

FOREST HILL CHURCH
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018
AND
INDEPENDENT AUDITOR'S REPORT

FRANKLIN & FRANKLIN, PA
CERTIFIED PUBLIC ACCOUNTANTS

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FOREST HILL CHURCH

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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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, 2019 and 2018 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, 2019 and 2018, 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
Matthews, North Carolina
December 19, 2019

FOREST HILL CHURCH
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2019 AND 2018

	September 30,	
	2019	2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents, without donor restrictions	\$ 3,709,561	\$ 4,143,285
Cash and cash equivalents, with donor restrictions	797,445	222,916
Inventory, bookstore	6,419	23,457
Sales tax receivable	117,334	118,022
Prepaid expenses	229,286	289,684
TOTAL CURRENT ASSETS	4,860,045	4,797,364
PROPERTY & EQUIPMENT:	63,700,142	61,370,520
Less accumulated depreciation	(23,541,933)	(21,393,639)
PROPERTY, NET	40,158,209	39,976,881
OTHER ASSETS		
Deposit and prepaid expenses	150,000	174,000
TOTAL ASSETS	\$ 45,168,254	\$ 44,948,245
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 131,616	\$ 560,713
Accrued payroll and related liabilities	91,263	109,636
Accrued vacation payable	323,433	324,917
TOTAL CURRENT LIABILITIES	546,312	995,266
LONG-TERM DEBT	-	-
TOTAL LIABILITIES	546,312	995,266
NET ASSETS		
Net assets without donor restrictions		
Property	40,158,209	39,976,881
Designated by Church Council	2,937,732	1,717,616
Undesignated	728,556	2,035,566
	<u>43,824,497</u>	<u>43,730,063</u>
Net assets with donor restrictions	797,445	222,916
TOTAL NET ASSETS	44,621,942	43,952,979
TOTAL LIABILITIES & NET ASSETS	\$ 45,168,254	\$ 44,948,245

FOREST HILL CHURCH
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE AND SUPPORT		
Contributions	\$ 22,283,298	\$ 26,801,603
Preschool	436,842	354,367
Investment income	5,742	2,363
	<u>22,725,882</u>	<u>27,158,333</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>413,280</u>	<u>1,643,412</u>
TOTAL REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS	23,139,162	28,801,745
EXPENSES		
Program services:		
Personnel	11,893,895	11,120,351
Church programs	1,555,446	2,002,916
Benevolence	3,414,164	4,554,525
Building operations	1,451,144	1,628,552
Preschool	465,489	402,046
Depreciation	1,966,333	2,039,952
	<u>20,746,471</u>	<u>21,748,342</u>
Supporting services:		
Personnel	900,743	901,623
Building Operations	134,286	163,672
Depreciation	181,961	189,504
Administration	686,405	1,026,471
	<u>1,903,395</u>	<u>2,281,270</u>
TOTAL EXPENSES	<u>22,649,866</u>	<u>24,029,612</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	489,296	4,772,133
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and program revenue	1,480,650	3,159,803
Designated program expenses	(887,703)	(1,391,973)
Net assets released from restrictions	<u>(413,280)</u>	<u>(1,643,412)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>179,667</u>	<u>124,418</u>
CHANGE IN NET ASSETS	668,963	4,896,551
NET ASSETS, BEGINNING OF YEAR	<u>43,952,979</u>	<u>39,056,428</u>
NET ASSETS, END OF YEAR	<u>\$ 44,621,942</u>	<u>\$ 43,952,979</u>

FOREST HILL CHURCH
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenue over Expenses	\$ 668,963	\$ 4,896,551
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	2,148,294	2,229,456
Changes in:		
Inventory, bookstore	17,038	5,224
Sales tax receivable	688	91,049
Prepaid expenses	60,398	(128,373)
Other assets	24,000	(174,000)
Accounts payable	(429,097)	92,374
Accrued payroll and related liabilities	(18,373)	34,448
Accrued vacation payable	(1,484)	40,180
Net Cash Flows provided by Operating Activities	2,470,427	7,086,909
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property	(2,329,622)	(3,051,884)
Disposition of property	-	-
Net Cash Flows used for Investing Activities	(2,329,622)	(3,051,884)
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	140,805	4,035,025
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,366,201	331,176
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,507,006</u>	<u>\$ 4,366,201</u>

No interest was paid during the years ended September 30, 2019 or 2018.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2019 AND 2018
NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations

Church

Forest Hill Church (the "Church") was incorporated in August, 1986, and has multiple locations in the greater Charlotte, North Carolina area. 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.

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:

Net assets without donor restrictions - Net assets that are not subject to any donor-imposed stipulations. Gifts of land, buildings and equipment are recorded as support without donor restrictions unless explicit donor restrictions specify how the donated assets must be used. Net assets designated by Church Council 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.

Net assets with donor restrictions - 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.

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 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

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2019 AND 2018
NOTES TO FINANCIAL STATEMENTS

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, 2019 and 2018, 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.

Property and equipment

Property and equipment is stated at cost if purchased or fair value at date of receipt if donated, subject to a \$500 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. Remaining inventory was disposed of in October 2019.

Advertising

The Church expenses advertising costs as the costs are incurred.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2019 AND 2018
NOTES TO FINANCIAL STATEMENTS

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.

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, 2019.

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

Property and equipment which are used by the Church in its operations consists of the following at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land, buildings, and improvements	\$50,969,825	\$49,495,310
Furniture, fixtures, and computer equipment	12,566,927	11,711,820
Transportation equipment	<u>163,390</u>	<u>163,390</u>
Total	63,700,142	61,370,520
Less accumulated depreciation	<u>(23,541,933)</u>	<u>(21,393,639)</u>
 TOTAL	 <u>\$40,158,209</u>	 <u>\$39,976,881</u>

Depreciation expense was \$2,148,294 and \$2,229,456 for the years ended September 30, 2019 and 2018 respectively.

FOREST HILL CHURCH
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4. Net Assets

Net assets without donor restrictions

Funds that have been set aside by the Church for a purpose other than normal operations, but are not donor-restricted, consist of \$2,937,732 at September 30, 2019 and \$1,717,616 at September 30, 2018.

Net assets with donor restrictions

Funds that have been received by the Church for a particular purpose or period of time that have remaining restrictions at September 30, 2019 and 2018 are detailed as follows:

	<u>2019</u>	<u>2018</u>
Missions	\$ 551,618	\$ 99,192
All others	<u>245,827</u>	<u>123,724</u>
 TOTAL	 <u>\$ 797,445</u>	 <u>\$ 222,916</u>

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 \$916,261 to the plan during the year ended September 30, 2019 and \$887,661 during the year ended September 30, 2018.

6. New Accounting Pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The Church has adjusted the presentation of its financial statements, accordingly, applying the changes retrospectively to the comparative year presented. The new standards change the following aspects of the organization’s financial statements:

The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.

The unrestricted net asset class had been renamed net assets without donor restrictions.

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted–General Net Assets	\$43,730,063	\$ -0-
Temporarily Restricted Net Assets	222,916	-0-
Net Assets without Donor Restrictions	-0-	43,730,063
Net Assets with Donor Restrictions	<u>-0-</u>	<u>222,916</u>
 Total Net Assets	 <u>\$43,952,979</u>	 <u>\$43,952,979</u>

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7. Liquidity and availability of financial assets:

	September 30,	
	2019	2018
Financial assets, at year end	\$4,560,138	\$4,484,223
Less those unavailable for general expenditures within one year, due to:		
Subject to appropriation and satisfaction of donor restrictions	(797,445)	(222,916)
 Financial assets available to meet cash needs for general Expenditures within one year	 <u>\$3,762,693</u>	 <u>\$4,261,307</u>

The Church has \$3,762,693 of financial assets available within one year of the statement of financial position date to meet cash needs for general operating expenditures, consisting of cash and investments of \$3,709,561 and receivables of \$53,132.

8. 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 the year ended September 30, 2016, the Church made a commitment for the funding of Moments of Hope, an organization established separate from the Church with a separate board of directors, which supports and coordinates the publishing activities of the former Senior Pastor. During the year ended September 30, 2016, \$250,000 was contributed to the organization with an additional \$250,000 committed to be paid during the next four years which was paid in full during the year ended September 30, 2018. No salary was paid to the former Senior Pastor by Moments of Hope. No future commitments exist at September 30, 2018 nor at September 30, 2019.

In August 2018 the Church entered into a lease-purchase agreement for property located in the North Davidson area of Charlotte, North Carolina to be used for church services. Terms of the agreement provide for monthly rent in the amount of \$6,000 per month from August 2018-January 2021, as well as a deposit in the amount of \$150,000. \$24,000 of the prepaid rent is reflected as prepaid expenses. The purchase price of the property is \$4,000,000 to be closed on or before January 31, 2021. In the event that the Church decides not to purchase the property, the \$150,000 deposit would be forfeited.

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9. 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, 2019, the uninsured balance of cash was \$3,760,761. 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.

10. 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 years ended September 30, 2019 and 2018 are summarized on a functional basis below. Certain costs have been allocated among the program and supporting services benefited.

	<u>2019</u>	<u>2018</u>
Program services	\$20,746,471	\$21,748,342
Supporting services		
Fundraising	190,340	228,127
General and administrative	<u>1,713,055</u>	<u>2,053,143</u>
Total supporting services	<u>1,903,395</u>	<u>2,281,270</u>
 TOTAL	 <u>\$22,649,866</u>	 <u>\$24,029,612</u>

11. Related Party Transactions

The wife of the Church's former senior minister performed management services for the Church. During the years ended September 30, 2019 and 2018, the compensation to her by the Church was \$16,000. During the year ended September 30, 2018 \$344,000 was paid to Moments of Hope with \$124,800 paid during the year ended September 30, 2019.

During the year ended September 30, 2018 \$40,000 was paid to Seeds of Hope with \$20,000 paid during the year ended September 30, 2019. Seeds of Hope, Inc. is a not-for-profit organization founded in 2006 that is comprised of churches and partners bound together to renew lives, families and communities. The board of directors of Seeds of Hope is comprised primarily of former members of the Church's Council of Elders. Because of the minimal activity in Seeds of Hope these financial statements are not reflected on a consolidated basis.

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12. Subsequent Events

The Church has evaluated subsequent events from the date of the statement of financial position through December 19, 2019, the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.