

Celebration Church of Jacksonville, Inc.

Financial Statements
and
Independent Auditor's Report

December 31, 2015

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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, 2015 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, 2015, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Tulsa, Oklahoma
May 9, 2016

Stanfield & O'Dell P.C.

Celebration Church of Jacksonville, Inc.

Statement of Financial Position

December 31, 2015

Assets	
Current assets	
Cash and cash equivalents	\$ 2,795,931
Accounts receivable	7,185
Deposits	31,366
Inventory	64,955
Prepaid expenses and other assets	91,674
Total current assets	<u>2,991,111</u>
Property and equipment	45,222,355
Less accumulated depreciation	<u>(11,552,672)</u>
	<u>33,669,683</u>
Loan origination fees, net	<u>72,136</u>
Total assets	<u><u>\$ 36,732,930</u></u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable and accrued liabilities	\$ 437,895
Deferred revenues	66,853
Current portion of long-term obligations	<u>1,502,547</u>
Total current liabilities	<u>2,007,295</u>
Long-term obligations	<u>25,212,087</u>
Total liabilities	<u>27,219,382</u>
Net assets	
Unrestricted	9,436,048
Temporarily restricted	<u>77,500</u>
Total net assets	<u>9,513,548</u>
Total liabilities and net assets	<u><u>\$ 36,732,930</u></u>

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

Celebration Church of Jacksonville, Inc.

Statement of Activities

Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Support			
Contributions	\$ 16,619,094	\$ 434,782	\$ 17,053,876
Other revenues:			
Bookstore and café revenue	512,216	-	512,216
Rental income	676,125	-	676,125
Tuition	100,965	-	100,965
Interest income	4,746	-	4,746
Other revenue	279,378	-	279,378
	<u>18,192,524</u>	<u>434,782</u>	<u>18,627,306</u>
Net assets released from restrictions	392,282	(392,282)	-
Total support and revenues	<u>18,584,806</u>	<u>42,500</u>	<u>18,627,306</u>
Expenses			
Compensation and other related expenses	6,853,805	-	6,853,805
Outreach and missions	2,802,585	-	2,802,585
Depreciation and amortization	2,497,743	-	2,497,743
General and administrative expenses	1,030,711	-	1,030,711
Facilities and equipment rental	1,151,046	-	1,151,046
Interest expense	711,873	-	711,873
Church ministries	1,621,141	-	1,621,141
Cost of sales	994,534	-	994,534
Total expenses	<u>17,663,438</u>	<u>-</u>	<u>17,663,438</u>
Increase in net assets	921,368	42,500	963,868
Net assets at beginning of year	<u>8,514,680</u>	<u>35,000</u>	<u>8,549,680</u>
Net assets at end of year	<u>\$ 9,436,048</u>	<u>\$ 77,500</u>	<u>\$ 9,513,548</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, 2015

Cash flows from operating activities

Increase in net assets	\$ 963,868
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:	
Depreciation	2,401,632
Amortization of loan origination fees	96,111
Decrease in:	
Accounts receivable	2,860
Deposits	50,613
Inventory	15,915
Prepaid expenses and other assets	9,029
Decrease in:	
Accounts payable and accrued liabilities	(207,393)
Deferred revenues	(5,433)
Net cash provided by operating activities	<u>3,327,202</u>

Cash flows from investing activities

Purchases of property and equipment	<u>(1,120,958)</u>
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Cash flows from financing activities

Principal payments on long-term obligations	<u>(1,551,984)</u>
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Increase in cash and cash equivalents

654,260

Cash and cash equivalents at beginning of year

2,141,671

Cash and cash equivalents at end of year

\$ 2,795,931

Supplemental disclosures of cash flow information

Interest paid during the year	<u><u>\$ 711,873</u></u>
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The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 2015

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, 2015 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, 2015

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: 40 years for buildings, 5-40 years for building and leasehold improvements, and 5-10 years for furniture and equipment.

8. *Loan Origination Fees and Amortization*

The cost of loan origination fees of \$508,469 are being amortized on a straight-line basis over the life of the respective loan, which is 5 years. Amortization expense charged to operations in 2015 was \$96,111 and accumulated amortization as of December 31, 2015 was \$436,333.

9. *Deferred Revenues*

As of December 31, 2015, the Church is holding registration fees of \$55,007 collected in advance for conferences to be held during 2016 and deposits of \$11,846 for mission trips to be taken in 2016. The Church will recognize these fees as earned revenues in the month the event is held.

Notes to Financial Statements

December 31, 2015

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

10. 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*.

11. 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.

12. Advertising Costs

During 2015, advertising costs of approximately \$68,700 were expensed as incurred.

13. Subsequent Events

The Church has evaluated subsequent events through May 9, 2016, the date which the financial statements were available to be issued.

Note B – Property and Equipment

Property and equipment, as of December 31, 2015, consists of:

Buildings	\$ 26,845,805
Media production assets	6,331,075
Building improvements	4,311,963
Service and event equipment	1,815,940
System assets	990,689
Furniture and equipment	735,279
Vehicles	145,072
	<u>41,175,823</u>
Less accumulated depreciation	<u>(11,552,672)</u>
	29,623,151
Land	<u>4,046,532</u>
Property and equipment, net	<u><u>\$ 33,669,683</u></u>

Effective October 1, 2014, the Church began leasing a building with a net value of \$7.6 million to a third party. In September 2015, the lease was terminated and the Church is repurposing the building for the use of services and classes.

Notes to Financial Statements

December 31, 2015

Note C – Long-Term Obligations

Long-term obligations consist of the following at December 31, 2015:

Note payable with an interest rate of 2.56%, secured by real property. Interest-only payments payable monthly commencing October 31, 2011 and continuing through and including June 30, 2013. Thereafter, monthly payments of interest plus principal in an amount that will amortize the principal balance at June 30, 2013 over 15 years. All remaining principal and interest will be due at maturity on September 30, 2016. (Subsequent to year-end, the Church renewed this loan through September 30, 2017, as described below).	\$ 26,631,193
Capital leases payable with various interest rates of 1.15 - 3.93%, secured by equipment, with monthly payments ranging from \$123 - \$3,854. Maturing August 2015 through March 2017.	<u>83,441</u>
Total obligations	26,714,634
Less: current portion	<u>1,502,547</u>
Net long-term obligations	<u><u>\$ 25,212,087</u></u>

The approximate aggregate principal reductions in long-term obligations in each of the five years subsequent to December 31, 2015 are currently scheduled as follows:

2016	\$ 1,502,547
2017	<u>25,212,087</u>
Total debt	<u><u>\$ 26,714,634</u></u>

The note payable above contains certain restrictive and financial covenants. As of December 31, 2015, the Church believes it was in compliance with applicable covenants.

On September 28, 2011, the Church entered into a non-revolving line-of-credit, converting to an amortizing term loan, for a total of \$31,000,000. Repayment of these borrowings is secured by real and personal property, building funds received designated for the Project or for debt repayment and an assignment of a face value life insurance policy on the Church's Lead Pastor. High usage on this facility totaled \$30,176,000, which was used to pay-off the Church's prior bank notes, to pay a portion of the cost of the Church's new facility (the Project), and to pay finance closing costs and related fees. In May 2016, the Church renewed this loan with similar terms through September 30, 2017.

Notes to Financial Statements

December 31, 2015

Note D – Operating Leases

The Church leases certain facilities and equipment under various lease agreements for its own use. At December 31, 2015, operating leases consist of the following:

The Church leases printing equipment for an initial term of 60 months for monthly payments of \$1,813. The lease ends March 2017.	\$ 27,195
The Church leases facilities in Orlando, Florida for an initial term of 36 months for monthly payments of \$5,303. The lease ends August 2017.	106,052
The Church leases a warehouse in Jacksonville, Florida for an initial term of 24 months for monthly payments of \$4,900. The lease ends September 2016.	44,100
The Church leases printing equipment for an initial term of 48 months for monthly payments of \$485. The lease ends June 2016.	<u>2,910</u>
Total amount of minimum payments over the remaining life of the leases	<u><u>\$ 180,257</u></u>

The Church also leases certain facilities under various month-to-month lease agreements for its own use. At December 31, 2015, the total monthly payment due under these short-term leases is \$32,165. These leases are cancellable upon 30 days written notice provided by the Church or the lessor.

Rental expenses for facilities and equipment for the year ended December 31, 2015 were approximately \$484,000 and \$70,000, respectively. Rental expenses include maintenance and other fees as mandated per the rental agreements.

The following is a schedule, by years, of future minimum rental payments required under the Church's operating leases, which have initial non-cancellable lease terms in excess of one year, as of December 31, 2015:

For the years ending December 31,	
2016	\$ 132,397
2017	<u>47,860</u>
Total minimum payments	<u><u>\$ 180,257</u></u>

Notes to Financial Statements

December 31, 2015

Note E – Temporarily Restricted Net Assets

Changes in temporarily restricted net assets during 2015 were comprised of the following:

Temporarily restricted contributed revenue	
Celebration Zimbabwe	\$ 45,000
Other	389,782
Total temporarily restricted contributed revenue	<u>434,782</u>
Temporarily restricted net assets released from restrictions:	
Celebration Zimbabwe	(2,500)
Other expenses	(389,782)
Total temporarily restricted net assets released from restrictions	<u>(392,282)</u>
Changes in temporarily restricted net assets	42,500
Temporarily restricted net assets - beginning of year	<u>35,000</u>
Temporarily restricted net assets - end of year	<u>\$ 77,500</u>