

**Mercy Hill Church  
Financial Statements  
December 31, 2017 and 2016**

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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, 2017 and 2016 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, 2017 and 2016, 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*

May 16, 2018

**Mercy Hill Church**  
**Statements of Financial Position**  
**As of December 31, 2017 and 2016**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 700,523	\$ 414,749
Restricted Cash - Sinking Fund	16,220	-
Prepaid Expense	26,273	-
Total Current Assets	<u>743,016</u>	<u>414,749</u>
<u>Property and Equipment</u>		
Land, Buildings and Improvements	2,748,576	2,825,339
Leasehold Improvements	971,919	958,419
Furniture and Equipment	430,312	421,304
Total Cost	<u>4,150,807</u>	<u>4,205,062</u>
Less Accumulated Depreciation	370,501	235,803
Net Property and Equipment	<u>3,780,306</u>	<u>3,969,259</u>
<u>Other Assets</u>		
Security Deposit	16,169	16,169
Escrow Funds	754,008	-
Construction in Progress	1,114,589	-
Total Other	<u>1,884,766</u>	<u>16,169</u>
Total Assets	<u>6,408,088</u>	<u>4,400,177</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	112,582	43,178
Accrued Interest Payable	14,088	-
Other Liabilities	8,063	7,478
Current Portion of Long-Term Debt	-	60,993
Total Current Liabilities	<u>134,733</u>	<u>111,649</u>
<u>Long-Term Liabilities</u>		
Long-Term Debt	<u>2,945,776</u>	<u>1,168,945</u>
Total Liabilities	<u>3,080,509</u>	<u>1,280,594</u>
<u>Net Assets</u>		
Net Investment in Property and Equipment	2,721,428	2,755,490
Unrestricted	606,151	364,093
Total Unrestricted Net Assets	<u>3,327,579</u>	<u>3,119,583</u>
Total Liabilities and Net Assets	<u>6,408,088</u>	<u>4,400,177</u>

See Notes to Financial Statements

**Mercy Hill Church**  
**Statements of Activities and Changes in Net Assets**  
**For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b><u>CHANGE IN UNRESTRICTED NET ASSETS</u></b>		
<u>Support and Revenues</u>		
Tithes, Offerings and Ministry Support	\$ 3,551,107	\$ 2,731,817
Rental Income	1,800	4,200
Investment Income	5,824	50
Gains (Losses) on Investments	860	67
Total Support and Revenues	3,559,591	2,736,134
<u>Expenses</u>		
Program Activities	2,929,739	2,151,752
Supporting Services	381,988	269,602
Fundraising Expense	39,868	2,360
Total Expenses	3,351,595	2,423,714
 Change in Net Assets	 207,996	 312,420
Net Assets - Beginning of Year	3,119,583	2,807,163
Net Assets - Ending of Year	3,327,579	3,119,583

See Notes to Financial Statements

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

	<u>Programs 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>3,121,934</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>3,340,962</u></u>

See Notes to Financial Statements

**Mercy Hill Church**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2016**

	<u>Programs Expense</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
<u>Operating Expenses</u>				
Salaries, Benefits and Payroll Taxes	1,090,543	121,883	-	1,212,426
Rent Expense - Regional Road	218,754	-	-	218,754
Ministry Expense	208,525	-	-	208,525
Missions Expense	168,439	-	-	168,439
SENT Initiative	109,919	-	-	109,919
Service and Processing Fees	-	64,018	-	64,018
Office Expenses	-	55,297	-	55,297
Facility Cost - Regional Road	47,909	-	-	47,909
Facility Cost - Edgefield Road	34,168	11,271	-	45,439
Facility Cost - Clifton Road	34,653	-	-	34,653
Staff Development	31,485	2,763	-	34,248
IT Expense	18,762	7,386	-	26,148
Communications Expense	24,206	-	-	24,206
Fundraising	-	-	2,360	2,360
Total Operating Expenses	<u>1,987,363</u>	<u>262,618</u>	<u>2,360</u>	<u>2,252,341</u>
<u>Other Expenses</u>				
Depreciation Expense	133,618	6,984	-	140,602
Interest Expense	30,771	-	-	30,771
Total Other Expenses	<u>164,389</u>	<u>6,984</u>	<u>-</u>	<u>171,373</u>
Total Functional Expenses	<u><u>2,151,752</u></u>	<u><u>269,602</u></u>	<u><u>2,360</u></u>	<u><u>2,423,714</u></u>

See Notes to Financial Statements

**Mercy Hill Church**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in Net Assets	\$ 207,996	\$ 312,420
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities:		
Items not (Providing) Requiring Cash		
Depreciation	144,050	140,602
Amortization	4,678	-
Loss on Sale of Property	8,940	-
Changes in Current Assets and Liabilities:		
(Increase) in Prepaid Expense	(26,273)	-
Increase (Decrease) in Accounts Payable	69,404	22,357
Increase in Accrued Interest Payable	14,088	-
Increase (Decrease) in Other Liabilities	585	3,112
Net Cash Provided (Used) by Operating Activities	<u>423,468</u>	<u>478,491</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Proceeds from Sale of Property	84,509	-
Construction in Progress Expenditures	(1,114,589)	-
Leasehold Improvements	(13,500)	(12,428)
Purchase of Property, Fixtures and Equipment	<u>(35,046)</u>	<u>(1,818,620)</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,078,626)</u>	<u>(1,831,048)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Proceeds from Bonds Payable	3,175,000	-
Finance Costs	(233,902)	-
Increase in Sinking Fund	(16,220)	-
Increase in Escrow Funds	(754,008)	-
Loan Proceeds - American National Bank	-	150,000
Loan Payments - American National Bank	(150,000)	-
Loan Proceeds - Life Community Church	-	1,100,000
Loan Payments - Life Community Church	<u>(1,079,938)</u>	<u>(20,062)</u>
Net Cash Provided (Used) by Financing Activities	<u>940,932</u>	<u>1,229,938</u>
Change in Cash and Cash Equivalents	285,774	(122,619)
Cash and Cash Equivalents - Beginning of Year	<u>414,749</u>	<u>537,368</u>
Cash and Cash Equivalents - End of Year	<u><u>700,523</u></u>	<u><u>414,749</u></u>
<b><u>Supplemental Disclosure</u></b>		
Cash Paid for Interest - Expensed	<u>45,620</u>	<u>30,771</u>
Cash Paid for Interest - Capitalized	<u>47,050</u>	<u>-</u>

See Notes to Financial Statements

**Mercy Hill Church**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**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

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the reported activities and changes in net assets, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Financial Statement Presentation

The Church reports net assets, revenues, gains and losses based upon donor-imposed restrictions. Accordingly, net assets of the Church and changes therein are classified and reported as follows:

Unrestricted – Represents those resources over which the board has discretionary control. Designated amounts represent those revenues which the Board of Trustees has set aside for a particular purpose, program or contingency. All property, equipment and related debt are considered unrestricted.

Temporarily Restricted – Represents those resources subject to donor-imposed restrictions which will be satisfied by actions of the Church or passage of time. Once the purpose or time restriction is satisfied, the temporarily restricted amounts are reclassified to unrestricted net assets. It is the Church's policy to reflect as unrestricted those contributions whose restrictions are met in the same period they are received.

Permanently Restricted – Represents those resources subject to a donor-imposed restriction that they be maintained permanently by the church.

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, 2017 and 2016**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Investments

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.

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.

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, 2017 and 2016, there were no outstanding unconditional promises to give that would require recognition of a pledge receivable.

Revenues are reported as increases in unrestricted net assets 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 unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by donor-imposed stipulations. Contributions with restrictions are reported as increases in temporarily or permanently restricted net assets, 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". It is the policy of the Church to report contributions with restrictions that are satisfied in the same period they are received as unrestricted support.

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.

Functional Allocation of Expense

The Church allocates its expenses on a functional basis among its various program services and supporting activities. Expenses that can be identified with a specific program or supporting activity are allocated according to their natural expenditure classification. Other expenses that are common to several functions (such as facility, property, information technology and certain personnel expenses) are allocated by various statistical bases.

**Mercy Hill Church  
Notes to Financial Statements  
December 31, 2017 and 2016**

**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, 2017 and 2016, 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, 2017 and 2016.

**3. PROPERTY AND EQUIPMENT**

At December 31, 2017 and 2016 the Church's property and equipment were as follows:

	<u>2017</u>	<u>2016</u>
Land and Building:		
Moutline Drive	\$ 40,000	\$ 40,000
Donvic Drive	-	102,800
Edgefield Road	1,078,838	1,065,337
Clifton Road	<u>1,645,239</u>	<u>1,617,202</u>
Total Land and Building	<u>2,764,077</u>	<u>2,825,339</u>
Leasehold Improvements -		
Regional Road	958,419	958,419
Furniture and Equipment	<u>430,312</u>	<u>421,304</u>
Total Cost	<u>4,152,808</u>	<u>4,205,062</u>
Accumulated Depreciation		
Leasehold Improvements	171,637	108,269
Property and Equipment	<u>206,166</u>	<u>127,534</u>
Total Accumulated Depreciation	<u>377,803</u>	<u>235,803</u>
Net Property and Equipment	<u>3,775,005</u>	<u>3,969,259</u>

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.

**Mercy Hill Church**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**4. 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 \$754,008 at December 31, 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 \$16,220 at December 31, 2017.

**5. 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 are expected to be completed during the year ended December 31, 2018 with funds from the escrow accounts.

**6. DEBT**

The Church was obligated on notes payable as follows:

- 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 and a maturity of April 20, 2020. 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.
- 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.

**Mercy Hill Church**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**6. DEBT (continued)**

The Church issued First Mortgage Bonds as follows:

- 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 1<sup>st</sup> and December 1<sup>st</sup>, 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, 2017, the balance of the bonds was \$3,175,000.

A summary of the debt outstanding is as follows:

	<u>2017</u>	<u>2016</u>
American National Bank	\$ -	\$ 150,000
Less Current Portion	<u>-</u>	<u>31,405</u>
Long-Term Portion	<u>-</u>	<u>118,595</u>
Life Community Church, Inc.	-	1,079,938
Less Current Portion	<u>-</u>	<u>29,588</u>
Long-Term Portion	<u>-</u>	<u>1,050,350</u>
First Mortgage Bonds	\$3,175,000	-
Less Unamortized Costs	<u>229,224</u>	<u>-</u>
Bonds Net of Finance Costs	<u>2,945,776</u>	<u>-</u>
Less Current Portion	<u>-</u>	<u>-</u>
Long-Term Portion	<u>2,945,776</u>	<u>-</u>
Total Long-Term Debt	<u>2,945,776</u>	<u>1,168,945</u>

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 \$4,678 at December 31, 2017. Deferred finance costs are reported on the statement of financial position as a direct deduction from the face amount of the debt and amortization of the deferred costs is included as a component of interest expense.

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

	<u>Year Ending December 31,</u>
2018	\$ -
2019	39,000
2020	79,000
2021	81,000
2022	85,000

**Mercy Hill Church  
Notes to Financial Statements  
December 31, 2017 and 2016**

**6. DEBT (continued)**

Components of interest expense for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Interest on Bonds	\$ 85,000	\$ -
Amortization of Loan Finance Costs	4,678	-
Interest Capitalized to Construction in Progress	( 47,050)	-
Interest on Bank Loans	21,758	30,771
Interest Expense for Year	64,386	30,771

**7. LEASES**

Campus Facilities

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 \$252,962 and \$218,754 for the years ended December 31, 2017 and 2016. Future minimum lease payments for campus facilities for leases at December 31, 2017, without consideration of optional renewal terms and common area expenses, are as follows:

Year ended Dec 31,

2018	\$ 238,229
2019	241,156
2020	241,156
2021	100,482
2022	-

Equipment Leases

The Church has various operating leases for office equipment. Total lease expense for the years ended December 31, 2017 and 2016 was \$9,750 and \$1,335.

Future minimum lease payments for leases at December 31, 2017 were as follows:

Year ended Dec 31,

2018	\$ 9,970
2019	5,416

**Mercy Hill Church**  
**Notes to Financial Statements**  
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**8. RETIREMENT PLAN**

The Church sponsors a 403(b)-retirement plan for qualifying employees. Total expense incurred by the Church related to the plan was \$51,091 and \$34,823 for the years ended December 31, 2017 and 2016.

**9. 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.

**10. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 16, 2018, which is the date the financial statements were available to be issued.