

SOUTHBROOK CHRISTIAN CHURCH
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Vision Team and Leadership Team
SouthBrook Christian Church

We have audited the accompanying financial statements of SouthBrook Christian Church (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of September 30, 2018 and 2017, and the related statements of support, revenue, expenses, and changes in net assets - modified cash basis and cash flows - modified cash basis 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 the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of SouthBrook Christian Church as of September 30, 2018 and 2017, and its support, revenue, and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Goldshot, Lamb & Hobbs, cnc.

March 6, 2019

SOUTHBROOK CHRISTIAN CHURCH

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS

SEPTEMBER 30, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 2,356,543	\$ 2,431,507
Investments	20,030	118,160
Total Current Assets	<u>2,376,573</u>	<u>2,549,667</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land and Improvements	1,752,106	1,752,106
Buildings and Improvements	13,789,380	13,786,853
Campus Systems	88,258	88,258
Furniture and Equipment	1,767,329	1,714,009
Vehicles	44,050	44,050
Information Systems	63,172	63,172
Construction in Process	5,800,259	4,822,941
Total Property and Equipment	<u>23,304,554</u>	<u>22,271,389</u>
Less: Accumulated Depreciation	<u>6,716,899</u>	<u>6,096,053</u>
Total Property and Equipment - Net	<u>16,587,655</u>	<u>16,175,336</u>
<u>OTHER ASSETS</u>		
Loan Costs - Net of Amortization	<u>7,529</u>	<u>-</u>
TOTAL	<u><u>\$ 18,971,757</u></u>	<u><u>\$ 18,725,003</u></u>

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
<u>CURRENT LIABILITIES</u>		
Funds Due to Events and Classes	\$ 89,832	\$ 69,486
Current Portion of Long-Term Obligations	<u>234,896</u>	<u>5,385,320</u>
Total Current Liabilities	<u>324,728</u>	<u>5,454,806</u>
<u>LONG-TERM OBLIGATIONS (Net of Current Portion)</u>	<u>4,924,292</u>	<u>189,041</u>
<u>TOTAL LIABILITIES</u>	<u>5,249,020</u>	<u>5,643,847</u>
<u>NET ASSETS</u>		
Temporarily Restricted Net Assets	531,842	588,051
Unrestricted Net Assets	<u>13,190,895</u>	<u>12,493,105</u>
Total Net Assets	<u>13,722,737</u>	<u>13,081,156</u>
TOTAL	<u><u>\$ 18,971,757</u></u>	<u><u>\$ 18,725,003</u></u>

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

SOUTHBROOK CHRISTIAN CHURCH

STATEMENT OF SUPPORT, REVENUE, EXPENSES, AND CHANGE IN NET ASSETS -

MODIFIED CASH BASIS

YEAR ENDED SEPTEMBER 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Contributions	\$ 5,336,509	\$ 997,635	\$ 6,334,144
Interest and Dividends	6,191	-	6,191
Change in Market Value of Investments	(50,634)	-	(50,634)
Gain on Sales of Securities	49,280	-	49,280
Net Assets Released from Restrictions	1,053,844	(1,053,844)	-
Total Support and Revenue	<u>6,395,190</u>	<u>(56,209)</u>	<u>6,338,981</u>
<u>EXPENSES</u>			
Bookstore	556	-	556
Communications	171,480	-	171,480
Community (Pastoral) Care	61,089	-	61,089
Compensation and Benefits	2,989,348	-	2,989,348
IT	116,115	-	116,115
Liberty Campus	-	-	-
Ministry Support	1,294,163	-	1,294,163
Missions	400,222	-	400,222
Next Generation	96,902	-	96,902
Operations	386,156	-	386,156
Weekend	181,369	-	181,369
Total Expenses	<u>5,697,400</u>	<u>-</u>	<u>5,697,400</u>
<u>CHANGE IN NET ASSETS</u>	697,790	(56,209)	641,581
<u>NET ASSETS - BEGINNING</u>	<u>12,493,105</u>	<u>588,051</u>	<u>13,081,156</u>
<u>NET ASSETS - ENDING</u>	<u>\$ 13,190,895</u>	<u>\$ 531,842</u>	<u>\$ 13,722,737</u>

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

SOUTHBROOK CHRISTIAN CHURCH

STATEMENT OF SUPPORT, REVENUE, EXPENSES, AND CHANGE IN NET ASSETS -

MODIFIED CASH BASIS

YEAR ENDED SEPTEMBER 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Contributions	\$ 4,999,560	\$ 1,370,398	\$ 6,369,958
Interest and Dividends	4,925	-	4,925
Change in Market Value of Investments	33,760	-	33,760
Loss on Sales of Securities	(906)	-	(906)
Net Assets Released from Restrictions	2,938,516	(2,938,516)	-
Total Support and Revenue	<u>7,975,855</u>	<u>(1,568,118)</u>	<u>6,407,737</u>
<u>EXPENSES</u>			
Bookstore	39	-	39
Communications	84,631	-	84,631
Community (Pastoral) Care	49,810	-	49,810
Compensation and Benefits	3,095,550	-	3,095,550
IT	128,131	-	128,131
Liberty Campus	70,351	-	70,351
Ministry Support	1,229,297	-	1,229,297
Missions	317,590	-	317,590
Next Generation	87,137	-	87,137
Operations	397,311	-	397,311
Weekend	151,239	-	151,239
Total Expenses	<u>5,611,086</u>	<u>-</u>	<u>5,611,086</u>
<u>CHANGE IN NET ASSETS</u>	2,364,769	(1,568,118)	796,651
<u>NET ASSETS - BEGINNING</u>	<u>10,128,336</u>	<u>2,156,169</u>	<u>12,284,505</u>
<u>NET ASSETS - ENDING</u>	<u>\$ 12,493,105</u>	<u>\$ 588,051</u>	<u>\$ 13,081,156</u>

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

SOUTHBROOK CHRISTIAN CHURCH

STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 641,581	\$ 796,651
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
Depreciation Expense	620,846	636,932
Amortization Expense	128	-
Net Realized and Unrealized (Gain) Loss on Investments	(1,354)	(32,854)
Donation of Investments	(40,343)	(60,639)
Change in Operating Assets and Liabilities		
Funds Due to Events and Classes	20,346	25,776
Net Cash Provided by Operating Activities	<u>1,241,204</u>	<u>1,365,866</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sale of Investments	139,827	59,733
Purchase of Property and Equipment	<u>(1,033,165)</u>	<u>(2,921,182)</u>
Net Cash Used by Investing Activities	<u>(893,338)</u>	<u>(2,861,449)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Borrowings on Long-term Obligations	-	189,041
Payments on Long-term Obligations	(415,173)	(194,848)
Loan Closing Costs	<u>(7,657)</u>	<u>-</u>
Net Cash Used by Financing Activities	<u>(422,830)</u>	<u>(5,807)</u>
<u>NET DECREASE IN CASH</u>	(74,964)	(1,501,390)
<u>CASH - BEGINNING</u>	<u>2,431,507</u>	<u>3,932,897</u>
<u>CASH - ENDING</u>	<u>\$ 2,356,543</u>	<u>\$ 2,431,507</u>

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

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

1. NATURE OF ORGANIZATION:

SouthBrook Christian Church (the Organization) is a not-for-profit Ohio corporation. The Organization provides a non-denominational place to worship and study the Bible. The Organization's mission is to help de-churched skeptics live like Jesus forever. During the year ended September 30, 2017, the Organization discontinued services at the Liberty campus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements are prepared on the modified cash basis of accounting; consequently, certain revenue and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred, except provisions for property and long-term obligations are recorded.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Basis of Presentation

The Organization reports information regarding its statement of assets, liabilities and net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

The Organization considers all short-term investments with an original maturity of one year or less when purchased to be "cash equivalents".

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in annuities at their fair values in the Statements of Assets, Liabilities and Net Assets - Modified Cash Basis. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Support, Revenues, Expenses and Changes in Net Assets - Modified Cash Basis.

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$2,500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the useful lives as follows:

	<u>Years</u>
Land Improvements	15
Buildings and Improvements	10 - 30
Campus Systems	5 - 15
Furniture and Equipment	5 - 30
Vehicles	5
Information Systems	5 - 7

Gains and losses on disposal of property and equipment are reflected currently in revenue. Maintenance and repairs are charged to expense at the time the expenditure is incurred. Replacements and betterments, which significantly lengthen useful lives, are capitalized.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Presentation of Sales Tax

The State of Ohio imposes a sales tax on all of the Organization's sales to nonexempt customers. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales. During the year ended September 30, 2017, the Organization closed its bookstore.

Tax Exempt Status

The Organization is exempt from federal income taxes under Internal Revenue Code 501(c)(3). However, income from certain activities not directly related to the Organization's exempt purpose is subject to taxation as unrelated business income. Additionally, since the Organization is publicly supported, contributions made to the Organization qualify for the maximum charitable contribution deduction under the Internal Revenue Code.

The Organization determines the recognition of uncertain tax positions, if applicable, that may subject the Organization to unrelated business income tax by applying a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with tax authorities. The Organization has not taken any uncertain tax positions.

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Date of Management's Review

Subsequent events have been evaluated through March 6, 2019, which is the date the financial statements were available to be issued.

3. INVESTMENTS:

Investment values as of September 30, 2018 and 2017 were as follows:

	<u>2018</u>		
	<u>Fair Value</u>	<u>Cost Value</u>	<u>Unrealized Gain</u>
Common Stock	<u>\$ 20,030</u>	<u>\$ 20,024</u>	<u>\$ 6</u>
	<u>2017</u>		
	<u>Fair Value</u>	<u>Cost Value</u>	<u>Unrealized Gain</u>
Closely Held Stock	<u>\$ 118,160</u>	<u>\$ 67,520</u>	<u>\$ 50,640</u>

The Organization held an investment individually, which was uninsured. The Organization's uninsured balances as of September 30, 2018 and 2017 were \$20,030 and \$118,160 respectively.

4. FAIR VALUE MEASUREMENTS:

The Organization considers fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. The Organization utilizes 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

SOUTHBROOK CHRISTIAN CHURCH

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

4. FAIR VALUE MEASUREMENTS (continued):

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly.
- Level 3 inputs are unobservable inputs.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair values of investment categorized as level 1 was a common stock. The fair values are determined by quoted prices in active exchange markets, such as the NASDAQ.

The fair value of investment categorized as level 2 was a non-publicly traded financial institution's stock. The market value was determined by an independent appraisal.

5. CONSTRUCTION LOAN AGREEMENTS:

In August 2016, the Organization entered into two construction loan agreements in the amounts of \$2,750,000 and \$550,000 to fund the completion of the current DayOne project. The \$2,750,000 is for building needs and the \$550,000 is for audio visual equipment needs. The Organization will take draws as needed for the DayOne projects. The loans bear an interest rate of prime plus 0.25% and require monthly interest payments. These loans are secured by the real estate and equipment. The outstanding loan balances are due on August 16, 2019. The Organization has drawn \$0 and \$189,041 on these loans as of September 30, 2018 and 2017, respectively.

The Organization's loan agreements contain a debt service coverage ratio covenant. The debt service coverage ratio must greater than 1.10 to 1.00 at September 30th. The organization has passed this covenant for the year ended September 30, 2018. The organization has not passed this covenant for the year ended September 30, 2017. The Organization obtained a waiver letter from First Financial Bank.

6. LONG-TERM OBLIGATIONS:

	<u>2018</u>	<u>2017</u>
First Financial Bank, interest at 3.45%, monthly payments of \$32,244 including interest, due July 2018, secured by real estate. Refinanced in September 2018.	\$ 0	\$ 5,385,320
First Financial Bank, interest at 5.25%, monthly payments of \$41,680 including interest, due September 2023, secured by real estate.	5,159,188	0

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

6. LONG-TERM OBLIGATIONS (continued):

	<u>2018</u>	<u>2017</u>
First Financial Bank, interest at 5.50%, monthly interest only payments, due August 2019, secured by real estate.	0	<u>189,041</u>
Total Long-Term Obligations	5,159,188	5,574,361
Less: Current Maturities	<u>234,896</u>	<u>5,385,320</u>
Total Long-term Obligations (Net of Current Portion)	<u>\$ 4,924,292</u>	<u>\$ 189,041</u>

Maturities of long-term obligations are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2019	\$ 234,896
2020	247,529
2021	260,842
2022	274,870
2023	<u>4,141,051</u>
Total	<u>\$ 5,159,188</u>

The Organization has various loan covenants associated with its long-term obligation. One loan covenant is a debt service coverage ratio covenant. The debt service coverage ratio must greater than 1.10 to 1.00 at September 30th. The organization has passed this covenant for the year ended September 30, 2018. Another loan covenant requires that the Organization present its financial statements in accordance with accounting principles generally accepted in the United States of America. The Organization has obtained a waiver letter from the bank concerning this loan covenant because it uses the modified cash basis of accounting.

7. LEASE:

The Organization has a 60 month copier lease with monthly payments of \$240. The lease expense for the years ended September 30, 2018 and 2017 was \$2,880.

Minimum annual lease payments are as follows:

<u>Years Ending September 30,</u>	<u>Amount</u>
2019	\$ 2,880
2020	240
Total	<u>\$ 3,120</u>

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

8. RETIREMENT PLAN:

The Organization participates in a retirement plan, which covers its pastors and full-time employees. The Plan is a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code. Under the Plan, employees may elect salary deferral. The Organization contributed \$92,957 and \$91,473 to the retirement plan for the years ended September 30, 2018 and 2017, respectively.

9. CONCENTRATION OF CREDIT RISK:

The Organization maintains cash balances at various institutions. The Federal Deposit Insurance Corporation, Securities Investor Protection Corporation, and National Credit Union Administration insured up to \$250,000 on all accounts at September 30, 2018 and 2017. At September 30, 2018 and 2017, the Organization's uninsured cash balances totaled \$1,810,681 and \$1,560,189, respectively.

10. DESIGNATED UNRESTRICTED NET ASSETS:

The management of the Organization has designated unrestricted net assets for the following purpose at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
EPIC Missions (Community Rewards)	<u>\$ 3,151</u>	<u>\$ 1,696</u>

11. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were available for the following purposes at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
DayOne Fund	\$ 482,029	\$ 531,825
Player's Box Fund	20,000	0
Mission Fund	7,116	37,752
Trip Fund	<u>22,697</u>	<u>18,474</u>
Total Temporarily Restricted Net Assets	<u>\$ 531,842</u>	<u>\$ 588,051</u>

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

12. MISSIONS:

Missions expense consisted of the following areas at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Missions Budget	\$ 352,830	\$ 283,597
Restricted Expenses	<u>47,392</u>	<u>33,993</u>
Total Missions	<u>\$ 400,222</u>	<u>\$ 317,590</u>

13. CONTRIBUTIONS:

Contributions consisted of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Miamisburg Campus	\$5,336,509	\$4,864,322
Liberty Campus	0	135,238
Player's Box	20,000	0
Mission and Trip	36,804	73,744
DayOne	<u>940,831</u>	<u>1,296,654</u>
Total Contributions	<u>\$6,334,144</u>	<u>\$6,369,958</u>

14. FUNCTIONAL EXPENSES:

Functional expenses for the years ended September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Program Services	\$4,987,216	\$ 4797,455
Management and General	682,619	725,422
Fundraising	<u>27,565</u>	<u>88,209</u>
Total	<u>\$5,697,400</u>	<u>\$5,611,086</u>

SOUTHBROOK CHRISTIAN CHURCH
NOTES TO FINANCIAL STATEMENTS
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16. CASH FLOW INFORMATION:

Cash paid for interest and income taxes for the years ended September 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Interest	<u>\$ 184,065</u>	<u>\$ 192,813</u>
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>
Noncash financing activity:		
Note Payable Refinance	<u>\$5,159,188</u>	<u>\$ 0</u>