

**DALLAS BAY SOUTHERN BAPTIST CHURCH**

**Financial Statements**

**August 31, 2019**

**(With Independent Accountants' Review Report Thereon)**

**LBMC**

**MAKE A GOOD  
BUSINESS BETTER**

**DALLAS BAY SOUTHERN BAPTIST CHURCH**

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

**The Finance Committee  
Dallas Bay Southern Baptist Church**

We have reviewed the accompanying financial statements of Dallas Bay Southern Baptist Church (the "Church"), which comprise the statement of financial position as of August 31, 2019, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Church's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **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 the financial statements that are free from material misstatement whether due to fraud or error.

### **Accountants' Responsibility**

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountants' Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*LBMC, PC*

**Chattanooga, Tennessee  
August 11, 2020**

DALLAS BAY SOUTHERN BAPTIST CHURCH

Statement of Financial Position

August 31, 2019

(See Independent Accountants' Review Report)

Assets

<b>Current assets:</b>	
Cash	\$ 954,162
Prepaid expenses	<u>8,938</u>
<b>Total current assets</b>	<b>963,100</b>
<b>Property and equipment:</b>	
Land and improvements	1,096,225
Buildings	10,693,831
Furnishings and equipment	<u>1,055,804</u>
<b>Total property and equipment</b>	<b>12,845,860</b>
Accumulated depreciation	<u>(5,871,263)</u>
<b>Property and equipment, net</b>	<b><u>6,974,597</u></b>
<b>Total assets</b>	<b><u>\$ 7,937,697</u></b>

Liabilities and Net Assets

<b>Current liabilities:</b>	
Accounts payable and accrued expenses	\$ 83,955
Unearned revenue	33,180
Current maturities of notes payable	<u>337,507</u>
<b>Total current liabilities</b>	<b>454,642</b>
Notes payable, net of current maturities	<u>4,812,531</u>
<b>Total liabilities</b>	<b><u>5,267,173</u></b>
<b>Net assets:</b>	
Without donor restrictions	2,529,114
With donor restrictions	<u>141,410</u>
<b>Total net assets</b>	<b><u>2,670,524</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 7,937,697</u></b>

See accompanying notes to the financial statements.

**DALLAS BAY SOUTHERN BAPTIST CHURCH**

**Statement of Activities**

**Year ended August 31, 2019**

**(See Independent Accountants' Review Report)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue and support:</b>			
General contributions	\$ 2,971,493	\$ -	\$ 2,971,493
Tuition and fees	254,335	-	254,335
Miscellaneous income	7,220	-	7,220
Other church sponsored support	<u>360,415</u>	<u>20,766</u>	<u>381,181</u>
Total revenue and support	3,593,463	20,766	3,614,229
<b>Expenses:</b>			
<b>Program services:</b>			
Operating ministries	2,891,234	-	2,891,234
Other church sponsored expenses	388,343	-	388,343
<b>Supporting services:</b>			
General and administrative	<u>460,954</u>	<u>-</u>	<u>460,954</u>
Total expenses	<u>3,740,531</u>	<u>-</u>	<u>3,740,531</u>
Change in net assets	(147,068)	20,766	(126,302)
Net assets at beginning of year	<u>2,676,182</u>	<u>120,644</u>	<u>2,796,826</u>
Net assets at end of year	<u>\$ 2,529,114</u>	<u>\$ 141,410</u>	<u>\$ 2,670,524</u>

See accompanying notes to the financial statements.

DALLAS BAY SOUTHERN BAPTIST CHURCH

STATEMENT OF FUNCTIONAL EXPENSES

Year ended August 31, 2019

	<u>Program Service</u>	<u>General and Administrative</u>	<u>Total</u>
Administrative	\$ -	\$ 815	\$ 815
Advertising	6,754	-	6,754
Auto allowance	17,698	3,123	20,821
Benevolence contributions	12,249	-	12,249
Board designated missions	249,549	-	249,549
Church programs	593,109	-	593,109
Data processing and computer costs	-	15,677	15,677
Depreciation	379,474	42,164	421,638
Dues	20,250	20,250	40,500
Education supplies	1,116	197	1,313
Employee benefits	124,036	21,889	145,925
Insurance	24,069	2,674	26,743
Interest expense	222,459	24,718	247,177
Lease expense	-	28,525	28,525
Meals and entertainment	-	1,823	1,823
Ministry supplies	10,014	1,113	11,127
Miscellaneous	23,439	2,604	26,043
Office supplies	4,217	4,217	8,434
Pastor books and resources	1,014	-	1,014
Pastor conventions, conferences, and missions	13,210	-	13,210
Payroll taxes	77,299	13,641	90,940
Postage	736	736	1,472
Printing and publications	1,699	-	1,699
Professional services	-	22,441	22,441
Repairs and maintenance	72,811	9,432	82,243
Retirement	81,732	14,423	96,155
Salaries and wages	1,198,226	211,451	1,409,677
Staff development	602	106	708
Taxes, licenses, and fees	-	2,956	2,956
Utilities - electric, gas, and water	126,965	14,107	141,072
Utilities - telephone	16,850	1,872	18,722
	<u>16,850</u>	<u>1,872</u>	<u>18,722</u>
Totals	<u>\$ 3,279,577</u>	<u>\$ 460,954</u>	<u>\$ 3,740,531</u>

See accompanying notes to the financial statements.

**DALLAS BAY SOUTHERN BAPTIST CHURCH**

**Statement of Cash Flows**

**Year ended August 31, 2019**

**(See Independent Accountants' Review Report)**

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ (126,302)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	421,638
Net change in operating assets and liabilities:	
Prepaid expenses and other assets	(1,922)
Accounts payable and accrued expenses	18,003
Unearned revenue	<u>(40,422)</u>
Net cash provided by operating activities	270,995
<b>Cash flows from investing activities:</b>	
Payments for property and equipment	(110,787)
<b>Cash flows from financing activities:</b>	
Payments on long-term debt	<u>(317,485)</u>
Net decrease in cash	(157,277)
<b>Cash at beginning of year</b>	<u>1,111,439</u>
Cash at end of year	<u><u>\$ 954,162</u></u>

See accompanying notes to the financial statements.

DALLAS BAY SOUTHERN BAPTIST CHURCH

Notes to the Financial Statements

August 31, 2019

(See Independent Accountants' Review Report)

(1) Nature of activities

Dallas Bay Southern Baptist Church (the "Church"), was organized in November of 1988. The Church is a nonprofit organization and is dedicated to spreading the Gospel of Christ through establishing, developing, and promoting all aspects of church ministry within Hixson, Tennessee, and the surrounding communities. The Church is supported primarily through contributions from the congregation.

(2) Summary of significant accounting policies

(a) 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 of the Church and changes therein are classified and reported as follows:

(i) Net assets without donor restrictions

The Church has net assets without donor restrictions that are undesignated and designated by the Board of Trustees (the "Board"). Board designated net assets have been assigned for specific purposes. Net assets without donor restrictions as of December 31, 2019, are as follows:

Undesignated	\$ 2,411,331
Board designated	<u>117,783</u>
Total	<u>\$ 2,529,114</u>

(ii) Net assets with donor restrictions

Net assets with donor restrictions are subject to donor-imposed restrictions that:  
1) may or will be met either by actions of the Church and/or the passage of time or  
2) may be maintained permanently by the Church. The Church does not currently have any permanently restricted assets.

All contributions are considered to be without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions. At August 31, 2019, net assets with donor restrictions totaling \$141,410 are available to be used for building projects or mortgage payments.

(b) Basis of accounting

The financial statements of the Church have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

**DALLAS BAY SOUTHERN BAPTIST CHURCH**

**Notes to the Financial Statements**

**August 31, 2019**

**(See Independent Accountants' Review Report)**

**(c) Income taxes**

The Church is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and accordingly, no provision for income taxes is included in the financial statements.

Under generally accepted accounting principles, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Church had no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

**(d) Revenue recognition**

Contributions are recorded and recognized when received as with or without donor restrictions, depending on the existence and/or nature of any donor imposed restrictions.

All donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Tuition fees for Mother's Day Out and pre-school are recognized as revenues in the period to which the payments relate. Unearned revenue represents advance tuition payments for upcoming future periods.

**(e) Property and equipment**

Property and equipment in excess of \$1,000 are capitalized. Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful life of the asset. Estimated useful lives range as follows: land improvements - 10 to 15 years, buildings - 15 to 30 years, and equipment - 5 to 10 years. Depreciation expense totaled \$421,638 for the year ended August 31, 2019.

Expenses for repairs and maintenance are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

**DALLAS BAY SOUTHERN BAPTIST CHURCH**

**Notes to the Financial Statements**

**August 31, 2019**

**(See Independent Accountants' Review Report)**

Property and equipment is considered for impairment when conditions indicate the carrying value may exceed the fair value.

**(f) Donated services**

The Church receives certain services donated by its members in carrying out the Church's ministry. The Church only records contribution revenue for services that are considered to be specialized skills. The Church did not receive any donated services of specialized skills during the year ended August 31, 2019, therefore, no amounts have been reflected in the financial statements for donated services.

**(g) Allocation of functional expenses**

Expenses which can be directly attributed to a particular function are charged to the function. Certain costs have been allocated among two or more programs or activities benefited based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

**(h) Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities during the reporting period. Actual results could differ from those estimates.

**(i) Concentration of credit risk**

The Church generally maintains cash on deposit at its bank in excess of federally insured amounts. The Church has not experienced any losses in such accounts and management believes the Church is not exposed to any significant credit risk related to cash.

**(j) Events occurring after reporting date**

The Church has evaluated events and transactions that occurred between August 31, 2019, and August 11, 2020, which is the date that the financial statements were available to be issued for possible recognition or disclosure in the financial statements.

DALLAS BAY SOUTHERN BAPTIST CHURCH

Notes to the Financial Statements

August 31, 2019

(See Independent Accountants' Review Report)

(k) Recently adopted accounting standards

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. The ASU was issued to address certain complexities in current presentation requirements for net assets, resolve deficiencies in the transparency of information regarding an organization's liquidity, and inconsistencies in the type of information provided by organizations about expenses. As a result, the primary provisions of ASU 2016-14 include:

- Reduction in the number of net asset classifications from three to two: net assets with donor restrictions and net assets without donor restrictions. Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used.
- Organizations will be required to disclose, either on the face of the statements or in notes, the extent to which the balance sheet comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use.
- In addition to reporting expenses by functional classifications under current requirements, organizations will be required to provide information about expenses by their nature through an analysis demonstrating how the nature of expenses relate to the programs and supporting activities. Additional disclosures about the methods used to allocate costs among program and support functions will also be required.

The Church adopted ASU 2016-14 on September 1, 2018. There were no restatements or reclassifications resulting from the adoption.

(l) New accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which will eliminate the transaction and industry-specific revenue recognition guidance under current generally accepted accounting principles and replace it with a principles-based approach. The FASB has also issued several ASUs to provide entities further clarity on the application of ASU 2014-09. ASU 2014-09 may be applied retrospectively to each period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). ASU 2014-09, as amended, is effective for the Church's fiscal year beginning September 1, 2019, and the Church is currently evaluating the impact adoption of ASU 2014-09 will have on its financial statements and disclosures.

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Notes to the Financial Statements

August 31, 2019

(See Independent Accountants' Review Report)

In February 2016, the FASB issued ASU No. 2016-02 *Leases (Topic 842)* ("ASU 2016-02"), regarding lease accounting. A lessee will be required to recognize on the balance sheet the right to use assets and related lease liabilities for leases with original lease terms of more than 12 months. ASU 2016-02, as amended, is effective for the Church's fiscal year beginning September 1, 2021, and management is currently evaluating the impact adoption of ASU 2016-02 will have on its financial statements and disclosures.

(3) Liquidity and availability

The Church regularly monitors liquidity required to meet its operating needs and other commitments. All contributions are held as cash and therefore available for immediate use by the Church. Financial assets without donor restrictions and available for general expenditures within one year of the balance sheet are as follows:

Cash	\$ <u>812,752</u>
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(4) Long-term debt

A summary of long-term debt at August 31, 2019, is as follows:

Note payable to a bank, original principal of \$6,448,432, interest at 4.59% per annum, monthly principal and interest payments of \$47,159, final payment due on June 1, 2031. Secured by a deed of trust on real property.	\$ 5,150,038
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Less current portion	<u>337,507</u>
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Long-term debt	<u>\$ 4,812,531</u>
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Maturities of long-term debt at August 31, are as follows:

2020	\$ 337,507
2021	353,328
2022	369,892
2023	387,232
2024	405,384
Thereafter	<u>3,296,695</u>
	<u>\$ 5,150,038</u>

Interest expense for the year ended August 31, 2019, was \$247,177.

DALLAS BAY SOUTHERN BAPTIST CHURCH

Notes to the Financial Statements

August 31, 2019

(See Independent Accountants' Review Report)

The Church is required to comply with certain financial covenants under the note payable agreement. As of August 31, 2019, the Church was not in compliance with these covenants and has received a waiver from the lender.

(5) Retirement plan

The Church has a defined contribution retirement plan in which the Church contributes 5% of each eligible full time employee's annual salary to the plan. The Church also makes a non-elective contribution of 5% of the employee's annual salary from the Church. Retirement plan expense totaled \$96,155 for the year ended August 31, 2019.

(6) Leases

The Church leases certain equipment under long-term lease agreements. A summary of future minimum lease payments as of August 31 is as follows:

Year ending:

2020	\$	17,665
2021		17,665
2022		14,110
2023		<u>8,617</u>
Total	\$	<u>58,057</u>

Rental expense for operating leases totaled \$28,525 for the year ended August 31, 2019.

(7) Supplemental cash flow disclosures

Cash paid for interest	\$	<u>247,177</u>
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**DALLAS BAY SOUTHERN BAPTIST CHURCH**

**Notes to the Financial Statements**

**August 31, 2019**

**(See Independent Accountants' Review Report)**

**(8) Subsequent event- infectious disease outbreak**

As of the date this report was available to be issued, the United States, as well as many other countries around the world, was experiencing an emerging infectious disease (COVID-19) outbreak, impacting individuals, governments, businesses, churches, and financial markets with unprecedented disruption and risk. While it is not possible to predict the impacts of the outbreak on the Church's financial condition and results of operations, significant disruptions to key business drivers, such as attendance and contributions, are possible. The Church has continued to utilize online streaming capabilities for remote viewership of services as well as their electronic giving options. The Church has ceased all non-essential spending and reduced the headcount of certain employees. The Church is continuing to hold its services online and has not experienced a significant decrease in its contribution revenue. If there are negative impacts that results in future noncompliance with debt covenants, management expects to receive a waiver from the lender. The Church has received potentially forgivable loans of approximately \$266,000 under the Paycheck Protection Program (PPP) of the CARES Act passed in March 2020. Management is continuing to monitor the situation and developing strategies designed to mitigate additional financial impacts.