

FOREST HILL CHURCH
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2021 AND 2020
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, 2021 AND 2020

TABLE OF CONTENTS

Independent Auditor's Report	1
Audited Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5-10

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, 2021 and 2020 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, 2021 and 2020, 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 15, 2021

FOREST HILL CHURCH
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2021 AND 2020

	September 30,	
	2021	2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents, without donor restrictions	\$ 1,162,630	\$ 686,513
Cash and cash equivalents, with donor restrictions	1,160,257	1,017,150
Inventory, bookstore	-	-
Sales tax receivable	20,053	122,674
Prepaid expenses	136,134	175,151
TOTAL CURRENT ASSETS	2,479,074	2,001,488
PROPERTY & EQUIPMENT	68,310,449	66,621,327
Less accumulated depreciation	(28,115,481)	(25,831,305)
PROPERTY, NET	40,194,968	40,790,022
OTHER ASSETS		
Security deposit	-	150,000
TOTAL ASSETS	\$ 42,674,042	\$ 42,941,510
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 96,738	\$ 73,627
Accrued payroll and related liabilities	154,729	144,298
Accrued vacation payable	242,408	279,379
Current portion long-term debt	-	237,670
TOTAL CURRENT LIABILITIES	493,875	734,974
LONG-TERM DEBT (Less current portion)	1,739,700	1,627,530
TOTAL LIABILITIES	2,233,575	2,362,504
NET ASSETS:		
Net assets without donor restrictions		
Property	40,194,968	40,790,022
Designated by Church Council	604,398	604,398
Undesignated	(1,519,156)	(1,832,564)
	39,280,210	39,561,856
Net assets with donor restrictions	1,160,257	1,017,150
TOTAL NET ASSETS	40,440,467	40,579,006
TOTAL LIABILITIES & NET ASSETS	\$ 42,674,042	\$ 42,941,510

FOREST HILL CHURCH
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	Year ended September 30, 2021	Year ended September 30, 2020
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUE AND SUPPORT		
Contributions	\$ 14,287,023	\$ 15,327,362
Preschool	473,371	418,300
PPP loan forgiven	2,366,617	-
Investment income	2,791	9,267
	<u>17,129,802</u>	<u>15,754,929</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>115,015</u>	<u>884,295</u>
TOTAL REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS	17,244,817	16,639,224
EXPENSES		
Program services:		
Personnel	8,014,068	10,418,608
Church programs	1,283,382	1,224,966
Designated church programs	115,015	884,295
Benevolence	2,825,318	2,673,058
Building operations	1,114,812	1,220,991
Preschool	543,864	476,267
Depreciation	2,090,721	1,982,123
	<u>15,987,180</u>	<u>18,880,308</u>
Supporting services:		
Personnel	713,002	707,629
Building operations	103,162	112,988
Depreciation	193,471	183,422
Administration	529,648	476,973
	<u>1,539,283</u>	<u>1,481,012</u>
TOTAL EXPENSES	<u>17,526,463</u>	<u>20,361,320</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(281,646)	(3,722,096)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and program revenue	258,122	687,280
Net assets released from restrictions	(115,015)	(884,295)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>143,107</u>	<u>(197,015)</u>
CHANGE IN NET ASSETS	(138,539)	(3,919,111)
NET ASSETS, BEGINNING OF YEAR	<u>40,579,006</u>	<u>44,498,117</u>
NET ASSETS, END OF YEAR	<u>\$ 40,440,467</u>	<u>\$ 40,579,006</u>

FOREST HILL CHURCH
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	Year ended September 30, 2021	Year ended September 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (138,539)	\$ (3,919,111)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	2,284,192	2,165,545
Forgiveness of long-term debt	(1,865,200)	-
Changes in:		
Inventory, bookstore	-	6,419
Sales tax receivable	102,621	(5,340)
Prepaid expenses	39,017	54,135
Other assets	150,000	-
Accounts payable	23,111	(57,989)
Accrued payroll and related liabilities	10,431	53,035
Accrued vacation payable	(36,971)	(44,054)
Net Cash Flows Provided by (used for) Operating Activities	568,662	(1,747,360)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property	(1,689,138)	(2,921,183)
Net Cash Flows Used for Investing Activities	(1,689,138)	(2,921,183)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	1,739,700	2,365,200
Payment of long-term debt	-	(500,000)
Net Cash Flows Provided by Financing Activities	1,739,700	1,865,200
Net Change in Cash and Cash Equivalents	619,224	(2,803,343)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,703,663</u>	<u>4,507,006</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,322,887</u></u>	<u><u>\$ 1,703,663</u></u>

No interest was paid during the years ended September 30, 2021 or 2020.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2021 AND 2020
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 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 under generally accepted accounting principles.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2021 AND 2020
NOTES TO FINANCIAL STATEMENTS

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 received.

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 on September 30, 2021 and 2020 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 are 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.

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, 2021.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2021 AND 2020
NOTES TO FINANCIAL STATEMENTS

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 used by the Church in its operations consists of the following on September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
Land, buildings, and improvements	\$ 54,988,912	\$ 51,281,372
Construction in process – Leasehold improvements	-	2,333,334
Furniture, fixtures, and computer equipment	13,158,147	12,843,231
Transportation equipment	163,390	163,390
Total	68,310,449	66,621,327
Less accumulated depreciation	(28,115,481)	(25,831,305)
 TOTAL	 \$ 40,194,968	 \$ 40,790,022

Depreciation expense was \$2,284,192 and \$2,165,545 for the years ended September 30, 2021 and 2020, respectively.

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 \$604,398 on September 30, 2021 and \$604,398 on September 30, 2020.

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 on September 30, 2021 and 2020 are detailed as follows:

	September 30, 2021	September 30, 2020
Missions	\$ 587,824	\$ 571,036
All others	572,433	446,114
 TOTAL	 \$ 1,160,257	 \$ 1,017,150

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2021 AND 2020
NOTES TO FINANCIAL STATEMENTS

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 \$338,915 to the plan during the year ended September 30, 2021 and \$523,375 during the year ended September 30, 2020.

6. Liquidity and Availability of Financial Assets

	<u>September 30,</u> <u>2021</u>	<u>September 30,</u> <u>2020</u>
Financial assets, at year end	\$ 2,342,940	\$ 1,826,337
Less those unavailable for general expenditures within one year, due to:		
Subject to appropriation and satisfaction of donor restrictions	<u>(1,160,257)</u>	<u>(1,017,150)</u>
 Financial assets available to meet cash needs for general Expenditures within one year	 <u>\$ 1,182,683</u>	 <u>\$ 809,187</u>

The Church has \$1,182,683 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 cash equivalents of \$1,162,630 and sales tax receivable of \$20,053.

7. Commitments

The Church has entered into an agreement with the Morrison Branch of the Young Men’s Christian Association (“YMCA”) of Greater Charlotte whereby it has expanded its current 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 YMCA of Greater Charlotte 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. Expenses incurred were \$190,822 for the year ended September 30, 2021 and \$180,606 for the year ended September 30, 2020.

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 - December 2020, as well as a deposit in the amount of \$150,000. The purchase price of the property is \$4,000,000 to be closed on or before December 31, 2020. In the event that the Church decides not to purchase the property, the \$150,000 deposit may be forfeited. In October 2020, the Church formally notified the owner of the property that it will not be purchasing the property. \$66,411 of the deposit was returned to the Church and \$83,589 was written off.

In November 2020, the Church entered into an agreement with Movement Resources for the use of property located in East Charlotte, North Carolina to be used for church services. Terms of the agreement provide for a donation in the amount of \$3,500,000 to be used for planned improvements to the property to prepare it for use by the church. Terms of the agreement provide for no monthly rent. Terms provide for use of the property for twenty years and then the Church can extend the agreement for four-consecutive five-year periods, each with no additional rent. As

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2021 AND 2020
NOTES TO FINANCIAL STATEMENTS

of September 30, 2020, two payments of \$1,166,667 had been made totaling \$2,333,334, with the two remaining payments of \$583,363 each due by October 1, 2021 paid by September 30, 2021. This amount was treated as capitalized construction in process – leasehold improvements at September 30, 2020 but is reflected in land, buildings and improvements at September 30, 2021.

8. Concentrations of Credit Risk

Cash in excess of insured limits

The Church regularly maintains cash balances in excess of FDIC insured limits. On September 30, 2021, the uninsured balance of cash was \$2,037,648. 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.

9. 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, 2021 and 2020 are summarized on a functional basis below. Certain costs have been allocated among the program and supporting services benefited.

	2021	2020
Program services	\$15,987,180	\$18,880,308
Supporting services		
Fundraising	153,928	148,101
General and administrative	1,385,355	1,332,911
Total supporting services	1,539,283	1,481,012
 TOTAL	 \$17,526,463	 \$20,361,320

10. Long-Term Debt

On April 8, 2020, the Church received a loan under the Payroll Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act in the amount of \$2,365,200. Subsequent to the receipt of the loan the Church returned \$500,000, resulting in \$1,865,200 due. Management anticipated eligibility for total loan forgiveness at September 30, 2020. It was reflected as a liability, with all conditions to be met for loan forgiveness subsequent to September 30, 2020. Per the loan agreement terms, under the PPP Flexibility Act, the Church must submit a forgiveness application within 10 months of the 24-week loan forgiveness covered period—following the date which the loan was received. As of December 10, 2020, the Church has applied for loan forgiveness. As of December 10, 2020, the Church does not have to pay any interest or principal on the loan proceeds until at least after August 25, 2021 (10 months plus the 24-week loan forgiveness covered period). The loan was fully forgiven in June and August, 2021.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2021 AND 2020
NOTES TO FINANCIAL STATEMENTS

On January 28, 2021, the Church received a second loan under the Payroll Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act in the amount of \$1,739,700. Per the loan agreement terms, under the PPP Flexibility Act, the Church must submit a forgiveness application within 10 months of the 24-week loan forgiveness covered period—following the date which the loan was received. The Church anticipates that it will need to return a portion of the loan (approximately \$385,000) when it submits for forgiveness.

The future principal payments on the loan for each of the following five years are as follows:

Year ended September 30:		
2022	\$	-0-
2023		1,739,700
2024		-0-
2025		-0-
2026		-0-
TOTAL	\$	1,739,200

In addition, the global pandemic COVID-19 continues to challenge normal operations. The Church Council along with management are working in a timely manner to manage the risks of the pandemic to the organization.

11. Correction of Error in a Prior Period

During the year ended September 30, 2020, management identified that depreciation expense of a few property and equipment items had been computed incorrectly. Management has corrected this error in the comparative information presented within these financial statements.

As of and for the year ended September 30, 2019:	<u>As previously stated</u>	<u>As currently stated</u>
Accumulated depreciation	\$ (23,541,933)	\$ (23,665,758)
Net assets without donor restrictions - property	\$ 40,158,209	\$ 40,034,384
Depreciation expense	\$ 2,148,294	\$ 2,175,209
Change in net assets without donor restrictions	\$ 489,296	\$ 462,381
Change in net assets (total)	\$ 668,963	\$ 642,048

12. Revenue Recognition

We have analyzed the provisions of the FASB's ASC Topic 606, *Revenue from Contracts with Customers*, and have concluded that no changes are necessary to conform with the new standard for preschool revenue. The Church recognizes revenue as the performance obligations of providing the services are met (i.e. courses are taught over time). Enrollment fees, which are non-refundable, are recognized when received. Tuition revenue is recognized ratably over time because the benefit to the students is consistent. Payments are required at the time of enrollment or ratably through the year.

13. Subsequent Events

The Church has evaluated subsequent events from the date of the statement of financial position through December 15, 2021, the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.