

FOREST HILL CHURCH
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014
AND
INDEPENDENT AUDITOR'S REPORT

FRANKLIN & FRANKLIN, PA
CERTIFIED PUBLIC ACCOUNTANTS

PHONE: 704-845-1195 ~ FAX: 704-845-1194

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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FRANKLIN & FRANKLIN, PA

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Finance Committee and
Council of Elders
Forest Hill Church
Charlotte, North Carolina

We have audited the accompanying financial statements of Forest Hill Church (a nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014 and the related statements of activities and of cash flows 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 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 of 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 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 Forest Hill Church as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Franklin & Franklin, PA

Franklin & Franklin, PA

Matthews, North Carolina

December 16, 2015

FOREST HILL CHURCH
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2015 AND 2014

	SEPTEMBER 30,	
	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,640,570	\$ 4,540,975
Inventory, Bookstore	32,637	20,253
Sales tax receivable	63,689	66,759
Prepaid expenses	113,546	97,148
TOTAL CURRENT ASSETS	7,850,442	4,725,135
PROPERTY & EQUIPMENT - Note 2	44,833,378	41,981,713
Less accumulated depreciation	(15,557,015)	(14,052,665)
PROPERTY, NET	29,276,363	27,929,048
TOTAL ASSETS	\$ 37,126,805	\$ 32,654,183
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 439,166	\$ 276,093
Accrued payroll and related liabilities	247,188	171,750
Accrued vacation payable	193,075	157,946
TOTAL CURRENT LIABILITIES	879,429	605,789
LONG-TERM DEBT	-	-
TOTAL LIABILITIES	879,429	605,789
NET ASSETS		
Unrestricted:		
Property	29,276,363	27,929,048
Designated	46,195	18,940
Undesignated	3,704,944	2,293,297
	33,027,502	30,241,285
Temporarily restricted	3,219,874	1,807,109
TOTAL NET ASSETS	36,247,376	32,048,394
TOTAL LIABILITIES & NET ASSETS	\$ 37,126,805	\$ 32,654,183

See accompanying notes to financial statements.

FOREST HILL CHURCH
 STATEMENTS OF FINANCIAL POSITION
 YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
UNRESTRICTED NET ASSETS		
REVENUE		
Contributions	\$ 16,350,561	\$ 15,157,766
Preschool	285,687	204,761
Investment income	2,103	1,090
	16,638,351	15,363,617
NET ASSETS RELEASED FROM RESTRICTIONS	1,825,721	238,571
 TOTAL UNRESTRICTED REVENUE AND SUPPORT	 18,464,072	 15,602,188
EXPENSES		
Program services:		
Personnel	7,075,528	6,017,166
Church programs	2,178,530	1,346,628
Benevolence	2,165,619	1,690,307
Building operations	990,868	908,711
Preschool	272,981	210,968
Depreciation	1,379,517	1,340,764
	14,063,043	11,514,544
Supporting services:		
Personnel	789,665	707,533
Building Operations	121,717	100,968
Depreciation	169,458	148,974
Administration	533,972	529,559
	1,614,812	1,487,034
TOTAL EXPENSES	15,677,855	13,001,578
CHANGE IN UNRESTRICTED NET ASSETS	2,786,217	2,600,610
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and program revenue	4,302,290	1,385,055
Designated program expenses	(1,063,804)	(165,470)
Net assets released from restrictions	(1,825,721)	(238,571)
	1,412,765	981,014
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	1,412,765	981,014
CHANGE IN NET ASSETS	4,198,982	3,581,624
NET ASSETS, BEGINNING OF YEAR	32,048,394	28,466,770
NET ASSETS, END OF YEAR	\$ 36,247,376	\$ 32,048,394

See accompanying notes to financial statements.

FOREST HILL CHURCH
STATEMENTS OF FINANCIAL POSITION
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

CASH FLOWS FROM OPERATING ACTIVITIES	2015	2014
Excess of Revenue over Expenses	\$ 4,198,982	\$ 3,581,624
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	1,548,975	1,489,738
Changes in:		
Inventory	(12,384)	(632)
Sales tax receivable	3,070	35,709
Prepaid expenses	(16,398)	(34,206)
Accounts payable	163,073	140,716
Accrued payroll and related liabilities	75,438	30,469
Accrued vacation payable	35,129	49,094
Net Cash Flows from Operating Activities	5,995,885	5,292,512
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property	(3,121,665)	(3,103,209)
Disposition of property	225,375	-
Net Cash Flows from Investing Activities	(2,896,290)	(3,103,209)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of long-term debt	-	-
Payment of long-term debt	-	-
Net Cash Flows from Financing Activities	-	-
 Net Change in Cash and Cash Equivalents	3,099,595	2,189,303
 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,540,975	2,351,672
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 7,640,570	\$ 4,540,975

No interest was paid during the years ended September 30, 2015 or 2014.

See accompanying notes to financial statements.

FOREST HILL CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

1. Nature of Operations

Church

Forest Hill Church (the "Church") was incorporated in August, 1986, and is located in Charlotte, North Carolina. The purpose of the Church is to reach and see people transformed by the Power of the Holy Spirit into fully devoted servants of Jesus. The Church is supported primarily by voluntary contributions from individuals.

Seeds of Hope, Inc.

Seeds of Hope, Inc. (Seeds of Hope) is a not-for-profit organization founded in 2006 that is comprised of churches and partners bound together to renew lives, families and communities. Seeds of Hope seeks to develop and empower people with the resources to own and overcome their own challenges.

Principles of Consolidation

The board of directors of Seeds of Hope is comprised primarily of current or former members of the Church's Council of Elders. Therefore, due to common control, in prior years, the consolidated financial statements included the activities of both entities. Because of the minimal activity in Seeds of Hope for the current year, these financial statements are not reflected on a consolidated basis.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 and reported as follows:

Unrestricted net assets - Net assets that are not subject to any donor-imposed stipulations. Gifts of land, buildings and equipment are recorded as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Designated net assets represent funds designated by the Church for specific purposes. However, these funds have not been restricted by donors and are available for any purpose at the Church's discretion.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Church and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Church. At September 30, 2014, the Church had no permanently restricted net assets.

FOREST HILL CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

Promises to give

Unconditional promises to give are recorded at the time the promise to give is received by the Church. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Intentions to give are not recognized because the intentions do not represent a legally enforceable pledge. At year-end, the Church had no promises or intents to give.

Donated services and goods

Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated equipment or materials, if significant, are included in support at fair value. During the year, the Church recorded no contributed services.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Church with specific assistance programs and various assignments. No amounts have been reflected in the financial statements for these contributions as the contributions are either insignificant or do not meet the criteria for recognition.

Other Support

Contributions of marketable securities are generally sold upon receipt. Donations of motor vehicles are either utilized in operations or sold upon receipt. Donated real property, equipment or materials, if significant, are included in support at fair value. During the year, no contributed equipment was recorded.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in interest-bearing and non-interest bearing checking accounts, and money funds.

Receivables

The balance of receivables at September 30, 2015 and 2014, consists of North Carolina sales tax paid that will be refunded. The balance is presently at net realizable value and is expected to be collected in the subsequent year.

FOREST HILL CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

Property and equipment

Property and equipment is stated at cost if purchased or fair value at date of receipt if donated, subject to a \$1,000 capitalization policy. Depreciation is provided over the estimated useful lives of the assets, which is assumed to be forty years for buildings and three to ten years for equipment, and is computed on the straight-line method with no estimated salvage values. The costs of major improvements are capitalized while the costs of maintenance and repairs, which do not improve or extend the useful life of the respective asset, are expensed when incurred. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal and any resulting gain or loss is included in the changes in net assets in the period during which the disposition occurred.

Inventory

Inventories are valued at the lower of cost or market using the weighted average method. Inventory consists primarily of books, periodicals, audio, video, and other materials that will either be sold or used in Church operations. Management estimates that no allowance for slow-moving inventory was necessary at year-end.

Advertising

The Church expenses advertising costs as the costs are incurred.

Functional allocation of expenses

Expenses are allocated to program services, management and general, and fund raising based on management's estimates of time spent and various allocation methods appropriate to the type of expense. Reclassifications have been made to certain expense allocations for the year ended September 30, 2014 that have no effect on the change in net assets for the year then ended.

Income tax status

The Church is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) with respect to their exempt function income. The Church is not classified as a private foundation as defined by Section 509(a) of the Internal Revenue Code. Generally accepted accounting procedures require an organization to recognize a tax benefit or expense from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Church has no uncertain tax positions as of September 30, 2015.

FOREST HILL CHURCH
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Property and Equipment

Balance at September 30, 2015

Property and equipment which are used by the Church in its operations consists of the following at September 30, 2015:

Land, buildings, and improvements	\$37,339,646
Furniture, fixtures, and computer equipment	7,343,331
Transportation equipment	<u>150,401</u>
Total	44,833,378
Less accumulated depreciation	<u>(15,557,015)</u>
TOTAL	<u>\$29,276,363</u>

4. Net Assets

Designated

Funds that have been set aside by the Church for a purpose other than normal operations, but are not donor-restricted, consist of \$46,195 at year-end.

Temporarily restricted

Funds that have been received by the Church for a particular purpose or period of time that have remaining restrictions at September 30, 2015 are detailed as follows:

Missions	\$ 703,781
So That Campaign	2,437,382
All others	<u>78,711</u>
TOTAL	<u>\$3,219,874</u>

During the year the Church terminated a program for which funds had been received and retained such funds for the use of similar temporarily restricted programs.

FOREST HILL CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2015 AND 2014

5. Retirement Plan

The Church maintains a retirement savings account, as described in Internal Revenue Code Section 403(b), for the benefit of its employees. Employees can make pre-tax and post-tax contributions to the plan based on limits set by applicable tax law. The Church made contributions of \$539,320 to the plan during the year ended September 30, 2015 and \$491,627 during the year ended September 30, 2014.

6. Commitments

The Church has entered into an agreement with the Morrison Branch of the Metro Area YMCA whereby it has expanded its current YMCA facility. Under this agreement, the Church fully funded the additional functional space, which is owned and operated by the YMCA. In return, the Church uses the facility primarily for Sunday morning worship services and office space for the exclusive use of Forest Hill staff.

Included in the agreement with the Morrison Branch of the Metro Area YMCA is a quarterly fee calculation comprised of utilities, insurance, taxes, housekeeping, maintenance, room and floor set-up/tear-down costs, and capital repairs and replacement costs. This fee will fluctuate based on actual costs each quarter and will be paid throughout the thirty-year term.

In addition to the commitment above the Church is committed to short-term rental agreements in the amount of \$37,400. Additionally the Church is committed for construction costs in the amount of \$5,883,733. Additionally, during 2015 the Church purchased property from a church and made a commitment to the church that the Church will make contributions to the church in the amount of \$200,000 per year for the next three years.

7. Concentrations of Credit Risk

Cash in excess of insured limits

The Church regularly maintains cash balances in excess of FDIC insured limits. At September 30, 2015, the uninsured balance of cash was \$7,011,281 and at September 30, 2014 it was \$4,029,598. However, management believes that the risk related to the account is minimal due to the credit worthiness of the financial institutions.

Geographic Area

The Church by its nature operates in a small geographic area, and is therefore subject to changes in the local economy.

FOREST HILL CHURCH
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED SEPTEMBER 30, 2015 AND 2014

8. Functional Expenses

The Church's activities are focused in three functional areas. Program services represent the primary focus of the Church's activities. Supporting services are fundraising activities and general and administrative activities. The costs of the various programs and other activities for the year ended September 30, 2014 are summarized on a functional basis below. Certain costs have been allocated among the program and supporting services benefited.

Program services	\$14,063,043	
Supporting services		
Fundraising	\$ 161,481	
General and administrative	<u>1,453,331</u>	<u>1,614,812</u>
TOTAL		<u>\$15,677,855</u>

9. Related Party Transactions

The wife of the Church's senior minister performs management services for Seeds of Hope, Inc. During the year, the compensation to her by the Church was \$16,000.

10. Subsequent Events

The Church has evaluated subsequent events from the date of the statement of financial position through December 16, 2015, the date of the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.