

FOREST HILL CHURCH
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007
AND
INDEPENDENT AUDITORS' REPORT

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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Forest Hill Church
Charlotte, North Carolina

Independent Auditors' Report

We have audited the accompanying Statements of Financial Position of Forest Hill Church as of September 30, 2008 and 2007, and the related Statements of Activities and Cash Flows for the years then ended. These financial statements are the responsibility of the organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forest Hill Church, at September 30, 2008 and 2007, and the results of its activities and changes in cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Matthews, North Carolina

December 4, 2008

FOREST HILL CHURCH
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents-unrestricted	\$ 1,371,929	\$ 1,251,550
Cash and cash equivalents-temporarily restricted	267,358	423,351
Inventory, Bookstore	10,845	14,991
Prepaid expenses-unrestricted	73,702	80,478
Prepaid expenses-temporarily restricted	-	1,139
	1,723,834	1,771,509
 PROPERTY & EQUIPMENT - Note 2	 26,155,062	 24,997,025
Less accumulated depreciation	(7,982,858)	(7,014,150)
Property, net	18,172,204	17,982,875
 TOTAL ASSETS	 \$ 19,896,038	 \$ 19,754,384
 LIABILITIES & NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 60,605	\$ 73,997
Accrued payroll	29,041	24,690
Accrued vacation payable	71,935	103,925
	161,581	202,612
 LONG-TERM DEBT	 -	 -
 TOTAL LIABILITIES	 161,581	 202,612
 NET ASSETS		
Unrestricted	19,467,099	19,127,282
Temporarily restricted	267,358	424,490
	19,734,457	19,551,772
 TOTAL LIABILITIES & NET ASSETS	 \$ 19,896,038	 \$ 19,754,384

See accompanying notes to financial statements.

FOREST HILL CHURCH
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
UNRESTRICTED NET ASSETS		
REVENUE		
Contributions	\$ 8,800,544	\$ 9,150,594
Contribution of investment property	270,000	-
Investment income	35,716	37,314
	9,106,260	9,187,908
NET ASSETS RELEASED FROM RESTRICTIONS	991,106	803,660
TOTAL UNRESTRICTED REVENUE AND SUPPORT	10,097,366	9,991,568
EXPENSES		
Program services:		
Compensation	3,609,309	3,840,173
Church programs	1,486,064	1,683,834
Church programs-designated funds	414,953	483,443
Benevolence	831,998	877,799
Benevolence-designated funds	576,153	214,005
Depreciation	871,837	768,540
	7,790,314	7,867,794
Supporting services:		
Compensation	1,369,048	678,953
Building Operations	200,526	141,142
Depreciation	96,871	80,394
Administration	300,790	286,832
	1,967,235	1,187,321
TOTAL EXPENSES	9,757,549	9,055,115
CHANGE IN UNRESTRICTED NET ASSETS	339,817	936,453
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and program revenue	833,974	999,582
Net assets released from restrictions	(991,106)	(803,660)
	(157,132)	195,922
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(157,132)	195,922
CHANGE IN NET ASSETS	182,685	1,132,375
NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	19,551,772	17,707,947
CORRECTION OF ERROR-UNREPORTED CONTRIBUTION OF INVESTMENT PROPERTY-Note 4	-	711,450
NET ASSETS, BEGINNING OF YEAR AFTER CORRECTION OF ERROR	19,551,772	18,419,397
NET ASSETS, END OF YEAR	\$ 19,734,457	\$ 19,551,772

See accompanying notes to financial statements.

FOREST HILL CHURCH
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenue over Expenses	\$ 182,685	\$ 1,132,375
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	968,708	848,934
Changes in:		
Inventories	4,146	(11,991)
Prepaid expenses	7,915	(59,993)
Investment property	-	711,450
Accounts payable	(13,392)	40,305
Accrued payroll	4,351	11,496
Accrued vacation payable	(31,990)	21,875
 Net Cash Provided by Operating Activities	 1,122,423	 2,694,451
CASH FLOWS (USED) BY INVESTING ACTIVITIES		
Purchase of property	(1,158,037)	(1,431,971)
CASH FLOWS PROVIDED OR USED BY FINANCING ACTIVITIES		
Receipt of long-term debt	-	-
Payment of long-term debt	-	-
 Net Change in Cash and Cash Equivalents	 (35,614)	 1,262,480
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	 <u>1,674,901</u>	 <u>412,421</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	 <u>\$ 1,639,287</u>	 <u>\$ 1,674,901</u>
 CASH AND CASH EQUIVALENTS-UNRESTRICTED	 \$ 1,371,929	 \$ 1,251,550
CASH AND CASH EQUIVALENTS-TEMPORARILY RESTRICTED	267,358	423,351
	<u>\$ 1,639,287</u>	<u>\$ 1,674,901</u>

No interest was paid during the years ended September 30, 2008 or 2007.

See accompanying notes to financial statements.

FOREST HILL CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

1. Summary of Significant Accounting Policies

Organization

Forest Hill Church (“the Church”), located in Charlotte, North Carolina, was incorporated in North Carolina on August 12, 1986. The Church’s primary source of revenue is from contributions.

The Church has received a determination from the Internal Revenue Service that it is tax exempt under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The Church’s policy is to prepare its financial statements on the accrual basis in conformity with generally accepted accounting principles.

Donor Restricted Support

In order to observe restrictions placed on certain resources it receives, the Church records such contributions as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unrestricted resources are essentially contributions received that are not subject to any donor restrictions. Restricted contributions are contributions for specific church purposes for which the donor has specified certain restrictions as to its use. Temporarily restricted support is reclassified to unrestricted net assets upon satisfaction of the restriction by payment.

Financial Statement Presentation

The Church has adopted Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Church is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Church is required to present a statement of cash flows. The church has no permanently restricted net assets.

Contributions

The Church has also adopted SFAS No. 116, “Accounting for Contributions Received and Contributions Made.” Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. There are no permanently restricted net assets at September 30, 2008.

FOREST HILL CHURCH
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and certificates of deposit which mature within one year. As of September 30, 2008, cash held by the Church exceeded FDIC insured limits by \$1,240,344 and \$1,574,901 at September 30, 2007. Management believes these financial institutions have strong credit ratings and that credit risk related to these deposits is minimal. Investment income in the amount of \$35,716 in 2008 and \$37,314 in 2007 is comprised of interest earned on money market accounts.

Inventory

Inventory is reported at lower of cost or market and is comprised of books and musical products maintained in the church bookstore.

Donated Property and Services

The Church records donated property at its estimated fair market value at the date of receipt. Additionally, church members provide volunteer service in many activities of the Church but are not reflected herein inasmuch as the amount of services provided is indeterminable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

2. Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the life of the asset and is computed when the asset is placed in service. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. A reduction is made for retirements resulting from renewals or betterments.

Buildings, improvements and approximately 25 acres of land located at 7224 Park Road, Charlotte, North Carolina, were purchased in 1986, and are used as the church sanctuary and related office buildings. Improvements, property additions and renovations to the property

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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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since that time have been capitalized and depreciated over the life of the assets.

Property and equipment at September 30, 2008, are as follows:	<u>Useful life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Buildings & land	40 years	\$22,471,346	\$5,961,909
Furniture and equipment	3-10 years	3,533,315	1,903,880
Vehicles	10 years	<u>150,401</u>	<u>117,069</u>
	Total	<u>\$26,155,062</u>	<u>\$7,982,858</u>

Depreciation expense is \$968,708 for 2008 and \$848,934 for 2007.

3. Pension

The Church provides medical and pension benefits to qualified employees. Payments are made as billed and no liability exists as of September 30, 2007 and 2006. Total payments were \$1,063,226 for 2008 and \$967,994 for 2007 and are reflected in compensation.

4. Correction of an Error

During the year ended September 30, 2007 it was determined that investment property which was eventually sold by the Church in January, 2007 was actually received by the church in April, 2006, thus understating investment property and net income by \$711,450 for the year ended September 30, 2006. The previously issued financial statements have been reissued. In addition, a reclassification between support and program expense was made on the reissued financial statements.

5. Related Party Transactions

During the current and prior year the church made payments to the wife of the Senior Pastor in the amount of \$24,000 for services provided managing Seeds of Hope, Inc. a separate non-profit organization which is funded by the church as well as by outside contributions.

The church uses the services of a company owned by a member of the Council of Elders to provide management of the church's pension plan. The company is paid a commission equal to .5% of funds managed. Total commission paid during 2008 was \$6,300 and in 2007 was \$18,168. The company was selected among other companies and it was determined that the selection was at arms length and provided a competitive commission schedule.

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6. Lease Commitments

The church is committed to three leases for the rental of facilities with monthly payments of \$1,139-\$6,571, with the final payment in September, 2011. A summary of the commitments for the next five years is as follows:

Year ended September 30,	
2008	\$ 93,390
2009	80,604
2010	81,520
2011	-0-
2012	-0-