

DC METRO CHURCH, INC.

Alexandria, Virginia

Financial Statements

Year Ended December 31, 2017

DC METRO CHURCH, INC.

Financial Statements

Year Ended December 31, 2017

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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, 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.

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, 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.

PSK LLP

Arlington, Texas
June 20, 2018

DC METRO CHURCH, INC.
Statement of Financial Position
December 31, 2017

ASSETS

Cash and cash equivalents	\$ 1,729,775
Prepaid expenses	19,719
Deposits	71,925
Property and equipment, net	<u>12,254,960</u>
Total Assets	<u>\$ 14,076,379</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 408,345
Capital leases payable	102,526
Notes payable, net of unamortized loan origination fees	<u>5,514,202</u>
Total liabilities	6,025,073
Net Assets	
Unrestricted	<u>8,051,306</u>
Total Liabilities and Net Assets	<u>\$ 14,076,379</u>

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

DC METRO CHURCH, INC.

Statement of Activities

Year Ended December 31, 2017

Revenues	
Tithes and offerings	\$ 6,450,191
Missions and ministry income	23,482
Café and bookstore revenue	83,076
Parking lot lease income	192,141
Rental revenue	39,167
Interest income	613
Other income	151,172
	<u>6,939,842</u>
Total revenues	
Expenses	
Program services:	
Women's and men's ministries	107,213
Kids ministries	132,411
Student ministries	128,231
Missions and outreach ministries	323,678
Worship ministries	373,557
Live Production	181,288
Design	378,070
Church life ministries	1,378,482
Facilities and equipment	1,255,340
Interest and amortization	216,814
Depreciation	789,717
	<u>5,264,801</u>
Total program services	
Supporting services:	
General and administrative	699,133
Compensation and other related expenses	542,637
Facilities and equipment	171,183
Fundraising	18,845
Interest and amortization	29,565
Depreciation	107,689
	<u>1,569,052</u>
Total supporting services	
Total expenses	<u>6,833,853</u>
Change in net assets	105,989
Net assets at beginning of the year	<u>7,945,317</u>
Net assets at end of the year	<u>\$ 8,051,306</u>

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

DC METRO CHURCH, INC.

Statement of Cash Flows

Year Ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 105,989
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation	897,406
Amortization of loan origination fees	7,226
(Increase) decrease in assets:	
Prepaid expenses	45,496
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>194,942</u>
Net cash and cash equivalents provided by operating activities	<u>1,251,059</u>
Cash flows from investing activities:	
Proceeds from sales of marketable securities	13,043
Purchases of property and equipment	<u>(41,043)</u>
Net cash and cash equivalents used in investing activities	<u>(28,000)</u>
Cash flows from financing activities:	
Payments on capital leases payable	(12,149)
Payments on notes payable	<u>(1,095,317)</u>
Net cash and cash equivalents used in financing activities	<u>(1,107,466)</u>
Change in cash and cash equivalents	115,593
Cash and cash equivalents at beginning of year	<u>1,614,182</u>
Cash and cash equivalents at end of year	<u>\$ 1,729,775</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	<u>\$ 239,153</u>
Noncash investing and financing activities:	
Property and equipment acquired through capital leases	<u>\$ 114,675</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 and is affiliated with the Association of Related Churches.

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”).

Basis of Presentation - As required by the Not-for-Profit Entities Classification of Net Assets topic of the Financial Accounting Standards Board *Accounting Standards Codification* (“FASB ASC”), the Church reports 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. The Church had no temporarily or permanently restricted net assets as of December 31, 2017.

Revenue Recognition - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted contributions whose restrictions are met in the same reporting period are shown as unrestricted support. All other donor-restricted contributions are 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 statement of activities as net assets released from restrictions.

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

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.

DC METRO CHURCH, INC.
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

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.

Programs - The Church pursues its objectives through the execution of the following programs:

Women's (Sisterhood) & Men's Ministries - To connect the women and men of the Church to others with a common passion, who can help inspire them to reach their full God potential in life.

Kids Ministries - To provide a safe, age appropriate environment in which the Bible is taught in a creative way. This ministry serves children from infancy to fifth grade.

Student Ministries - Consists of services, small groups, serving teams and events to help grow students' faith, character and relationships. This ministry serves students from middle and high school.

Missions and Outreach Ministries - To provide local opportunities for congregants to use their gifts and talents to serve their city and local community each week, as well as support global ministries for expansion of the local church world-wide to help in bringing the love of Jesus to a lost and hurting world.

Worship Ministries - To provide weekend services for congregants to use music, media, teachings and response time to draw individuals closer to God.

Live Production - To enhance and promote the vision and mission of the Church through an aspect of creative ministry which includes all areas of film, television, media, audio, lighting, multi-site and online streaming.

Design - To enhance and promote the vision and mission of the Church through an aspect of creative ministry which includes all print, digital, web and marketing.

Church Life Ministries - To develop church life in several ways, including, but not limited to, participating within the leadership pipeline, training to lead on a serving team or within a group, and being a volunteer in many participatory activities and services, like pastoral care and biblical guidance. The Church values the spiritual development of its congregants and understands that a standardized, central process can enable this process.

Cash and Cash Equivalents - The Church considers all short-term investments with an original maturity of three months or less to be cash equivalents. At December 31, 2017, cash and cash equivalents consisted of checking and money market accounts.

Marketable Securities - As required by the Not-for-Profit Entities Investments of Debt and Equity Securities topic of the FASB ASC, marketable securities with readily determinable fair values are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

DC METRO CHURCH, INC.
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

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 costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

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, 2017, 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.

Subsequent Events - Subsequent events have been evaluated through June 20, 2018, which is the date the financial statements were available to be issued.

3 - Property and Equipment

The following is a summary of property and equipment in service as of December 31, 2017:

Land	\$ 2,500,000
Land improvements	24,610
Buildings and improvements	3,677,965
Leasehold improvements	6,138,146
Furniture, fixtures and equipment	2,917,385
Vehicles	210,930
	<u>15,469,036</u>
Less: accumulated depreciation	<u>(3,214,076)</u>
Net property and equipment	<u>\$ 12,254,960</u>

Depreciation expense for the year ended December 31, 2017 was \$897,406.

DC METRO CHURCH, INC.
Notes to Financial Statements

4 - Capital Leases Payable

The Church has entered into capital leases for equipment. The cost of the equipment under the capital leases at December 31, 2017 is \$114,675 with accumulated depreciation of \$14,954. The following is a schedule of future minimum lease payments under the capital leases as of December 31, 2017:

Year Ending December 31,	Minimum Lease Payments	Amount Representing Interest	Net Present Value
2018	\$ 30,198	\$ 7,253	\$ 22,945
2019	30,198	5,377	24,821
2020	30,198	3,342	26,856
2021	18,169	1,739	16,430
2022	11,800	326	11,474
	<u>\$ 120,563</u>	<u>\$ 18,037</u>	<u>\$ 102,526</u>

5 - 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, 2017, the balance outstanding under this note was \$4,420,221. (See Note 6 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, 2017, the balance outstanding under this note was \$708,333.

In October 2015, the Church entered into a note payable agreement with a financial institution for \$1,200,000. The note bears interest at a rate of one-month LIBOR plus 1.90% per annum, requires monthly interest payments and semi-annual principal payments, and matures in November 2018. The note is secured by Church property. At December 31, 2017, the balance outstanding under this note was \$400,000.

The preceding notes contain certain restrictive and financial covenants. On June 18, 2018, the Church obtained a waiver letter from the financial institution for not satisfying a debt service coverage financial covenant for the year ended December 31, 2017. The Church exceeded unrestricted liquidity requirements, enabling it to meet all debt service payments. As of December 31, 2017, the Church believes it was in compliance with all other 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 rather than as an asset. 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, 2017:

Outstanding principal on notes payable	\$ 5,528,554
Less: unamortized loan origination fees	<u>(14,352)</u>
Notes payable, net	<u>\$ 5,514,202</u>

DC METRO CHURCH, INC.
Notes to Financial Statements

5 - Notes Payable (continued)

Interest expense for the year ended December 31, 2017 was \$246,379, including amortization of loan origination fees of \$7,226.

At December 31, 2017, future principal maturities of notes payable are due as follows:

<u>Year Ending December 31,</u>	
2018	\$ 1,107,000
2019	428,083
2020	<u>3,993,471</u>
	<u>\$ 5,528,554</u>

6 - 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, 2017, the aggregate estimated market value of the interest rate swap agreement amounted to \$3,254 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.

7 - Operating Leases

The Church rents real estate and various office equipment under operating lease agreements. Rent expense related to these operating leases totaled \$925,658 for the year ended December 31, 2017.

During 2015, the Church executed a lease and purchase agreement for one of the pieces of real estate. The purchase date shall be determined by the Church but shall not extend beyond October 2020. The purchase price of the real estate will be \$2,000,000.

Future minimum lease payments are scheduled as follows:

<u>Year Ending December 31,</u>	
2018	\$ 908,530
2019	262,386
2020	<u>101,507</u>
	<u>\$ 1,272,423</u>