

**Hillside United Methodist
Church, Inc.
Audited Financial Statements
December 31, 2017**

**Bambo Sonaïke CPA, LLC
707 Whitlock Avenue Building B Suite 21 Marietta GA 30064
P: 770.956.6455 F: 678.559.0659 www.cpa-service.com**

Hillside United Methodist Church, Inc.
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707 Whitlock Avenue
Building B Suite 21
Marietta, Georgia 30064

Office: 770-956-6455

Fax: 678-559-0659

www.cpa-service.com

INDEPENDENT AUDITORS' REPORT

To The Board of Directors:
Hillside United Methodist Church, Inc.
Woodstock, Georgia

We have audited the accompanying financial statements of Hillside United Methodist Church, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Hillside United Methodist Church, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Bambo Sonaike CPA, LLC

March 2, 2018

Hillside United Methodist Church, Inc.
Statement of Financial Position
As of December 31, 2017

Assets

Cash and cash equivalents	\$ 634,508
Real estate notes receivable ^(note 5)	64,907
Property and equipment ^{(net) (note 1 & 2)}	<u>4,708,553</u>
Total assets	<u><u>5,407,968</u></u>

Liabilities

Accounts payable and accrued liabilities	9,240
Mortgage obligation ^(note 3)	1,110,226
Mortgage related financial instrument ^(note 4)	<u>174,402</u>
Total liabilities	<u>1,293,868</u>

Net assets

Unrestricted	3,826,936
Temporarily restricted	287,164
Permanently restricted	<u>-</u>
Total net assets	<u>4,114,100</u>

Total liabilities & net assets	<u><u>\$ 5,407,968</u></u>
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The accompanying notes are an integral part to these financial statements.

Hillside United Methodist Church, Inc.
Statement of Activities
For the year ended December 31, 2017

	Unrestricted	Temporarily restricted	Total
Revenue			
Contributions	\$ 2,136,644	\$ -	\$ 2,136,644
Restricted contributions	-	493,272	493,272
Non-operating revenue	150,661	-	150,661
Interest income	2,621	-	2,621
Total revenues	2,289,926	493,272	2,783,198
Net assets released from restrictions	556,242	(556,242)	-
Expenses			
Program services			
General program	458,405	-	458,405
Children ministries	228,480	-	228,480
Youth ministries	186,889	-	186,889
Adult ministries	92,312	-	92,312
Music and worship	294,303	-	294,303
Missions and outreach	211,591	-	211,591
Inreach membership	93,376	-	93,376
Support services			
Management & general	1,151,767	-	1,151,767
Total expenses	2,717,123	-	2,717,123
Other revenues (expenses)			
Realized loss from sale of donated securities	172	-	172
Unrealized gain on hedging activities ^(note 4)	101,130	-	101,130
Total other revenues (expenses)	101,302	-	101,302
Change in net assets	230,347	(62,970)	167,377
Net assets, beginning of the year	3,596,589	350,134	3,946,723
Net assets, end of the year	\$ 3,826,936	\$ 287,164	\$ 4,114,100

The accompanying notes are an integral part to these financial statements.

Hillside United Methodist Church, Inc.
Statement of Functional Expenses
For the year ended December 31, 2017

	Program Services							Support Services	
	General program	Children ministries	Youth ministries	Adult ministries	Music and worship	Missions and outreach	Inreach membership	Management & general	Total
Salaries	\$ 110,316	\$ 205,850	\$ 114,074	\$ -	\$ 226,950	\$ 72,525	\$ 89,500	\$ 198,503	\$ 1,017,718
Benefits	71,933	-	-	-	47,629	-	-	214,051	333,613
Payroll taxes	-	-	-	-	-	-	-	75,363	75,363
Professional fees	27,404	1,590	699	-	-	-	-	9,821	39,514
Sub-contracts	-	-	-	-	2,950	-	-	-	2,950
Advertising	6,045	-	-	-	-	-	-	-	6,045
Office expenses	5,547	1,616	-	-	26	-	413	18,303	25,905
Computer related expenses	-	-	-	-	-	-	-	11,976	11,976
Utilities	-	-	-	-	-	-	-	85,411	85,411
Travel expenses	-	-	3,672	-	-	-	-	-	3,672
Interest	-	-	-	-	-	-	-	118,739	118,739
Bank charges	-	-	-	-	-	-	-	2,532	2,532
Repairs & maintenance	-	-	-	-	-	-	-	77,023	77,023
Deprecation	-	-	-	-	-	-	-	112,396	112,396
Insurance	-	-	-	-	-	-	-	30,516	30,516
Supplies	-	8,688	3,733	-	6,338	-	-	-	18,759
Other operating expenses	59,448	9,728	5,551	6,739	10,410	349	3,463	154,615	250,303
Restricted expenses	177,712	1,008	59,160	85,573	-	138,717	-	42,518	504,688
Total expenses	<u>\$ 458,405</u>	<u>\$ 228,480</u>	<u>\$ 186,889</u>	<u>\$ 92,312</u>	<u>\$ 294,303</u>	<u>\$ 211,591</u>	<u>\$ 93,376</u>	<u>\$ 1,151,767</u>	<u>\$ 2,717,123</u>

The accompanying notes are an integral part to these financial statements.

Hillside United Methodist Church, Inc.
Statement of Cash Flows
For the year ended December 31, 2017

Cash flow from operating activities:

Change in net assets	\$ 167,377
Reconciliation of change in net assets to cash provided (required) by operating activities:	
Depreciation ^(note 1 and 2)	112,396
Unrealized gain on hedging activities	(101,130)
Change in operating assets and liabilities	
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(1,734)
Net cash provided (required) by operating activities	176,909

Cash flow from investing activities:

Purchases of property and equipment	(46,554)
Payments received for real estate notes receivable	7,713
Net cash provided (required) by investing activities	(38,841)

Cash flow from financing activities:

Additional repayment of mortgage obligation	(5,000)
Required repayment of mortgage obligation	(139,108)
Net cash provided (required) by financing activities	(144,108)

Increase (decrease) in cash	(6,040)
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Beginning balance of cash	640,548
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Ending balance of cash	\$ 634,508
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Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	\$ 108,910
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Cash paid for income taxes	\$ -
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Non-cash transactions:

Donation of securities	\$ -
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The accompanying notes are an integral part to these financial statements.

Hillside United Methodist Church, Inc.
Notes to the Financial Statements
December 31, 2017

1. Organization and summary of significant accounting policies.

Organization

Hillside United Methodist Church, Inc. (the Organization) was incorporated on September 5, 1997 in the State of Georgia. The Organization is a local United Methodist Church formed to promote the Christian religion through the preaching of the word of God.

Basis of accounting and financial statements presentation

The financial statements are reported using the accrual basis of accounting. All of the Organization's assets, liabilities, net assets, revenue and expenses have been reflected in accordance with the accrual method.

The financial statements presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958, Not-for-Profit Entities. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets

These are assets that are not subject to donor imposed or grantor-imposed restrictions.

Temporarily restricted assets

These are assets that are subject to donor imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets

These are assets subject to donor imposed stipulations permanently by the Organization. Generally, the donors of these assets permit an organization to use all or part of the income earned on any related investments for general or specific purposes.

Cash and cash equivalent

Cash consists of cash on hand at the Organization and checking accounts held at financial institutions. Cash equivalents are considered to be short term investments with original maturities of three months or less from date of acquisition in authorized financial institutions. The table below summarizes the cash position as of December 31, 2017:

Unrestricted cash	\$ 367,638
Restricted cash - contributions	266,870
Cash and cash equivalent	<u>\$ 634,508</u>

Property and equipment

Property and equipment are stated at cost, or if donated, at their estimated fair value at the date of the gift. Such donations are reported as unrestricted support unless the donor restricted the

Hillside United Methodist Church, Inc.
Notes to the Financial Statements
December 31, 2017

donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed into service as instructed by the donor.

Expenditures for property and equipment additions are reviewed for estimated useful life and major improvements or renewals are capitalized if the costs exceed \$5,000 while repairs and maintenance are charges to operations as incurred. Depreciation is computed by the straight-line method over the estimated useful lives as stated in Note 3 below. At the time assets are retired or disposed, costs and accumulated depreciation are eliminated from the related accounts and gains or losses, if any, are credited or charged to income.

Revenue recognition

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

The Organization reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the consolidated statement of activities.

Interest income from notes receivable is recorded on a monthly basis using the terms set forth in Note 5 below.

Use of estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Income tax

The Organization is a not-for-profit entity under section 501(c)(3) of the Internal Revenue Code and is not subject to federal or state income taxes.

Employee benefit plans

Pension plan

The Organization offers a pension plan to the ordained ministers through the North Georgia Conference of the United Methodist Church. As of December 31, 2017, pension expenses totaling \$63,844 were recorded in the statements of activities as benefits.

Hillside United Methodist Church, Inc.

Notes to the Financial Statements

December 31, 2017

401K Plan

The Organization sponsors a 401(k) profit sharing plan which covers substantially all employees, as defined in the plan document. The Organization's contribution is discretionary and is determined by its Board of Directors on an annual basis. The Organization made contributions of \$7,764 for the year ended December 31, 2017.

Financial instruments

In accordance with the requirements of ASC No. 820, "Fair Value Measurements and Disclosures", the Organization has determined the estimated value of its financial instruments using available market information and valuation methodologies. The Organization's financial instruments consist of interest swap and interest floor/cap derivatives. Considerable judgment is required to develop the estimates of fair value; thus, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The Organization believes the carrying values of these asset and liabilities is a reasonable estimate of their fair market values.

The fair values of the Organization's financial instruments are recorded as assets or liabilities on the statement of financial position. The gains or losses are recorded in the statement of activities under the other revenue/ expenses section.

Fair value

FASB ASC 820-10, "Fair Value Measurement and Disclosures", defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC 820-10, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

- Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 – are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Fair value is a market-based measure, based on assumptions of prices and inputs considered from the perspective of a market participant that are current as of the measurement date, rather than an entity-specific measure. Therefore, even when observable inputs are not readily available, the Organization's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The availability of valuation techniques and observable

Hillside United Methodist Church, Inc.
Notes to the Financial Statements
December 31, 2017

inputs can vary from investment to investment and are affected by a wide variety of factors, including the type of investment, whether the investment is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgment exercised by the Organization in determining fair value is greatest for investments categorized in Level 3. In some cases, the inputs used to measure fair value might be categorized within different levels of the fair value hierarchy. In such cases, the fair value measurement is generally categorized in its entirety in the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. The Organization's policy for determining when transfers between levels of fair value hierarchy occur is the date of the event or the change in circumstances that caused the transfer.

As of December 31, 2017, the Organization's financial statements presented these assets and liabilities in accordance with the level of fair value described above are as follows:

Description	Level 1	Level 2	Level 3	Total
Financial instrument- Interest rate cap	\$ -	\$ (174,402)	\$ -	\$ (174,402)
Total fair value liability	\$ -	\$ (174,402)	\$ -	\$ (174,402)

Investments – donated securities

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. All of the Organization's investments are level 1 inputs. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Unrealized gains and losses are included in change in net asset. Investment income and gains restricted by a donor are reported as increases in unrealized net assets if the restrictions are met in the reporting period in which the income and gains are recorded. Investment activity for the year ended consisted of the following:

Donated securities beginning balance as of 1/1/17	\$ 2,562
Donated securities recorded as contributions	25,137
Proceeds from sale of donated securities	(25,370)
Realized gain from sale of donated securities	172
Donated securities ending balance as of 12/31/17	<u>\$ 2,501</u>

Hillside United Methodist Church, Inc.
Notes to the Financial Statements
December 31, 2017

2. Property and equipment

Property and equipment activity for the year ended consists of the following:

	Beginning	Additions	Reductions	Ending	Estimated useful lives
Land	\$ 2,912,800	\$ -	\$ -	\$ 2,912,800	-
Building and improvements	3,743,694	37,794	-	3,781,488	15 - 39 years
Other property, plant and equipment	78,781	8,760	-	87,541	5 years
Total costs	6,735,275	46,554	-	6,781,829	
Accumulated depreciation	(1,960,880)	(112,396)	-	(2,073,276)	
Property, plant and equipment	\$ 4,774,395	\$ (65,842)	\$ -	\$ 4,708,553	

For the year ended December 31, 2017, depreciation expense in the amount of \$112,396 was recorded in the statement of activities.

3. Mortgage obligation

Mortgage payable activity for the year consisted of the following:

	Beginning balance	Additions	Reductions	Ending balance
Mortgage obligation	\$ 1,254,334	\$ -	\$ (144,108)	\$ 1,110,226

The terms of the mortgage obligation are as follows:

Loan is Secured by	Original Balance	Original Maturity Date	Interest Rate	Payment Frequency	Principal Amortization	Prepayment Ability
Church Building	\$ 4,102,660	10/7/2020	see below	monthly	Yes	Yes

The Organization is required to meet certain compliance requirements in accordance with its mortgage obligation agreements throughout the term of the mortgage obligation. The Organization's swap agreement effectively fixes the interest rate (Libor + 1.4%) of the mortgage obligation at 6.55%. During the year, the Organization incurred interest expense in the amount of \$118,739.

The required annual principal payments on the mortgage obligation outstanding at December 31, 2017 are as follows:

Hillside United Methodist Church, Inc.
Notes to the Financial Statements
December 31, 2017

Year ended December 31,	
2018	148,627
2019	157,869
2020	803,730
Total	<u>\$ 1,110,226</u>

4. Mortgage related financial instruments

The Organization is exposed to interest rate cash flow risk to the extent that its mortgage obligations are at a floating rate of interest. As such, the Organization entered into an interest rate swap agreement on October 3, 2005 with a notional amount of \$3.7 million to manage the interest rate risk on the mortgage obligation. The swap agreement termination date is October 7, 2020. The swap effectively fixes the underlying LIBOR rate of the mortgage obligation at 6.55%. As of December 31, 2017, mortgage related financial instruments consisted of the following:

Cummulative unrealized gain (loss) as of 12/31/16	\$ (275,532)
Unrealized gain for five months ended 12/31/17	101,130
Cummulative unrealized gain (loss) as of 12/31/17	<u>\$ (174,402)</u>

5. Real estate notes receivable

The Organization entered into a 15-year promissory note relating to the sale of the donated land. The present value of the promissory note is recorded in the statement of financial position. Balance of the promissory note as of December 31, 2017 is as follows:

	Beginning	Additions	Reductions	Ending
Real estate note receivable	\$ 72,620	\$ -	\$ (7,713)	\$ 64,907

The amortization expense for discount on notes receivable was recorded in the interest and fee income on notes receivable in the statement of activities.

The terms of the promissory note are as follows:

Real estate note is Secured by	Original Balance	Original Maturity Date	Interest Rate	Payment Frequency	Payment start date
Land	\$ 85,000	11/26/2026	3.75%	monthly	12/30/2014

Hillside United Methodist Church, Inc.
Notes to the Financial Statements
December 31, 2017

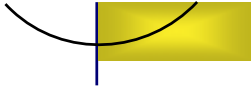
6. Subsequent events

The Organization evaluated subsequent events through the date the financial statements were available to be issued. The Organization is not aware of any subsequent events, which would require recognition or disclosure in the accompanying financial statements.

Supplemental Information



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MANAGEMENT LETTER

To the Board of Directors of
Hillside United Methodist Church, Inc.
Woodstock, Georgia

We have audited the accompanying financial statements of Hillside United Methodist Church, Inc. ("the Organization"), as of and for the year ended December 31, 2017.

During our audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. We will review the status of our comments during our next audit engagement. We have already discussed many of these comments and suggestions with personnel at your organization. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

1. Supporting approval of expenses

Criteria:

The Organization did not maintain consistent documentation for approval of disbursements and payroll expenses.

Recommendation

We recommend that the Organization:

- a. Establish and adopt a process to document all aspects of each financial transaction including the issuance and approval of invoices, check requests, expense reimbursements, and purchase orders with the approved signatures.
- b. Establish a detailed review process to ensure the transactions being recorded have adequate support for both the purpose and the amount of the transaction.
- c. Establish and adopt a document retention policy, a filing system, and a plan to prevent the loss of supporting documents in the future.

Bambo Sonaike CPA, LLC

March 2, 2018

–End of Report–