

DC METRO CHURCH, INC.

Alexandria, Virginia

Financial Statements

Year Ended December 31, 2018

DC METRO CHURCH, INC.

Financial Statements

Year Ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
DC Metro Church, Inc.
Alexandria, Virginia

We have audited the accompanying financial statements of DC Metro Church, Inc. (the "Church"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the Church'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 Church'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 DC Metro Church, Inc. as of December 31, 2018, 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.

PSK LLP

Arlington, Texas
May 13, 2019

DC METRO CHURCH, INC.

Statement of Financial Position

December 31, 2018

ASSETS

Cash and cash equivalents	\$ 1,667,123
Accounts receivable	360
Prepaid expenses	10,028
Deposits	21,925
Property and equipment, net	<u>11,488,737</u>
 Total assets	 <u>\$ 13,188,173</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 214,739
Capital leases payable	76,890
Notes payable, net	<u>4,414,428</u>
 Total liabilities	 4,706,057
Net assets	
Without donor restrictions	<u>8,482,116</u>
 Total liabilities and net assets	 <u>\$ 13,188,173</u>

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

DC METRO CHURCH, INC.

Statement of Activities

Year Ended December 31, 2018

Revenues	
Tithes and offerings	\$ 6,430,044
Missions and ministry income	68,446
Café and bookstore revenue	112,452
Parking lot lease income	123,725
Rental revenue	1,800
Interest income	5,462
Other income	409
	<hr/>
Total revenues	<u>6,742,338</u>
Expenses	
Program expenses:	
Ministries	4,997,616
Missions and outreach	699,423
	<hr/>
Total program expenses	<u>5,697,039</u>
Supporting services:	
Management and general	579,862
Fundraising	34,627
	<hr/>
Total supporting services	<u>614,489</u>
Total expenses	<u>6,311,528</u>
Change in net assets without donor restrictions	430,810
Net assets at beginning of the year	<u>8,051,306</u>
Net assets at end of the year	<u><u>\$ 8,482,116</u></u>

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

DC METRO CHURCH, INC.

Statement of Functional Expenses

Year Ended December 31, 2018

	Program Expenses		Supporting Services		Total
	Ministries	Missions and Outreach	Management and General	Fundraising	
Benevolence and partnerships	\$ -	\$ 512,119	\$ -	\$ -	\$ 512,119
Outreach	-	74,171	-	-	74,171
Compensation and benefits	2,104,809	109,216	227,625	15,636	2,457,286
Conferences, trainings, and meetings	166,696	3,917	8,951	-	179,564
Supplies and resources	265,049	-	5,214	5,096	275,359
Media and technology	171,255	-	21,615	13,895	206,765
Professional fees and insurance	76,707	-	33,115	-	109,822
Fees for services	108,738	-	-	-	108,738
Occupancy	1,097,119	-	151,598	-	1,248,717
Cost of goods sold	53,784	-	-	-	53,784
Interest	230,049	-	31,787	-	261,836
Depreciation	723,410	-	99,957	-	823,367
	<u>\$4,997,616</u>	<u>\$ 699,423</u>	<u>\$ 579,862</u>	<u>\$ 34,627</u>	<u>\$ 6,311,528</u>

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

DC METRO CHURCH, INC.Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ 430,810
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation	823,367
Amortization of loan origination fees	7,226
(Increase) decrease in assets:	
Accounts receivable	(360)
Prepaid expenses	9,691
Deposits	50,000
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>(193,606)</u>
Net cash and cash equivalents provided by operating activities	<u>1,127,128</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(57,144)</u>
Cash flows from financing activities:	
Payments on capital leases payable	(25,636)
Payments on notes payable	<u>(1,107,000)</u>
Net cash and cash equivalents used in financing activities	<u>(1,132,636)</u>
Change in cash and cash equivalents	(62,652)
Cash and cash equivalents at beginning of year	<u>1,729,775</u>
Cash and cash equivalents at end of year	<u>\$ 1,667,123</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	<u>\$ 254,611</u>

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

DC METRO CHURCH, INC.
Notes to Financial Statements

1 - Organization

DC Metro Church, Inc. (the “Church”) was founded in 2007 as a nonprofit religious organization in the Commonwealth of Virginia. The Church's function is to build a God-first culture through discipleship, intentional relationships, and outreach missions throughout the Washington, D.C. Metro area. The Church is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation.

The Church is a part of the Celebration Church Family.

2 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of the Church have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when the obligation is incurred. The financial statements of the Church have been prepared using accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Adoption of New Accounting Standards - In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-14: *Presentation of Financial Statements for Not-for-Profit Entities* (“ASU 2016-14”), which is an amendment to the FASB Accounting Standards Codification (“FASB ASC”) Topic 958. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Adopting ASU 2016-14 has had the following impact on the Church’s financial statements:

- The unrestricted net asset class has been renamed *net assets without donor restrictions*.
- The financial statements now include a statement of functional expenses.
- The notes to financial statements include a new disclosure about liquidity and availability of resources (Note 3).

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

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Church had no assets with donor restrictions as of December 31, 2018.

Revenues and Support - Revenues and support for the Church are primarily derived from unrestricted contributions from the Church membership.

DC METRO CHURCH, INC.
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Donated Services - No amounts have been reflected in the financial statements for donated services. The Church pays for most services requiring specific expertise. A large number of people have contributed significant amounts of time to the activities of the Church without compensation. The financial statements do not reflect the value of those contributed services.

Donated Assets - Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Compensated Absences - Employees of the Church, administrative and ministerial, are entitled to paid time off depending upon length of service and other factors. The Church cannot reasonably estimate the amount of compensation for future absences; accordingly, no liability has been recorded in the accompanying financial statements. The Church's policy is to recognize the cost of compensated absences when paid to employees.

Use of Estimates - Management used estimates and assumptions in preparing these financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents - For purposes of reporting cash flows, the Church considers all bank deposits and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Property and Equipment - Property and equipment are recorded at cost, if purchased, and fair market value at date of donation, if contributed. Maintenance, repairs and minor renewals that do not significantly improve or extend the lives of the representative assets are expensed when incurred. Additions, improvements and major renewals with costs exceeding \$1,000 are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Land improvements	15	years
Buildings and improvements	15 to 40	years
Leasehold improvements	15	years
Furniture, fixtures and equipment	3 to 10	years
Vehicles	15	years

Functional Allocation of Expenses - The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to specific functional areas are reported as expenses of those functional areas. Indirect costs that benefit multiple functional areas are allocated among the various functional areas based primarily on square footage.

Concentrations of Credit Risk - The Church occasionally maintains deposits with financial institutions in excess of federally insured limits. It is the opinion of the Church's management that the solvency of the financial institutions is sufficient to cover any exposure.

Income Taxes - The Church follows the Income Taxes topic of the FASB ASC, which prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Church is not aware of any activities that would jeopardize its tax-exempt status and is not aware of any activities that are subject to tax on unrelated business income. As of December 31, 2018, the Church has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and does not expect this to change in the next twelve months.

DC METRO CHURCH, INC.
Notes to Financial Statements

3 - Liquidity and Availability of Resources

The Church operates under a budget for activities supported by unrestricted tithes and offerings. Its Board of Directors is responsible for monitoring the liquidity necessary to meet the Church's operating needs and meets periodically throughout the year to evaluate the actual results of financial operations versus the budget. Financial assets available to meet general expenditure needs within one year totaled \$1,667,123 as of December 31, 2018 and were made up exclusively of unencumbered cash.

4 - Property and Equipment

The following is a summary of property and equipment in service as of December 31, 2018:

Land	\$ 2,500,000
Land improvements	24,610
Buildings and improvements	3,677,965
Leasehold improvements	6,138,146
Furniture, fixtures and equipment	2,974,529
Vehicles	<u>210,930</u>
	15,526,180
Less: accumulated depreciation	<u>(4,037,443)</u>
Net property and equipment	<u>\$ 11,488,737</u>

Depreciation expense for the year ended December 31, 2018 was \$823,367.

5 - Capital Leases Payable

The Church has entered into capital leases for equipment. The cost of the equipment under the capital leases at December 31, 2018 is \$114,675 with accumulated depreciation of \$40,590. The following is a schedule of future minimum lease payments under the capital leases as of December 31, 2018:

Year Ending December 31,	Minimum Lease Payments	Amount Representing Interest	Net Present Value
2019	\$ 30,198	\$ 5,377	\$ 24,821
2020	30,198	3,342	26,856
2021	16,549	1,351	15,198
2022	<u>10,358</u>	<u>343</u>	<u>10,015</u>
	<u>\$ 87,303</u>	<u>\$ 10,413</u>	<u>\$ 76,890</u>

DC METRO CHURCH, INC.
Notes to Financial Statements

6 - Notes Payable

In May 2013, the Church entered into a note payable agreement with a financial institution for \$5,215,000. The note bears interest at a rate of one-month LIBOR plus 2.15% per annum, requires monthly principal and interest payments, and matures in May 2020. A balloon payment of approximately \$3,990,000 will be due at maturity. The note is secured by Church property. At December 31, 2018, the balance outstanding under this note was \$4,213,221. (See Note 7 for more information on this note payable.)

In May 2015, the Church entered into a note payable agreement with a financial institution for \$2,000,000. The note bears interest at a rate of one-month LIBOR plus 1.90% per annum, requires monthly principal and interest payments, and matures in May 2019. The note is secured by Church property. At December 31, 2018, the balance outstanding under this note was \$208,334.

In October 2015, the Church entered into a note payable agreement with a financial institution for \$1,200,000. The note bore interest at a rate of one-month LIBOR plus 1.90% per annum, required monthly interest payments and semi-annual principal payments, and matured in November 2018. The note was secured by Church property. The Church paid the note in full during the year ended December 31, 2018.

The preceding notes contain certain restrictive and financial covenants. As of December 31, 2018, the Church is in compliance with all applicable covenants.

The Church follows the requirements in the Imputation of Interest topic of the FASB ASC to present loan origination fees as a reduction of the carrying amount of the respective notes payable. Amortization of loan origination fees is considered interest expense and is allocated on a functional basis in the statement of activities. Accordingly, the following is a summary of the components of notes payable at December 31, 2018:

Outstanding principal on notes payable	\$ 4,421,555
Less: unamortized loan origination fees	<u>(7,127)</u>
Notes payable, net	<u>\$ 4,414,428</u>

Interest expense for the year ended December 31, 2018 was \$261,836, including amortization of loan origination fees of \$7,226.

At December 31, 2018, future principal maturities of notes payable are due as follows:

Year Ending December 31,	
2019	\$ 428,083
2020	<u>3,993,472</u>
	<u>\$ 4,421,555</u>

DC METRO CHURCH, INC.
Notes to Financial Statements

7 - Interest Rate Swap Agreement

During the year ended December 31, 2015, the Church became a party to an interest rate swap agreement with its mortgage lender in order to mitigate interest rate exposure on its note payable with the original principal amount of \$5,215,000. Under the terms of the agreement, the Church will make interest payments of 4.19% on notional amounts that equal the amounts of the declining principal balance of the note payable, and receive interest payments of one-month LIBOR plus 2.15% on the notional amounts in exchange. Since the agreement matures at the same time as the credit facility, the notional amounts mirror the declining principal balance, and the interest paid by the financial institution is based upon the same interest rate as the underlying debt, the terms of this agreement essentially provide the Church with a fixed interest rate on this note payable of 4.19% throughout the remaining term of the note.

If the Church chooses to refinance or prepay this debt, there is no assurance that the lending institution would relieve the Church of its obligations under the interest rate swap agreement. As of December 31, 2018, the aggregate estimated market value of the interest rate swap agreement amounted to \$30,789 in favor of the fixed interest rate payer (the Church); however, since the likelihood that management will choose to terminate the interest rate swap agreement is remote, no asset has been recorded in the financial statements.

8 - Operating Leases

The Church rents real estate and various office equipment under operating lease agreements. Rent expense related to these operating leases totaled \$941,582 for the year ended December 31, 2018.

During 2015, the Church executed a lease and purchase agreement for one of the pieces of real estate. During the year ended December 31, 2018, the Church terminated this agreement, forfeiting the security deposit of \$50,000, which is included in rent expense for the year.

Future minimum lease payments are scheduled as follows:

<u>Year Ending December 31,</u>	
2019	\$ 325,000

9 - Subsequent Events

Subsequent events have been evaluated through May 13, 2019, which is the date the financial statements were available to be issued.

Subsequent to year-end, the Church executed a new operating lease for office space. Lease payments under this lease will total approximately \$30,000 per month for 60 months.