

FOREST HILL CHURCH
FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021
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, 2022 AND 2021

TABLE OF CONTENTS

| | |
|--|------|
| Independent Auditor's Report | 1-2 |
| Audited Financial Statements: | |
| Statements of Financial Position | 3 |
| Statements of Activities..... | 4 |
| Statements of Cash Flows..... | 5 |
| Notes to Financial Statements | 6-10 |

FRANKLIN & FRANKLIN, PA

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022 and 2021, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Forest Hill Church and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Forest Hill Church's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Forest Hill Church's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Forest Hill Church's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in cursive script that reads "Franklin & Franklin, PA". The signature is written in black ink and is positioned above the printed name of the firm.

Franklin & Franklin, PA

Matthews, North Carolina

December 19, 2022

FOREST HILL CHURCH
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2022 AND 2021

| | September 30, | |
|---|--------------------------|--------------------------|
| | 2022 | 2021 |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents, without donor restrictions | \$ 979,895 | \$ 1,162,630 |
| Cash and cash equivalents, with donor restrictions | 1,039,186 | 1,160,257 |
| Sales tax receivable | 75,098 | 20,053 |
| Prepaid expenses | 18,113 | 136,134 |
| TOTAL CURRENT ASSETS | 2,112,292 | 2,479,074 |
| PROPERTY & EQUIPMENT | 69,122,500 | 68,310,449 |
| Less accumulated depreciation | (30,455,890) | (28,115,481) |
| PROPERTY, NET | 38,666,610 | 40,194,968 |
| TOTAL ASSETS | \$ 40,778,902 | \$ 42,674,042 |
| LIABILITIES & NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 91,212 | \$ 96,738 |
| Accrued payroll and related liabilities | 225,389 | 154,729 |
| Accrued vacation payable | 280,264 | 242,408 |
| Current portion long-term debt | - | - |
| TOTAL CURRENT LIABILITIES | 596,865 | 493,875 |
| LONG-TERM DEBT (Less current portion) | - | 1,739,700 |
| TOTAL LIABILITIES | 596,865 | 2,233,575 |
| NET ASSETS: | | |
| Net assets without donor restrictions | | |
| Property | 40,158,209 | 40,194,968 |
| Designated by Church Council | 604,398 | 604,398 |
| Undesignated | (1,619,756) | (1,519,156) |
| | 39,142,851 | 39,280,210 |
| Net assets with donor restrictions | 1,039,186 | 1,160,257 |
| TOTAL NET ASSETS | 40,182,037 | 40,440,467 |
| TOTAL LIABILITIES & NET ASSETS | \$ 40,778,902 | \$ 42,674,042 |

FOREST HILL CHURCH
STATEMENTS OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

| | Year ended September 30, 2022 | Year ended September 30, 2021 |
|---|-------------------------------------|-------------------------------------|
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| REVENUE AND SUPPORT | | |
| Contributions | \$ 14,675,720 | \$ 14,287,023 |
| Preschool | 520,610 | 473,371 |
| PPP loan forgiven | 1,739,700 | 2,366,617 |
| Employee retention credit | 425,520 | - |
| Rental income | 243,884 | - |
| Investment income | 3,704 | 2,791 |
| | <u>17,609,138</u> | <u>17,129,802</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>295,763</u> | <u>115,015</u> |
| TOTAL REVENUE AND SUPPORT WITHOUT DONOR RESTRICTIONS | 17,904,901 | 17,244,817 |
| EXPENSES | | |
| Program services: | | |
| Personnel | 8,127,844 | 8,014,068 |
| Church programs | 1,588,659 | 1,283,382 |
| Designated church programs | 295,763 | 115,015 |
| Benevolence | 2,629,849 | 2,825,318 |
| Building operations | 1,333,370 | 1,114,812 |
| Preschool | 610,233 | 543,864 |
| Depreciation | 2,142,176 | 2,090,721 |
| | <u>16,727,894</u> | <u>15,987,180</u> |
| Supporting services: | | |
| Personnel | 714,458 | 713,002 |
| Building operations | 123,387 | 103,162 |
| Depreciation | 198,233 | 193,471 |
| Administration | 278,592 | 529,648 |
| | <u>1,314,670</u> | <u>1,539,283</u> |
| TOTAL EXPENSES | <u>18,042,564</u> | <u>17,526,463</u> |
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | (137,663) | (281,646) |
| CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS | | |
| Contributions and program revenue | 174,996 | 258,122 |
| Net assets released from restrictions | (295,763) | (115,015) |
| | <u> </u> | <u> </u> |
| CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS | <u>(120,767)</u> | <u>143,107</u> |
| CHANGE IN NET ASSETS | (258,430) | (138,539) |
| NET ASSETS, BEGINNING OF YEAR | <u>40,440,467</u> | <u>40,579,006</u> |
| NET ASSETS, END OF YEAR | <u>\$ 40,182,037</u> | <u>\$ 40,440,467</u> |

FOREST HILL CHURCH
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2022 AND 2021

| | Year ended September 30, 2022 | Year ended September 30, 2021 |
|---|-------------------------------------|-------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (258,430) | \$ (138,539) |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 2,340,409 | 2,284,192 |
| Forgiveness of long-term debt | (1,739,700) | (1,865,200) |
| Changes in: | | |
| Sales tax receivable | (55,045) | 102,621 |
| Prepaid expenses | 118,021 | 39,017 |
| Other assets | - | 150,000 |
| Accounts payable | (5,526) | 23,111 |
| Accrued payroll and related liabilities | 70,660 | 10,431 |
| Accrued vacation payable | 37,856 | (36,971) |
| Net Cash Flows Provided by (used for) Operating Activities | 508,245 | 568,662 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property | (812,051) | (1,689,138) |
| Net Cash Flows Used for Investing Activities | (812,051) | (1,689,138) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of long-term debt | - | 1,739,700 |
| Payment of long-term debt | - | - |
| Net Cash Flows Provided by Financing Activities | - | 1,739,700 |
| Net Change in Cash and Cash Equivalents | (303,806) | 619,224 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>2,322,887</u> | <u>1,703,663</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>\$ 2,019,081</u></u> | <u><u>\$ 2,322,887</u></u> |

No interest was paid during the years ended September 30, 2022 or 2021.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2022 AND 2021
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, 2022 AND 2021
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, 2022 and 2021 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.

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, 2022.

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.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2022 AND 2021
NOTES TO FINANCIAL STATEMENTS

3. Property and Equipment

Property and equipment used by the Church in its operations consists of the following on September 30, 2022 and 2021:

| | <u>September 30,</u> <u>2022</u> | <u>September 30,</u> <u>2021</u> |
|---|-------------------------------------|-------------------------------------|
| Land, buildings, and improvements | \$ 55,329,717 | \$ 54,988,912 |
| Furniture, fixtures, and computer equipment | 13,629,393 | 13,158,147 |
| Transportation equipment | <u>163,390</u> | <u>163,390</u> |
| Total | 69,122,500 | 68,310,449 |
| Less accumulated depreciation | <u>(30,455,890)</u> | <u>(28,115,481)</u> |
| TOTAL | <u>\$ 38,666,610</u> | <u>\$ 40,194,968</u> |

Depreciation expense was \$2,340,409 and \$2,284,192 for the years ended September 30, 2022 and 2021, 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, 2022 and \$604,398 on September 30, 2021.

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, 2022 and 2021 are detailed as follows:

| | <u>September 30,</u> <u>2022</u> | <u>September 30,</u> <u>2021</u> |
|------------|-------------------------------------|-------------------------------------|
| Missions | \$ 526,775 | \$ 587,824 |
| All others | <u>512,411</u> | <u>572,433</u> |
| TOTAL | <u>\$ 1,039,186</u> | <u>\$ 1,160,257</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 \$391,519 to the plan during the year ended September 30, 2022 and \$338,915 during the year ended September 30, 2021.

FOREST HILL CHURCH
YEARS ENDED SEPTEMBER 30, 2022 AND 2021
NOTES TO FINANCIAL STATEMENTS

6. Liquidity and Availability of Financial Assets

| | September 30, 2022 | September 30, 2021 |
|---|-----------------------|-----------------------|
| Financial assets, at year end | \$ 2,094,179 | \$ 2,342,940 |
| Less those unavailable for general expenditures within one year, due to: Subject to appropriation and satisfaction of donor restrictions | (1,039,186) | (1,160,257) |
| Financial assets available to meet cash needs for general Expenditures within one year | \$ 1,054,993 | \$ 1,182,683 |

The Church has \$1,054,993 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 \$979,895 and sales tax receivable of \$75,098.

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 forty-year term. Expenses incurred were \$133,609 for the year ended September 30, 2022 and \$190,822 for the year ended September 30, 2021.

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 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, and it was 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, 2022 and 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, 2022, the uninsured balance of cash was \$1,302,434. 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
YEARS ENDED SEPTEMBER 30, 2022 AND 2021
NOTES TO FINANCIAL STATEMENTS

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, 2022 and 2021 are summarized on a functional basis below. Certain costs have been allocated among the program and supporting services benefited.

| | 2022 | 2021 |
|----------------------------|------------------|------------------|
| Program services | \$16,727,894 | \$15,987,180 |
| Supporting services | | |
| Fundraising | 131,467 | 153,928 |
| General and administrative | 1,183,203 | 1,385,355 |
| Total supporting services | 1,314,670 | 1,539,283 |
| TOTAL | \$18,042,564 | \$17,526,463 |

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. The loan was fully forgiven in June and August, 2021.

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 submitted the application and the loan was fully forgiven in December, 2021.

11. Employee Retention Tax Credit

During the year ended September 30, 2022 the Church filed for and received the Employee Retention Tax Credit in the amount of \$425,520 in accordance with the Cares Act guidelines.

12. Subsequent Events

The Church has evaluated subsequent events from the date of the statement of financial position through December 19, 2022, the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified.