

**Mercy Hill Church
Financial Statements
December 31, 2019 and 2018**

Contents

Independent Auditor's Report	1
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets.....	3
Statements of Functional Expense	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-15

FREEMAN & BONNEMA, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 514, CIRCLE PINES, MN 55014

WWW.FREEMANBONNEMACPAS.COM



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, 2019 and 2018 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, 2019 and 2018, 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.

Emphasis of Matter

We draw attention to Note 11 of the financial statements which describes the uncertainty resulting from the declaration by the World Health Organization of a pandemic due to the outbreak of the COVID-19 coronavirus. Our opinion is not modified with respect to this matter.

Freeman & Bonnema, PLLC

May 26, 2020

Mercy Hill Church
Statements of Financial Position
As of December 31, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 920,845	\$ 1,315,045
Restricted Cash - Sinking Fund	22,084	15,355
Note Receivable - Current Portion	52,500	-
Sales Tax Receivable	8,858	-
Prepaid Expense	-	22,162
Total Current Assets	1,004,287	1,352,562
<u>Property and Equipment</u>		
Land, Buildings and Improvements	4,569,860	4,492,148
Leasehold Improvements	2,261,044	1,065,853
Furniture and Equipment	1,162,942	856,908
Total Cost	7,993,846	6,414,909
Less Accumulated Depreciation	800,608	539,059
Net Property and Equipment	7,193,238	5,875,850
<u>Other Assets</u>		
Escrow Funds	-	108,679
Note Receivable - Long Term Portion	22,500	-
Security Deposit	20,336	20,336
Total Other	42,836	129,015
 Total Assets	 8,240,361	 7,357,427
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	62,254	90,931
Accrued Interest Payable	13,999	14,088
Payroll Liabilities	-	10,428
Other Liabilities	18,379	108,996
Line of Credit	500,000	-
Current Portion of Long-Term Debt	79,000	39,000
Total Current Liabilities	673,632	263,443
<u>Long-Term Liabilities</u>		
Long-Term Debt	2,846,488	2,916,132
 Total Liabilities	 3,520,120	 3,179,575
<u>Net Assets</u>		
Net Assets without Donor Restrictions		
Net Investment in Property and Equipment	3,796,171	3,073,162
Unrestricted - Undesignated	924,070	1,104,690
Total Net Assets without Donor Restrictions	4,720,241	4,177,852
 Total Liabilities and Net Assets	 8,240,361	 7,357,427

Mercy Hill Church
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2019 and 2018

	2019	2018
<u>SUPPORT AND REVENUES</u>		
Tithes and Offerings	\$ 5,713,021	\$ 4,908,401
Ministry Support	19,636	136,722
Interest Income	9,632	10,004
Total Support and Revenues	5,742,289	5,055,127
<u>EXPENSES</u>		
Program Activities	4,647,107	3,689,225
Supporting Services	552,793	515,629
Total Expenses	5,199,900	4,204,854
Change in Net Assets	542,389	850,273
Net Assets - Beginning of Year	4,177,852	3,327,579
Net Assets - Ending of Year	4,720,241	4,177,852

See Notes to Financial Statements

Mercy Hill Church
Statement of Functional Expenses
For the Year Ended December 31, 2019

	<u>Program Expense</u>	<u>General and Administrative</u>	<u>Total</u>
<u>Operating Expenses</u>			
Salaries, Benefits and Payroll Taxes	\$ 2,704,854	\$ 300,539	\$ 3,005,393
Bank, Service and Processing Fees	-	58,017	58,017
Communications Expense	56,926	-	56,926
Equipment Expense	16,092	1,788	17,880
Facility Maintenance and Repairs	122,624	13,625	136,249
Insurance	22,173	2,463	24,636
Information Technology	60,082	6,676	66,758
Ministry Expense	425,445	-	425,445
Missions Expense	200,475	-	200,475
Office Expenses	15,520	6,097	21,617
Professional Fees	-	70,960	70,960
Rent Expense - Regional Road Campus	276,667	30,741	307,408
Rent Expense - High Point Campus	132,975	-	132,975
SENT Initiative	56,290	-	56,290
Staff Development	57,782	6,420	64,202
Utilities	82,106	9,123	91,229
Total Operating Expenses	<u>4,230,011</u>	<u>506,449</u>	<u>4,736,460</u>
<u>Other Expenses</u>			
Depreciation Expense	235,393	26,155	261,548
Interest Expense	179,522	19,947	199,469
Trustee Fees	2,181	242	2,423
Total Other Expenses	<u>417,096</u>	<u>46,344</u>	<u>463,440</u>
Total Functional Expenses	<u><u>4,647,107</u></u>	<u><u>552,793</u></u>	<u><u>5,199,900</u></u>

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

	<u>Program Expense</u>	<u>General and Administrative</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
Facility Cost - Edgefield Road	50,414	12,604	63,018
Information Technology	29,295	9,765	39,060
Communications Expense	23,077	-	23,077
Total Operating Expenses	<u>3,364,827</u>	<u>488,949</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
Total Other Expenses	<u>324,398</u>	<u>26,680</u>	<u>351,078</u>
Total Functional Expenses	<u><u>3,689,225</u></u>	<u><u>515,629</u></u>	<u><u>4,204,854</u></u>

Mercy Hill Church
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	\$ 542,389	\$ 850,273
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities:		
Items not (Providing) Requiring Cash		
Depreciation	261,548	168,558
Amortization	9,356	9,356
Non-Cash Contribution of Note Receivable	(75,000)	-
Donation of Publicly Traded Securities	(130,768)	-
Changes in Current Assets and Liabilities:		
(Increase) Decrease in Prepaid Expense	22,162	4,111
(Increase) in Sales Tax Receivable	(8,858)	-
Increase (Decrease) in Accounts Payable	(28,677)	(21,651)
Increase (Decrease) in Accrued Interest Payable	(89)	-
Increase (Decrease) in Payroll Liabilities	(10,428)	2,365
Increase (Decrease) in Other Liabilities	(90,617)	108,996
Net Cash Provided (Used) by Operating Activities	<u>491,018</u>	<u>1,122,008</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from Sale of Investments	130,768	-
Lease Deposit Paid	-	(4,167)
Leasehold Improvements	(1,195,190)	(5,858)
Purchase of Property, Fixtures and Equipment	(383,746)	(1,143,655)
Net Cash Provided (Used) by Investing Activities	<u>(1,448,168)</u>	<u>(1,153,680)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Line of Credit	500,000	-
(Increase) Decrease in Sinking Fund	(6,729)	865
(Increase) Decrease in Escrow Funds	108,679	645,329
Principal Payments on Bonds	(39,000)	-
Net Cash Provided (Used) by Financing Activities	<u>562,950</u>	<u>646,194</u>
Change in Cash and Cash Equivalents	(394,200)	614,522
Cash and Cash Equivalents - Beginning of Year	<u>1,315,045</u>	<u>700,523</u>
Cash and Cash Equivalents - End of Year	<u><u>920,845</u></u>	<u><u>1,315,045</u></u>
<u>Supplemental Disclosure</u>		
Cash Paid for Interest	<u>190,202</u>	<u>169,060</u>

See Notes to Financial Statements

Mercy Hill Church
Notes to Financial Statements
December 31, 2019 and 2018

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 Elders 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 Board 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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018.

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, 2019 and 2018

3. LIQUIDITY

The following represents the Church's financial assets at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 920,845	\$ 1,315,045
Sinking fund	22,084	15,355
Note Receivable	75,000	-
Other Receivables	8,858	-
Total Financial Assets	<u>1,026,787</u>	<u>1,330,400</u>
Less: Amounts not available to be used within one year:		
Net Assets with Donor Restrictions	<u>-</u>	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>1,026,787</u></u>	<u><u>1,330,400</u></u>

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, 2019 and 2018. 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, 2019 and 2018 the Church's property and equipment were as follows:

	<u>2019</u>	<u>2018</u>
Land and Building:		
Edgefield Road	\$2,805,989	\$2,803,251
Clifton Road	1,763,871	1,688,897
Total Land and Building	<u>4,569,860</u>	<u>4,492,148</u>
Leasehold Improvements:		
Regional Road	1,067,510	1,035,830
High Point Campus	1,193,534	30,023
Total Leasehold Improvements	<u>2,261,044</u>	<u>1,065,853</u>
Furniture and Equipment	<u>1,162,942</u>	<u>856,908</u>
Total Cost	<u>7,993,846</u>	<u>6,414,909</u>
Accumulated Depreciation:		
Leasehold Improvements	307,749	236,043
Property and Equipment	492,859	303,016
Total Accumulated Depreciation	<u>800,608</u>	<u>539,059</u>
Net Property and Equipment	<u><u>7,193,238</u></u>	<u><u>5,875,850</u></u>

**Mercy Hill Church
Notes to Financial Statements
December 31, 2019 and 2018**

4. PROPERTY AND EQUIPMENT (continued)

In July 2014, the Church received properties at Edgefield Rd., Moutline Dr., and Donvic Dr. 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 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. The remaining cost of the properties are recorded as Edgefield Rd.

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.

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. Renovations to the Regional Rd. campus have been capitalized as leasehold improvements.

In November 2018, the Church 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. Renovations to the High Point campus were completed during the year-ended December 31, 2019 and have been capitalized as leasehold improvements.

5. NOTE RECEIVABLE

On May 10, 2019, the Church received a donation of a promissory note receivable with an original and current principal balance of \$75,000. The promissory note receivable is dated May 9, 2019 and due has a maturity of January 9, 2021. Principal payments of \$7,500 per sale of a residential housing lots in a subdivision are required; however, the maker should have paid a minimum of the following amounts regardless of the number of homes sold:

<u>Date</u>	<u>Amount</u>
February 9, 2020	\$ 22,500
August 9, 2020	52,500
January 9, 2021	75,000

The Church received the required minimum payment of \$22,500 on January 12, 2020.

6. SINKING AND ESCROW FUNDS

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

Escrow Funds

Proceeds from the issuance of the bonds were used to pay-off existing debt and other corporate purposes in the amount of \$1,337,383, and to establish separate project funds for renovation of the Church's properties in the amount of \$1,678,867. The use of the project funds was restricted for construction expenditures. The balance in the project funds was \$108,679 at December 31, 2018 and was used in full during the year ended December 31, 2019.

Mercy Hill Church
Notes to Financial Statements
December 31, 2019 and 2018

6. SINKING AND ESCROW FUNDS (continued)

Sinking Fund

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 was \$22,084 and \$15,355 at December 31, 2019 and 2018.

7. DEBT

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, 2019 and 2018, the balance of the bonds was \$3,136,000 and \$3,175,000.

A summary of the debt outstanding is as follows:

	2019	2018
First Mortgage Bonds	\$3,136,000	\$3,175,000
Less Unamortized Costs	210,512	219,868
Bonds Net of Finance Costs	2,925,488	2,955,132
Less Current Portion	79,000	39,000
Long-Term Portion	2,846,488	2,916,132

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 \$23,390 and \$14,034 at December 31, 2019 and 2018. As reflected in the above table, unamortized finance costs of \$210,512 and \$219,868 at December 31, 2019 and 2018 are reported in the statement of financial position as a direct deduction from the face amount of the debt.

Line of Credit

The Church obtained a revolving line of credit from Pinnacle Bank dated January 28, 2019, with a maximum advance amount of \$500,000 and maturing on January 28, 2020. Monthly payments of interest are due and any principal balance is due at maturity. The interest rate was 6.50% at December 31, 2020. The balance outstanding was \$500,000 at December 31, 2019.

The Line of Credit was renewed on January 22, 2020 in the same amount to mature on January 28, 2021.

**Mercy Hill Church
Notes to Financial Statements
December 31, 2019 and 2018**

7. DEBT (continued)

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

<u>Year Ending December 31,</u>	
2020	\$ 79,000
2021	81,000
2022	85,000
2023	89,000
2024	92,000

Components of interest expense for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Interest on Bonds	\$ 168,971	\$ 169,060
Amortization of Finance Cost	9,356	9,356
Interest Expense on Bonds	<u>178,327</u>	<u>178,416</u>
Interest Expense on Line of Credit	21,142	-
Interest Expense for Year	<u><u>199,469</u></u>	<u><u>178,416</u></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 included two additional five-year renewal options for the Church. On November 1, 2019, the lease was amended to reduce the renewal terms from four to one renewal term. The amended lease began on November 1, 2019 with a monthly base rent of \$34,373 per month for 48 months. 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 \$307,408 and \$337,379 for the years ended December 31, 2019 and 2018.

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. Annual rent expense was \$132,975 for the year ended December 31, 2019.

Mercy Hill Church
Notes to Financial Statements
December 31, 2019 and 2018

8. LEASES (continued)

Future minimum lease payments for campus facilities for leases at December 31, 2019, without consideration of optional renewal terms and common area expenses, are as follows:

<u>Year ended</u>	<u>Regional</u>	<u>High Point</u>
2020	\$ 412,477	\$ 132,975
2021	412,477	132,975
2022	412,477	132,975
2023	343,731	132,975

Equipment Leases

The Church has various operating leases for office equipment. Total lease expense for the years ended December 31, 2019 and 2018 was \$8,777 and \$9,970. Future minimum lease payments for leases at December 31, 2019 were as follows:

<u>Year Ending December 31,</u>	
2020	\$ 3,024
2021	3,024
2022	3,024
2023	3,024
2024	3,024

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 \$92,373 and \$67,515 for the years ended December 31, 2019 and 2018.

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 May 26, 2020, which is the date the financial statements were available to be issued.

Mercy Hill Church
Notes to Financial Statements
December 31, 2019 and 2018

11. SUBSEQUENT EVENTS (continued)

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen. In person services offered by the Church have been temporarily suspended, closure of all non-essential businesses in the Church's market area, and limitations of all in person meetings are likely to negatively impact change in net assets. Other financial impact could occur, though such potential impact is unknown at this time.

On April 15, 2020, the Church obtained a loan with Pinnacle Bank under the Paycheck Protection Program (PPP) with the SBA in the amount of \$457,962. If not forgiven under the guidelines of the PPP, the loan matures on April 15, 2022 and bears an interest rate of 1.00%. The funds may be used for payroll, employee benefits, mortgage interest and utilities. Any portion of the loan that is not forgiven is due in eighteen (18) consecutive monthly principal and interest payments beginning on November 15, 2020 to fully pay the outstanding balance. The loan is unsecured.