing cost amortization expense and \$20,774 and \$27,378, respectively, of deferred compensation discount amortization.

The Church is required to meet certain financial covenants to be in compliance with the terms of the loan agreements for the above notes payable. The Church was in compliance with the covenants as of June 30, 2018.

Required principal payments are as follows:

For the Year Ending June 30,

2019	\$ 1,296,546
2020	17,171,009
2021	1,621,505
2022	<u>1,024,225</u>
	<u>\$ 21,113,285</u>

Note 3 - Leases

Personal property, facilities, and equipment are leased under operating leases expiring in various years through September 2024. During October 2017, Churchome assumed the lease for a facility in Bothell, Washington for a new church location. The assumed lease commenced on October 1, 2017, expires September 30, 2024, and includes two three-year renewal terms subject to certain terms and conditions. The lease requires payment of Churchome's share of the taxes and operating expenses of the property. The lease also required the Church to provide a security deposit totaling \$489,058 for the term of the lease. Minimum future rental payments under noncancelable operating leases are as follows:

For the Year Ending June 30,

2019	\$ 1,007,700
2020	844,281
2021	868,221
2022	881,323
2023	909,966
Thereafter	<u>1,176,289</u>
Total Minimum Future Rental Payments	<u>\$ 5,687,780</u>

Operating lease payments and facility lease payments included in expense for the years ended June 30, 2018 and 2017 were \$1,202,808 and \$131,510, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

Note 4 - Deferred Compensation Plans

The Church sponsors a deferred compensation plan for the benefit of certain employees in accordance with Section 414(e) of the IRC. Participating employees are permitted to defer a portion of their salary until termination, retirement, death, or in the event of an unforeseen emergency. The Church matches participants' deferrals up to 7.5% of eligible wages.

Assets of the plan are held in a segregated account and totaled \$3,172,998 and \$2,618,500 at June 30, 2018 and 2017, respectively. Assets of the plan consist of marketable securities reported at fair value. Fair value for the investments is determined primarily using unadjusted quoted market prices within active markets (Level 1 inputs).

Under the terms of the plan, all deferred compensation and employer contributions, along with all property and rights purchased with those amounts and income attributable to those amounts, remain the property of the Church until paid or made available to the employee or his or her beneficiary. Such amounts are subject to the claims of the Church's general creditors.

Participants' rights are equal to those of general creditors in an amount equal to the fair value of the deferred amount for each participant. The Church has reported a liability of \$3,172,998 and \$2,618,500 at June 30, 2018 and 2017, respectively, for amounts due to participants under the plan.

The Church has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Management believes it is unlikely that plan assets will need to be used to satisfy the claim of general creditors.

The Church also has a deferred compensation plan for the founding pastors. The plan vested immediately and provides for fixed annual payments over a ten year period beginning in 2011. The Church accrued the present value of the payments and reported expense of \$1,477,593 during the year ended June 30, 2011. The plan liability at June 30, 2018 and 2017, respectively, totaled \$426,986 and \$586,467 of which \$166,093 and \$159,480 is reported as a current liability.

Note 5 - Defined Contribution Plan

The Church sponsors a defined contribution pension plan allowed under IRC section 403(b). All staff ages 21 years or older may participate after 30 days of employment with an employer match of 3%. For the years ended June 30, 2018 and 2017, the amount of retirement plan expense representing contributions made by the Church, not through salary reduction agreements, was \$106,647 and \$79,650, respectively.

Note 6 - Related Party Transactions

The Church provides operating support and has entered into transactions with City Ministries, an affiliated not-for-profit organization. City Ministries is considered a related party due to having individuals who serve on the governing boards of both organizations. For the years ended June 30, 2018 and 2017, support provided to City Ministries was \$305,116 and \$229,162, respectively.

CHURCHOME

Notes to Consolidated Financial Statements For the Years Ended June 30, 2018 and 2017

Note 7 - Property Held for Sale

In March 2014, the Church placed a property in Arlington, Washington, consisting of 45 acres of undeveloped land, up for sale. The property was held on the books of the Church at the net book value of \$745,150 as of July 1, 2016. During the year ended June 30, 2017 the property was sold for net proceeds totaling \$658,277. Accordingly, the consolidated statement of activities for the year ended June 30, 2017 includes a loss on the sale of \$86,873.

In March 2014, the Church placed the Issaquah Plateau Property up for sale. The property is held on the books of the Church at the net book value of \$20,560,667 as of June 30, 2018 and June 30, 2017. The Church has reached an interim settlement agreement with the Issaquah School District for the sale of the property and intends to continue negotiations.

Additional disclosures from Churchome finance director:

In November 2018, Churchome launched its Churchome Global app. Churchome Global empowers people to connect, engage, and learn as part of the Churchome community wherever they may be located across the country and around the world. To date, over 45,000 people globally have downloaded the app, more than 800 groups have been formed within the app, with many people joining 2-3 different groups, 35% of users engage with the app a few times a week, and 10% use it daily.

Churchome has a development and services agreement with Seventh Spark under which the company developed and continues to improve Churchome Global and provides other services to the church. Our lead pastors Judah and Chelsea have a separate agreement with Seventh Spark through which they provide consulting and other services to Seventh Spark beyond their services for Churchome and for which they are compensated by Seventh Spark. As a practice, the Smiths donate 20% of all of their compensation to Churchome, including the compensation they receive from Seventh Spark. All of these agreements and compensation were reviewed by Churchome's legal and tax counsel and approved by the Board of Elders.