

Celebration Church of Jacksonville, Inc.

Financial Statements and
Independent Auditor's Report

December 31, 2017

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Independent Auditor's Report

To the Board of Trustees
Celebration Church of Jacksonville, Inc.
Jacksonville, Florida

We have audited the accompanying financial statements of Celebration Church of Jacksonville, Inc. (a nonprofit corporation) (the Church), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 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 Celebration Church of Jacksonville, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Stanfield + O'Dell, P.C.

Tulsa, Oklahoma
June 4, 2018

Celebration Church of Jacksonville, Inc.

Statement of Financial Position

December 31, 2017

Assets

Current assets

Cash and cash equivalents	\$ 4,473,875
Accounts receivable	67,246
Deposits	17,800
Inventory	42,141
Prepaid expenses and other assets	111,427
Total current assets	<u>4,712,489</u>

Property and equipment

Property and equipment	49,635,838
Less accumulated depreciation	<u>(16,503,473)</u>

33,132,365

Total assets

\$ 37,844,854

Liabilities and Net Assets

Current liabilities

Accounts payable and accrued liabilities	\$ 705,824
Deferred revenues	35,786
Note and capital lease payable, current portion	<u>1,137,840</u>
Total liabilities	1,879,450

Note and capital lease payable, net of capitalized loan costs

23,910,662

Total liabilities

25,790,112

Net assets

Unrestricted	12,015,405
Temporarily restricted	<u>39,337</u>

Total net assets

12,054,742

Total liabilities and net assets

\$ 37,844,854

The accompanying notes are an integral part of these financial statements.

Celebration Church of Jacksonville, Inc.

Statement of Activities

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Support			
Contributions	\$ 19,225,390	\$ 280,396	\$ 19,505,786
Other revenues:			
Bookstore and café revenue	204,695	-	204,695
Rental income	5,883	-	5,883
Tuition revenue	175,031	-	175,031
Interest income	6,068	-	6,068
Other revenue	134,011	-	134,011
	<u>19,751,078</u>	<u>280,396</u>	<u>20,031,474</u>
Net assets released from restrictions	323,395	(323,395)	-
Total support and revenues	<u>20,074,473</u>	<u>(42,999)</u>	<u>20,031,474</u>
Expenses			
Program			
Compensation and other related expenses	6,765,420	-	6,765,420
Outreach and missions	2,608,933	-	2,608,933
Depreciation	1,943,928	-	1,943,928
Church ministries	1,346,369	-	1,346,369
Facilities and equipment rental	1,258,432	-	1,258,432
Interest and amortization expenses	597,070	-	597,070
Cost of sales	525,439	-	525,439
Total program expenses	<u>15,045,591</u>		<u>15,045,591</u>
Management and general			
Compensation and other related expenses	922,512	-	922,512
Depreciation	613,872	-	613,872
General and administrative expenses	1,206,048	-	1,206,048
Facilities and equipment rental	397,400	-	397,400
Interest and amortization expenses	188,548	-	188,548
Total management and general	<u>3,328,380</u>		<u>3,328,380</u>
Fundraising			
Compensation and other related expenses	101,000	-	101,000
General and administrative expenses	14,900	-	14,900
Church ministries	116,113	-	116,113
Total fundraising expenses	<u>232,013</u>		<u>232,013</u>
Total expenses	<u>18,605,984</u>	<u>-</u>	<u>18,605,984</u>
Increase (decrease) in net assets	1,468,489	(42,999)	1,425,490
Net assets at beginning of year	<u>10,546,916</u>	<u>82,336</u>	<u>10,629,252</u>
Net assets at end of year	<u>\$ 12,015,405</u>	<u>\$ 39,337</u>	<u>\$ 12,054,742</u>

The accompanying notes are an integral part of these financial statements.

Celebration Church of Jacksonville, Inc.

Statement of Cash Flows

Year Ended December 31, 2017

Cash flows from operating activities

Increase in net assets	\$ 1,425,490
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:	
Depreciation	2,557,800
Amortization of debt issuance costs	23,376
Gains on disposal of asset	(1,317)
In-kind contribution of property	(750,000)
Decrease in:	
Accounts receivable	104,101
Deposits	114,475
Inventory	27,042
Prepaid expenses and other assets	(7,047)
Decrease in:	
Accounts payable and accrued liabilities	(27,724)
Deferred revenues	(18,577)

Net cash provided by operating activities 3,447,619

Cash flows from investing activities

Purchases of property and equipment (1,652,061)

Cash flows from financing activities

Proceeds on note payable 24,801,742

Principal payments on note and capital lease payable (25,198,828)

Net cash used in financing activities (397,086)

Increase in cash and cash equivalents 1,398,472

Cash and cash equivalents at beginning of year 3,075,403

Cash and cash equivalents at end of year \$ 4,473,875

Supplemental disclosures of cash flow information

Interest paid during the year \$ 762,242

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 2017

Note A – Nature of Activities and Significant Accounting Policies

1. Nature of Activities

Celebration Church of Jacksonville, Inc. (the Church) was organized on December 23, 1998, under the laws of the State of Florida as a not-for-profit corporation and is located in Jacksonville, Florida. The Church is classified as a tax-exempt church under Internal Revenue Code Section 501(c)(3) and, accordingly, no provision for federal income taxes is required in the Church's financial statements.

The Church's primary mission is to lead people to experience a God-first life. The Church is dedicated to spreading the Gospel through evangelistic services that include worship and teaching of the Word, establishing connectivity amongst believers and actively serving local and global communities in the United States and around the world. The Church's operations are supported primarily through contributions from the congregation.

2. Basis of Presentation

The financial statements of the Church have been prepared on the accrual basis. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

3. Revenue Recognition and Net Asset Classifications

The Church distinguishes between contributions which are unrestricted and those which contain donor-imposed restrictions for specific ministry or benevolent activities. When a donor 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 statement of activities as net assets released from restrictions.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Church and changes therein are classified and reported as follows:

Unrestricted net assets – net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – includes gifts for which donor-imposed restrictions have not been met for which the ultimate purpose of the proceeds is not permanently restricted. Temporarily restricted net assets as of December 31, 2017 consist of certain activity-related funds to be expended in future periods.

Permanently restricted net assets – includes gifts which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions.

Notes to Financial Statements

December 31, 2017

Note A – Nature of Activities and Significant Accounting Policies – Continued

3. *Revenue Recognition and Net Asset Classifications - Continued*

Contributions are recorded when received. Noncash contributions are recorded at estimated fair value on the date of receipt. Gains and losses on contributed property held for sale are recognized currently as unrealized gain or loss.

4. *Use of 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 those estimates.

5. *Cash and Cash Equivalents*

The Church considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Church maintains its cash primarily in a single financial institution. At times, those cash deposits may exceed federally insured limits. The Church does not believe that it has a significant credit risk regarding its bank deposits.

6. *Inventory*

Inventory consists of religious books utilized in the operation of the Church and the Church's bookstores. Inventory is valued at the lower of cost or net realizable value with cost determined on the first-in, first-out basis.

7. *Property and Depreciation*

Property and equipment that is purchased is recorded at cost and donations of fixed assets are recorded as unrestricted support at fair value. Additions exceeding \$500 with a useful life over one year are capitalized. Property and equipment is depreciated over the estimated useful lives of the assets using the straight-line method using the following useful lives: 39 years for buildings, 5-39 years for building and leasehold improvements, and 5-10 years for furniture and equipment.

8. *Deferred Revenues*

As of December 31, 2017, the Church is holding registration fees of \$29,155 collected in advance for conferences to be held during 2018 and deposits of \$6,631 for mission trips to be taken in 2018. The Church will recognize these fees as earned revenues in the month the event is held.

9. *Contributed Services*

The Church benefits from services donated by its members while carrying out the Church's ministry. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under ASC 958, *Not-for-Profit Entities*.

Notes to Financial Statements

December 31, 2017

Note A – Nature of Activities and Significant Accounting Policies – Continued

10. Functional Expense Allocations

The costs of providing the various programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs benefitted.

11. Advertising Costs

During 2017, advertising costs of approximately \$42,000 were expensed as incurred.

12. Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). The standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as an asset, with the related amortization to be presented as interest expense. ASU 2015-03 was implemented by the Church in its 2016 financial statements.

13. Subsequent Events

The Church has evaluated subsequent events through June 4, 2018, the date which the financial statements were available to be issued.

Note B – Property and Equipment

Property and equipment, as of December 31, 2017, consists of:

Buildings	\$ 28,398,118
Media production assets	7,099,790
Building improvements	4,391,652
Service and event equipment	2,802,328
System assets	1,393,697
Furniture and equipment	863,534
Vehicles	155,966
	<u>45,105,085</u>
Less accumulated depreciation	<u>(16,503,473)</u>
	28,601,612
Land	<u>4,530,753</u>
	<u><u>\$ 33,132,365</u></u>

Notes to Financial Statements

December 31, 2017

Note B – Property and Equipment – Continued

Included in assets above are assets under a capital lease. The cost of the asset is \$214,501 and it has accumulated amortization of \$7,150 as of December 31, 2017.

Also, during 2017 the Church accepted the transfer from another not-for-profit corporation of two parcels of real property. This land and building was recorded by the Church at \$750,000 based upon appraised estimated fair value.

Note C – Note and Capital Lease Payable

Note and capital lease payable consist of the following at December 31, 2017:

Note payable to bank last renewed in August 2017 with an interest rate of 3.12%. Secured by real property and personal property, funds received designated for building project or debt repayment, and an assignment of a face value life insurance policy on the Church's Lead Pastor. Monthly principal payments range from \$99,540 - \$121,600. All remaining principal and interest due at maturity on August 5, 2022. \$ 25,165,606

A capital lease payable with an interest rates of 3.93%, secured by equipment, with a monthly payment of \$3,575. Maturing October 2022. 207,351
25,372,957

Less capitalized loan costs (324,455)

Total note and capital lease payable \$ 25,048,502

Interest expense during the year ended December 31, 2017 was \$785,618, including amortized debt issuance costs of \$23,376. Future minimum payments are as follows: \$1,137,840 for 2018, \$1,298,460 for 2019, \$1,362,660 for 2020, \$1,431,300 for 2021, and \$20,142,697 for 2022.

The note payable above contains certain restrictive and financial covenants. As of December 31, 2017, the Church believes it was in compliance with applicable covenants.

Note D – Operating Leases and Other Commitments

The Church leases certain facilities and equipment under various lease agreements for its own use with terms between 36 to 63 months. Rental expenses include maintenance and other fees as mandated per the rental agreements. Monthly payments range between \$172 and \$7,082, and future minimum payments are as follows: \$222,122 for 2018, \$170,057 for 2019, \$86,117 for 2020, and \$14,838 for 2021.

The Church also leases certain facilities under various month-to-month lease agreements for its own use. At December 31, 2017, the total monthly payment due under these short-term leases is \$48,954. These leases are cancellable upon 30 days written notice provided by the Church or the lessor.

Notes to Financial Statements

December 31, 2017

Note D – Operating Leases and Other Commitments - Continued

Total rental expenses for facilities and equipment for the year ended December 31, 2017 were approximately \$707,421 and \$36,253, respectively, for all leases.

The Church is a guarantor of two notes payable which are owed by other entities to the Church's primary bank lender. The total amount guaranteed is approximately \$7,350,000, and both notes mature in 2022. The Church would be liable for these obligations at the default of the primary borrower, both of which are related parties to the Church.

Note E – Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during 2017 were comprised of the following:

Temporarily restricted contributed revenue	
Missions	\$ 246,843
Other	33,553
Total temporarily restricted contributed revenue	<u>280,396</u>
Temporarily restricted net assets released from restrictions:	
Missions	(309,842)
Other	(13,553)
Total temporarily restricted net assets released from restrictions	<u>(323,395)</u>
Changes in temporarily restricted net assets	(42,999)
Temporarily restricted net assets - beginning of year	<u>82,336</u>
Temporarily restricted net assets - end of year	<u>\$ 39,337</u>