

**Mercy Hill Church
Financial Statements
December 31, 2018 and 2017**

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To the Board of Elders
Mercy Hill Church
Greensboro, NC

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Mercy Hill Church (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017 and the related statements of activities and changes in net assets, functional expenses and 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 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 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 from 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 auditor's 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 auditor considers 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 Mercy Hill Church as of December 31, 2018 and 2017, and the changes in its net assets, functional expenses and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Freeman & Bonnema, PLLC

April 15, 2019

Mercy Hill Church
Statements of Financial Position
As of December 31, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 1,315,045	\$ 700,523
Restricted Cash - Sinking Fund	15,355	16,220
Prepaid Expense	22,162	26,273
Total Current Assets	1,352,562	743,016
<u>Property and Equipment</u>		
Land, Buildings and Improvements	4,492,148	2,748,576
Leasehold Improvements	1,065,853	971,919
Furniture and Equipment	856,908	430,312
Total Cost	6,414,909	4,150,807
Less Accumulated Depreciation	539,059	370,501
Net Property and Equipment	5,875,850	3,780,306
<u>Other Assets</u>		
Security Deposit	20,336	16,169
Escrow Funds	108,679	754,008
Construction in Progress	-	1,114,589
Total Other	129,015	1,884,766
Total Assets	7,357,427	6,408,088
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	90,931	112,582
Accrued Interest Payable	14,088	14,088
Payroll Liabilities	10,428	8,063
Other Liabilities	108,996	-
Current Portion of Long-Term Debt	39,000	-
Total Current Liabilities	263,443	134,733
<u>Long-Term Liabilities</u>		
Long-Term Debt	2,916,132	2,945,776
Total Liabilities	3,179,575	3,080,509
<u>Net Assets</u>		
Net Assets without Donor Restrictions		
Net Investment in Property and Equipment	3,073,162	2,721,428
Unrestricted - Undesignated	1,104,690	606,151
Total Net Assets without Donor Restrictions	4,177,852	3,327,579
Total Liabilities and Net Assets	7,357,427	6,408,088

See Notes to Financial Statements

Mercy Hill Church
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2018 and 2017

	2018	2017
<u>SUPPORT AND REVENUES</u>		
Tithes and Offerings	\$ 4,908,401	\$ 3,270,087
Ministry Support	136,722	281,020
Rental and Other Income	-	1,800
Interest Income	10,004	5,824
Gains (Losses) on Investments	-	860
Total Support and Revenues	5,055,127	3,559,591
<u>EXPENSES</u>		
Program Activities	3,689,225	2,929,739
Supporting Services	515,629	381,988
Fundraising Expense	-	39,868
Total Expenses	4,204,854	3,351,595
Change in Net Assets	850,273	207,996
Net Assets - Beginning of Year	3,327,579	3,119,583
Net Assets - Ending of Year	4,177,852	3,327,579

See Notes to Financial Statements

Mercy Hill Church
Statement of Functional Expenses
For the Year Ended December 31, 2018

	<u>Program Expense</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
<u>Operating Expenses</u>				
Salaries, Benefits and Payroll Taxes	2,001,377	222,375	-	2,223,752
Ministry Expense	336,221	-	-	336,221
Rent Expense - Regional Road	303,641	33,738	-	337,379
Missions Expense	348,901	-	-	348,901
SENT Initiative	46,356	-	-	46,356
Office Expenses	-	81,510	-	81,510
Service and Processing Fees	-	122,537	-	122,537
Facility Cost - Clifton Road	73,612	-	-	73,612
Facility Cost - Regional Road	94,149	-	-	94,149
Staff Development	57,784	6,420	-	64,204
Fundraising	-	-	-	-
Facility Cost - Edgefield Road	50,414	12,604	-	63,018
Anniversary	-	-	-	-
IT Expense	29,295	9,765	-	39,060
Communications Expense	23,077	-	-	23,077
Development Exp	-	-	-	-
Total Operating Expenses	<u>3,364,827</u>	<u>488,949</u>	<u>-</u>	<u>3,853,776</u>
<u>Other Expenses</u>				
Depreciation Expense	160,130	8,428	-	168,558
Interest Expense	160,574	17,842	-	178,416
Trustee Fees	3,694	410	-	4,104
Loss on Sale of Property	-	-	-	-
Total Other Expenses	<u>324,398</u>	<u>26,680</u>	<u>-</u>	<u>351,078</u>
Total Functional Expenses	<u><u>3,689,225</u></u>	<u><u>515,629</u></u>	<u><u>-</u></u>	<u><u>4,204,854</u></u>

Mercy Hill Church
Statement of Functional Expenses
For the Year Ended December 31, 2017

	<u>Program Expense</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
<u>Operating Expenses</u>				
Salaries, Benefits and Payroll Taxes	1,523,869	169,319	-	1,693,188
Ministry Expense	280,451	-	-	280,451
Rent Expense - Regional Road	252,962	-	-	252,962
Missions Expense	232,217	-	-	232,217
SENT Initiative	155,200	-	-	155,200
Office Expenses	-	100,798	-	100,798
Service and Processing Fees	-	89,992	-	89,992
Facility Cost - Clifton Road	64,106	-	-	64,106
Facility Cost - Regional Road	62,125	-	-	62,125
Staff Development	40,254	2,246	-	42,500
Fundraising	-	-	39,868	39,868
Facility Cost - Edgefield Road	27,242	6,811	-	34,053
Anniversary	33,005	-	-	33,005
IT Expense	15,136	5,620	-	20,756
Communications Expense	20,713	-	-	20,713
Development Exp	10,633	-	-	10,633
Total Operating Expenses	<u>2,717,913</u>	<u>374,786</u>	<u>39,868</u>	<u>3,132,567</u>
<u>Other Expenses</u>				
Depreciation Expense	136,848	7,202	-	144,050
Interest Expense	64,386	-	-	64,386
Trustee Fees	1,652	-	-	1,652
Loss on Sale of Property	8,940	-	-	8,940
Total Other Expenses	<u>211,826</u>	<u>7,202</u>	<u>-</u>	<u>219,028</u>
Total Functional Expenses	<u><u>2,929,739</u></u>	<u><u>381,988</u></u>	<u><u>39,868</u></u>	<u><u>3,351,595</u></u>

See Notes to Financial Statements

Mercy Hill Church
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 850,273	\$ 207,996
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities:		
Items not (Providing) Requiring Cash		
Depreciation	168,558	144,050
Amortization	9,356	4,678
Loss on Sale of Property	-	8,940
Changes in Current Assets and Liabilities:		
(Increase) in Prepaid Expense	4,111	(26,273)
Increase (Decrease) in Accounts Payable	(21,651)	69,404
Increase in Accrued Interest Payable	-	14,088
Increase in Payroll Liabilities	2,365	585
Increase (Decrease) in Other Liabilities	108,996	-
Net Cash Provided (Used) by Operating Activities	<u>1,122,008</u>	<u>423,468</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from Sale of Property	-	84,509
Construction in Progress Expenditures	-	(1,114,589)
Lease Deposit	(4,167)	-
Leasehold Improvements	(5,858)	(13,500)
Purchase of Property, Fixtures and Equipment	(1,143,655)	(35,046)
Net Cash Provided (Used) by Investing Activities	<u>(1,153,680)</u>	<u>(1,078,626)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Bonds Payable	-	3,175,000
Finance Costs	-	(233,902)
(Increase) Decrease in Sinking Fund	865	(16,220)
(Increase) Decrease in Escrow Funds	645,329	(754,008)
Loan Payments - American National Bank	-	(150,000)
Loan Payments - Life Community Church	-	(1,079,938)
Net Cash Provided (Used) by Financing Activities	<u>646,194</u>	<u>940,932</u>
Change in Cash and Cash Equivalents	614,522	285,774
Cash and Cash Equivalents - Beginning of Year	<u>700,523</u>	<u>414,749</u>
Cash and Cash Equivalents - End of Year	<u><u>1,315,045</u></u>	<u><u>700,523</u></u>
<u>Supplemental Disclosure</u>		
Cash Paid for Interest - Expensed	<u>169,060</u>	<u>45,620</u>
Cash Paid for Interest - Capitalized	<u>-</u>	<u>47,050</u>

See Notes to Financial Statements

Mercy Hill Church
Notes to Financial Statements
December 31, 2018 and 2017

1. NATURE OF ACTIVITIES

Mercy Hill Church (the "Church") was incorporated under the laws of the state of North Carolina on April 10, 2012. The Church is a nonprofit corporation as defined by North Carolina Non-Profit Corporation Act and was organized exclusively for religious, charitable, and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code.

The Church operates its ministry and holds services in multiple locations in Greensboro, North Carolina.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Church have been prepared on the accrual basis of accounting following principles generally accepted in the United States and accordingly reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

Net assets, revenues, gains and losses are classified based upon donor-imposed restrictions. US GAAP requires the Church to report information regarding its financial position according to the following net asset classification:

Net Assets Without Donor Restrictions – Represents those resources over which the Board of Directors has discretionary control and may be expended for any purpose in performing the primary objectives of the Church. Designated amounts represent those revenues which the Consistory has set aside for a particular purpose. Property and equipment net of related debt is considered unrestricted.

Net Assets With Donor Restrictions – Represents those resources subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be satisfied by actions of the Church or passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

Cash and cash equivalents include cash, monies in banks, money market funds and highly liquid investments that are readily convertible to cash or with a remaining maturity of three months or less.

Mercy Hill Church
Notes to Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measure of Operations

The statement of activities reports changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Church's ministry activities and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered unusual or nonrecurring.

Investments

The Church occasionally receives donated marketable securities and its policy is to sell the securities within a short time period to avoid market fluctuations and provide funding for use in ministry functions.

Investments in marketable securities are reported at fair value as defined under generally accepted accounting principles using a three-tier valuation hierarchy of inputs – Level 1 inputs are observable market data for the same investments; Level 2 inputs use market data for like investments; and Level 3 inputs use assumptions and techniques by management.

Property and Equipment

The land, buildings and equipment of the Church are recorded at cost if purchased or self-constructed, or at approximate fair value as of the date received, if donated. It is the policy of the Church to capitalize those expenditures which exceed \$1,000 and will provide an economic benefit greater than two years into the future. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 50 years.

Revenue Recognition

The Church receives the majority of its support in the form of voluntary tithes, offerings and revenues from its members and attendees. Contribution income is recorded when cash is received or when ownership of donated assets is transferred. Faith Pledges are not recorded on the Church's financial statements. At December 31, 2018 and 2017, there were no outstanding unconditional promises to give that would require recognition of a pledge receivable.

Revenues are reported as increases in Net Assets without Restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are recorded when incurred in accordance with the accrual basis of accounting and are reported as decreases in Net Assets without Restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in Net Assets without Restrictions unless their use is restricted by donor-imposed stipulations. Contributions with restrictions are reported as increases in Net Assets with Restrictions, depending upon the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends, or the purpose of the restriction is accomplished), temporarily restricted net assets are reported in the statement of activities as "Net Assets Released from Restriction".

Contributed Services

The Church receives services donated by its members in carrying out the Church's ministry. No amounts have been reflected in the financial statements for those services because they do not meet the criteria for recognition under accounting guidance.

Mercy Hill Church
Notes to Financial Statements
December 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Church is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), except for taxes that may result from unrelated business activities. In addition, ordained ministers of the Church are granted certain income tax exemptions, if applied for and documented in the Church's records. Additional income and payroll taxes can be assessed against the Church and its ministers if exemption requirements are not met.

At December 31, 2018 and 2017, the Church has determined that there are no unrelated business activities for which income taxes would be due. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Accounting standards prescribe a recognition threshold and measurement principles for the financial statement disclosure of tax positions taken or expected to be taken on a tax return that are not certain to be realized. Management has evaluated for uncertain tax positions and to date has determined that there are no material uncertain tax positions that would require recognition in the financial statements at December 31, 2018 and 2017.

Functional Expenses

The cost of providing ministry programs and other activities have been summarized on a functional basis in the statement of functional expense. Supporting services include management and general expenses that are not directly identifiable with any specific function or program but provide for the overall support and direction of the Church. Certain costs have been allocated among ministry programs and supporting services benefited. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and Benefits	Time and effort
Facility (Occupancy)	Square footage
Equipment and IT	Time and effort
Depreciation	Square footage
Interest and Amortization	Square footage

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Church has adjusted the presentation of these statements accordingly.

Mercy Hill Church
Notes to Financial Statements
December 31, 2018 and 2017

3. LIQUIDITY

The following represents the Church's financial assets at December 31, 2018:

Financial Assets at Year End:	
Cash and Cash Equivalents	\$ 1,315,045
Investments	-
Other Financial Assets	15,355
Total Financial Assets	1,330,400
Less: Amounts not available to be used within one year:	
Net Assets with Donor Restrictions	-
Less net assets with purpose restrictions to be met in more than 1 year	-
Board Designated	-
	-
Financial assets available to meet general expenditures over the next twelve months	1,330,400

In addition to financial assets available to meet general expenditures over the next 12 months, the Church operates with a balanced budget and anticipates collecting sufficient support to cover general expenditures not covered by donor restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Church's cash and shows positive cash generated by operations for the years ended December 31, 2018 and 2017. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and bank savings accounts.

4. PROPERTY AND EQUIPMENT

At December 31, 2018 and 2017 the Church's property and equipment were as follows:

	<u>2018</u>	<u>2017</u>
Land and Building:		
Edgefield Road	\$2,803,251	\$1,131,375
Clifton Road	1,688,897	1,617,201
Total Land and Building	4,492,148	2,748,576
Leasehold Improvements -		
Regional Road	1,035,830	971,919
High Point Campus	30,023	-
Total Leasehold Improvements	1,065,853	971,919
Furniture and Equipment	856,908	430,312
Total Cost	6,414,909	4,150,807
Accumulated Depreciation		
Leasehold Improvements	236,043	172,675
Property and Equipment	303,016	197,826
Total Accumulated Depreciation	539,059	370,501
Net Property and Equipment	5,875,850	3,780,306

Mercy Hill Church
Notes to Financial Statements
December 31, 2018 and 2017

4. PROPERTY AND EQUIPMENT (continued)

The Church has entered into a lease for a facility in High Point, NC and incurred expenditures for leasehold improvements in the amount of \$30,023 as of December 31, 2018. In addition, equipment in the amount of \$5,407 and prepaid rent in the amount of \$22,162.

In July 2014, the Church received the Edgefield Rd., Moutline Dr., and Donvic Dr. properties as a contribution from another church that was in the process of dissolution. Pursuant to generally accepted accounting principles, the properties were recorded at market value totaling \$1,150,100 using a current appraisal as of the date the property was received.

On May 23, 2016, the Church purchased the Clifton Rd. property for \$1,271,183 and has renovated the facility which is being used as an additional campus for ministry operations.

On May 15, 2017, the Church sold the Donvic Drive property, received net proceeds of \$84,509, and recorded a loss on the sale of \$18,291.

5. SINKING AND ESCROW FUNDS

The Church issued First Mortgage Bonds dated June 1, 2017 in the original amount of \$3,175,000.

Proceeds from the issuance of the bonds were used to pay-off existing debt and other corporate purposes (\$1,337,383) and to establish separate project funds for renovation of the Church's properties (\$1,678,867). The use of the project funds is restricted for construction expenditures. The balance in the project funds was \$108,679 and \$754,008 at December 31, 2018 and 2017.

The Church is required to set aside funds for payment of principal and interest on the First Mortgage Bonds and pursuant to the terms of the bond covenants has set up a sinking fund account to make monthly deposits. The Church is obligated to make weekly sinking fund payments in the amount of \$3,605 commencing on June 14, 2017, through and including November 24, 2017, and in the amount of \$3,300 commencing on December 1, 2017, through and including May 31, 2019, and in the amount of \$4,785 commencing on June 7, 2019 and each week thereafter until the bonds are paid in full. The sinking fund balance for the Series A bonds was \$15,355 and \$16,220 at December 31, 2018 and 2017.

6. CONSTRUCTION IN PROGRESS

The Church is renovating its various properties and has incurred expenditures associated with architectural, engineering, permits, and fees (soft costs) and construction costs related to the projects. These costs have been capitalized and classified as Construction in Progress pending completion of the construction projects. Capitalized expenditures were \$1,114,589 at December 31, 2017. The projects were completed during the year ended December 31, 2018 at the expenditures were reclassified to building improvements.

7. DEBT

American National Bank

The Church was obligated on a promissory note payable to American National Bank dated April 20, 2016 in the original amount of \$150,000 and maturing on April 20, 2017. The note was a straight line of credit and with a variable interest rate of national prime plus 1%. Payments of interest were due monthly with all outstanding principal and interest due at maturity. The note with an outstanding balance of \$150,000 was renewed on May 1, 2017 with a maturity of April 20, 2020.

Mercy Hill Church
Notes to Financial Statements
December 31, 2018 and 2017

7. DEBT (continued)

American National Bank (continued)

The note bears a variable rate of interest of national prime plus 1%. Principal and interest was due in 35 monthly payments in the amount of \$4,494 and one final payment at maturity of any remaining principal and accrued interest. The loan was secured by real property owned by the Church. The interest rate was 5.00% and the balance outstanding was \$150,000 at December 31, 2016. The note was paid in full during the year-ended December 31, 2017.

Life Community Church, Inc.

Promissory note payable to Life Community Church, Inc. dated May 2016 in the original amount of \$1,100,000 and maturing on May 15, 2036. Principal and interest were due in 240 monthly payments in the amount of \$6,959 and one final payment at maturity of any remaining principal and accrued interest. The loan was secured by the Clifton Rd. property. The interest rate was 4.50% and the balance outstanding was \$1,079,938 at December 31, 2016. The note was paid in full during the year-ended December 31, 2017.

First Mortgage Bonds

The Church issued First Mortgage Bonds, 2017 Series A dated June 1, 2017 with an original principal amount of \$3,175,000 and a final maturity of June 1, 2042. Semi-annual interest payments are due on June 1st and December 1st, beginning December 1, 2017. Semi-annual principal maturities begin December 1, 2019 with a final principal maturity on June 1, 2042. Interest rates range from 2.75% to 5.75%. The bonds are secured by a Trust Indenture and Mortgage on real property owned by the Church in Greensboro, North Carolina along with the sinking fund and other equipment and assets owned by the Church. At December 31, 2018 and 2017, the balance of the bonds was \$3,175,000 and \$3,175,000.

A summary of the debt outstanding is as follows:

	<u>2018</u>	<u>2017</u>
First Mortgage Bonds	\$3,175,000	\$3,175,000
Less Unamortized Costs	219,868	229,224
Bonds Net of Finance Costs	2,955,132	2,945,776
Less Current Portion	39,000	-
Long-Term Portion	2,916,132	2,945,776

The Church incurred various costs related to efforts to obtain financing by issuing the First Mortgage Bonds. These costs totaled \$233,902 and were capitalized and are being amortized over the life of the related debt beginning in the year ended December 31, 2017. These deferred finance costs are presented net of accumulated amortization of \$14,034 and \$4,678 at December 31, 2018 and 2017. As reflected in the above table, unamortized finance costs of \$219,868 and \$229,224 at December 31, 2018 and 2017 are reported in the statement of financial position as a direct deduction from the face amount of the debt. The total bonds payable outstanding were \$3,175,000 at December 31, 2018 and 2017.

**Mercy Hill Church
Notes to Financial Statements
December 31, 2018 and 2017**

7. DEBT (continued)

Scheduled bond maturities for the next five years are as follows:

	<u>Year Ending December 31,</u>
2019	\$ 39,000
2020	79,000
2021	81,000
2022	85,000
2023	89,000

Components of interest expense for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Interest on Bonds	\$ 169,060	\$ 85,000
Amortization of Finance Costs	9,356	4,678
Interest Capitalized to Construction in Progress	-	(47,050)
Interest on Bank Loans	-	21,758
Interest Expense for Year	<u>178,416</u>	<u>64,386</u>

8. LEASES

Regional Road Facility

In 2013, the Church entered into an agreement to lease property for its Regional Rd. campus. Between 2014 and 2016, the Church expanded into additional space in the Regional Rd. facility, and various amendments to the original lease agreements were executed. In April 2014, upon receipt of a certificate of occupancy, a first amendment to the lease was executed with a commencement date of April 4, 2014 and a monthly lease amount of \$7,592. On December 1, 2014, a second amendment was executed which included a modification to the lease amount and term. In December 2015, a third amendment was executed and effective January 1, 2016 the lease agreement was amended and a new five-year term began June 1, 2016 with a monthly base rent amount of \$19,511 for 24 months and \$20,096 for 36 months. The amendment includes two additional five-year renewal options for the Church. Lease payments are subject to adjustment at the beginning of each renewal term. The Church is also required to pay additional rent for common area expenses as billed by the landlord.

Annual rent expense, including common are expenses, was \$337,379 and \$252,962 for the years ended December 31, 2018 and 2017.

High Point Facility

In 2018, the Church entered into an agreement to lease property for a new High Point campus. The term of the lease commenced on November 1, 2018 and ends on December 31, 2023. The Church has the option of renewing the lease for two (2) additional five (5) year terms. Beginning on January 1, 2019, rental payments in the annual amount of \$132,975 paid in monthly amounts of \$11,081. As of December 31, 2018, the Church had prepaid 2 months of rental payments in the amount of \$22,162.

**Mercy Hill Church
Notes to Financial Statements
December 31, 2018 and 2017**

8. LEASES (continued)

Future minimum lease payments for campus facilities for leases at December 31, 2018, without consideration of optional renewal terms and common area expenses, are as follows:

<u>Year ended</u>	<u>Regional</u>	<u>High Point</u>
2019	\$ 241,156	\$ 132,975
2020	241,156	132,975
2021	100,482	132,975
2022	-	132,975
2023	-	132,975

Equipment Leases

The Church has various operating leases for office equipment. Total lease expense for the years ended December 31, 2018 and 2017 was \$9,970 and \$9,750.

Future minimum lease payments for leases at December 31, 2018 were as follows:

<u>Year ended Dec 31,</u>	
2019	5,416

9. RETIREMENT PLAN

The Church sponsors a 403(b)-retirement plan for qualifying employees. Total expense incurred by the Church related to the plan was \$67,515 and \$51,091 for the years ended December 31, 2018 and 2017.

10. CONCENTRATIONS

The Church maintains cash in bank deposit accounts which, at times, may exceed federally insured limits.

The Church is primarily dependent upon contributions from its congregation to meet expenses of operation. Although management of the Church expects contributions to be adequate to service all obligations, there can be no assurance that such contributions will be sufficient to meet these obligations. Also, there is no assurance that Church membership will increase or remain stable.

Any adverse change in the tax laws, or any adverse change in the Church's tax status as a tax-exempt organization, would affect contributors who are currently entitled to deduct their contributions to the Church from gross income. Any such change, in turn, could adversely affect the level of contributions to the Church and the ability of the Church to meet its obligations.

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 15, 2019, which is the date the financial statements were available to be issued.