

HERITAGE CHRISTIAN CHURCH
FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2023 AND 2022



CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountant's Review Report

To the Board of Elders
Heritage Christian Church
Westerville, Ohio

We have reviewed the accompanying financial statements of Heritage Christian Church (Church) which comprise the statement of financial position as of August 31, 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Heritage Christian Church and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads 'Perks Pusateri'.

Westerville, Ohio
December 11, 2023

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HERITAGE CHRISTIAN CHURCH

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2023 AND 2022

ASSETS	<u>2023</u>	<u>2022</u>
Current assets		
Cash	\$ 2,003,654	\$ 2,354,699
Prepaid expenses	5,981	5,453
Total current assets	<u>2,009,635</u>	<u>2,360,152</u>
Land, buildings and equipment		
Land	549,212	549,212
Buildings and improvements	11,521,459	11,509,910
Furniture and office equipment	566,610	554,515
Total	<u>12,637,281</u>	<u>12,613,637</u>
Less accumulated depreciation	5,737,148	5,411,205
Land, buildings and equipment, net	<u>6,900,133</u>	<u>7,202,432</u>
Other assets		
Operating lease ROU assets (net of amortization)	33,850	-
Total other assets	<u>33,850</u>	<u>-</u>
Total assets	<u>\$ 8,943,618</u>	<u>\$ 9,562,584</u>
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and payroll liabilities	\$ 14,135	\$ 17,227
Current portion of operating lease liabilities	10,750	-
Deposits	517	517
Total current liabilities	<u>25,402</u>	<u>17,744</u>
Long-term liabilities		
Non-current portion of operating lease liabilities	24,570	-
Total long-term liabilities	<u>24,570</u>	<u>-</u>
Total liabilities	49,972	17,744
Net assets		
Without donor restrictions	8,396,365	9,150,330
With donor restrictions	497,281	394,510
Total net assets	<u>8,893,646</u>	<u>9,544,840</u>
Total liabilities and net assets	<u>\$ 8,943,618</u>	<u>\$ 9,562,584</u>

See accompanying notes and independent accountant's report.

HERITAGE CHRISTIAN CHURCH

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED AUGUST 31, 2023 WITH COMPARATIVE TOTALS FOR 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>	
			<u>2023</u>	<u>2022</u>
Support and revenue				
Contributions	\$ 2,147,160	\$ 427,286	\$ 2,574,446	\$ 2,810,586
Pathways counseling receipts	449,247	-	449,247	322,508
Heritage Builders Academy	11,510	-	11,510	11,023
Heritage Christian Preschool	311,094	-	311,094	203,627
Rent, interest, and miscellaneous	35,286	-	35,286	11,479
Employee retention credit	-	-	-	533,644
Restrictions satisfied by payments	324,515	(324,515)	-	-
	<u>3,278,811</u>	<u>102,771</u>	<u>3,381,582</u>	<u>3,892,867</u>
Total support and revenue				
Expenses				
Program services	3,611,331	-	3,611,331	3,614,359
Management and general	421,445	-	421,445	393,255
	<u>4,032,776</u>	<u>-</u>	<u>4,032,776</u>	<u>4,007,614</u>
Total expenses				
Change in net assets	(753,965)	102,771	(651,194)	(114,747)
Net assets at beginning of year	<u>9,150,330</u>	<u>394,510</u>	<u>9,544,840</u>	<u>9,659,587</u>
Net assets at end of year	<u>\$ 8,396,365</u>	<u>\$ 497,281</u>	<u>\$ 8,893,646</u>	<u>\$ 9,544,840</u>

See accompanying notes and independent accountant's report.

HERITAGE CHRISTIAN CHURCH

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ (651,194)	\$ (114,747)
Adjustments to reconcile change in net assets to net cash provided by (used by) operating activities:		
Depreciation and amortization	336,645	328,055
(Increase) decrease in operating assets		
Prepaid expenses	(528)	(525)
Operating lease ROU assets	(44,552)	-
Increase (decrease) in operating liabilities		
Accounts payable and payroll liabilities	(3,092)	119
Operating lease liabilities	35,320	-
Net cash provided by (used by) operating activities	<u>(327,400)</u>	<u>212,902</u>
Cash flows from investing activities		
Payments for property and equipment	(23,644)	(83,685)
Net cash (used by) investing activities	<u>(23,644)</u>	<u>(83,685)</u>
Net increase (decrease) in cash	(351,045)	129,217
Cash at beginning of year	<u>2,354,699</u>	<u>2,225,482</u>
Cash at end of year	<u>\$ 2,003,654</u>	<u>\$ 2,354,699</u>
Supplemental disclosures:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes and independent accountant's report.

HERITAGE CHRISTIAN CHURCH

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED AUGUST 31, 2023 WITH COMPARATIVE TOTALS FOR 2022

	Program	Management	Totals	
	Services	and General	2023	2022
Salaries	\$ 1,417,756	\$ 198,330	1,616,086	\$ 1,537,179
Housing allowance	249,645	99,524	349,169	300,604
Payroll taxes	79,002	15,172	94,174	78,962
Health and life insurance	190,360	41,280	231,640	279,804
Retirement	69,064	7,933	76,997	73,227
Total compensation	<u>2,005,827</u>	<u>362,239</u>	<u>2,368,066</u>	<u>2,269,776</u>
Nonemployee compensation	8,132	-	8,132	8,587
Missions	342,844	-	342,844	408,749
Heritage Builders Academy	10,084	-	10,084	10,313
Heritage Christian Preschool	86,301	-	86,301	15,371
Pathways counseling	35,402	-	35,402	31,275
Benevolence and Care ministries	8,358	-	8,358	13,866
Family Life and other ministries	5,035	-	5,035	1,699
Student ministries	18,891	-	18,891	14,271
Children's ministries	13,833	-	13,833	11,647
Connections	13,632	-	13,632	9,252
Hospitality	9,914	-	9,914	6,560
Worship	78,632	-	78,632	56,907
Occupancy				
Insurance	-	26,209	26,209	26,370
Supplies	12,268	-	12,268	9,500
Repairs and maintenance	86,357	-	86,357	89,250
Utilities	141,144	-	141,144	131,549
Office, printing, and other administrative expenses	37,574	17,682	55,256	50,097
Lease liability interest	1,518	-	1,518	-
Computer expenses	60,352	-	60,352	58,960
Telecommunication expenses	33,403	-	33,403	35,738
Professional fees	-	15,315	15,315	14,750
Designated expenses for missions and other	265,184	-	265,184	405,072
Total expenses before depreciation	<u>3,274,686</u>	<u>421,445</u>	<u>3,696,130</u>	<u>3,679,559</u>
Depreciation and amortization	<u>336,645</u>	<u>-</u>	<u>336,645</u>	<u>328,055</u>
Total expenses 2023	<u>\$ 3,611,331</u>	<u>\$ 421,445</u>	<u>\$ 4,032,776</u>	
Total expenses 2022	<u>\$ 3,614,359</u>	<u>\$ 393,255</u>		<u>\$ 4,007,614</u>

See accompanying notes and independent accountant's report.

HERITAGE CHRISTIAN CHURCH

Notes to Financial Statements

August 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies

Organization

Heritage Christian Church (the Church) is a non-denominational Christian fellowship of believers located in Westerville, Ohio. The purpose of the Church is to be faithful to the will of Jesus Christ for the local church as it is revealed in the Holy Bible. Our intent is to help one another **follow Jesus** as faithful **disciples** by moving toward God in **worship**, toward one another in **community**, and toward the world on **mission**. As God leads, the Church is receptive to advancing the kingdom of God through church planting, extension worship locations, counseling services, and other ministries. These statements are acknowledged and accepted as the mission statement of the congregation.

Basis of Accounting

The financial statements of the Church have been prepared on the accrual basis of accounting and, accordingly, reflect all significant prepaids, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the U.S. generally accepted accounting principles promulgated by the Financial Accounting Standards Board. Under these principles, the Church is required to report information regarding its financial position and activities according to the classes of net assets without donor restrictions and with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash consists of bank checking and money market savings accounts. For purposes of the Statements of Cash Flows, the Church considers all highly liquid debt instruments purchased with a maturity of one year or less to be cash equivalents.

Land, Buildings and Equipment

Property and equipment are recorded at cost or, in the case of donated property, at the appraised or estimated fair value at the date of receipt. All property and equipment purchases over \$1,000 are capitalized if their useful lives exceed one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 - 40 years. Costs of repairs and maintenance are charged to operating expense as incurred.

HERITAGE CHRISTIAN CHURCH
Notes to Financial Statements (Continued)
August 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies (continued)

Contribution Recognition

Contributions received are recorded as contributions without donor restrictions and contributions with donor restrictions, depending on the existence and/or the nature of any donor restrictions. The Church reports gifts of cash as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Pledges

The Church's policy is to record pledges on a cash basis as intentions to give. Consequently, pledge revenue is recorded when received. The Church has no legal means to collect pledges and the pledgor is under no legal obligation to make payment. In a prior year, the Church conducted a Fix It campaign for various improvements and upgrades. There are no pledges receivable for this campaign as of August 31, 2023 and 2022, although the Church continues to receive contributions during the year. Revenue is recorded when pledged.

Contributed Services and Fixed Assets

Many members of the Church donate significant amounts of time to the Church in furthering its programs and ministries. No amounts have been included in the financial statements for these services.

Compensated Absences

Employees are entitled to paid vacations, sick days and personal days off, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Church recognizes the cost of compensated absences when paid.

Federal Income Taxes

The Church is incorporated as a not-for-profit organization and is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. Contributions to the Church are tax-deductible within the limitations prescribed by the Code.

Functional Allocation of Expenses

The costs of providing the various programs and ministries have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Compensation expense is allocated to function on the basis of time spent in each function by employees. Certain expenses for classes, trips, retreats, men's and women's ministries, and other events and ministries are shown net of participants' reimbursements.

HERITAGE CHRISTIAN CHURCH
Notes to Financial Statements (Continued)
August 31, 2023 and 2022

Note 1 - Summary of Significant Accounting Policies (continued)

Comparative Financial Information

The Church presented the Statement of Activities and the Statement of Functional Expenses for the year ended August 31, 2023 with summary comparative totals for the year ended August 31, 2022. Because the 2022 information does not include income and expense information by restriction and functional classification, that presentation does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Church's 2022 financial statements, from which the summary comparative totals were derived.

Leases

The Church recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Church is a lessee in two noncancellable operating leases for a copier and postage machine. The Church determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Church recognizes a lease liability and a right of use (ROU) asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise the Church uses its incremental borrowing rate. The implicit rates of our leases are not readily determinable and accordingly, we use our incremental borrowing rate based on the information available at the commencement date for all leases. The Church's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. Under ASC 842, the Church has elected to use the risk-free rate as its incremental borrowing rate. The risk-free rate is the theoretical rate of return that would be received on an investment with zero risk. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured liability lease (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

The Church has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that The Church is reasonably certain to exercise. We recognize lease costs associated with our short-term leases on a straight-line basis over the lease term. See Note 7.

Note 2 - Cash and Concentration of Credit Risk

Cash in 2023 and 2022 includes \$417,038 and \$394,510, respectively, restricted for special programs and purposes.

Cash exceeded the federally insured limit at August 31, 2023 and 2022 by \$841,892 and \$882,265, respectively.

The Church is supported by contributions from its members. The Church's market is concentrated in the Columbus, Ohio geographical area.

HERITAGE CHRISTIAN CHURCH
Notes to Financial Statements (Continued)
August 31, 2023 and 2022

Note 3 - Liquidity and Availability

The Church's financial assets available within one year of the balance sheet date for general expenditure are:

	<u>2023</u>	<u>2022</u>
Financial Assets at Year End		
Cash and cash equivalents	\$ 2,003,654	\$ 2,354,699
Accounts Receivable	---	---
Total Financial Assets available to meet general expenditures within one year	<u>\$ 2,003,654</u>	<u>\$ 2,354,699</u>

The Church has funds for certain programs with donor restrictions which are held at year end but are expected to be used within the next year. These funds are typically used within a year and are not held for periods greater than a year.

Note 4 - Net Asset with Donor Restrictions

Net assets were released from donor restrictions by incurring expenses that satisfy the purpose restrictions specified by donors. During the years ended August 31, 2023 and 2022, the Church expended funds from temporarily restricted net assets for the following purposes:

	<u>2023</u>	<u>2022</u>
Fix It	\$ 10,594	\$ 42,140
Benevolence	9,850	7,000
Lead pastors' discretionary	---	95,312
OCCRRA grant	59,331	---
Various missions and ministries	<u>244,740</u>	<u>280,078</u>
	<u>\$ 324,515</u>	<u>\$ 424,530</u>

Net assets with donor restrictions are available for the following purposes at August 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Fix It	\$ 42,858	\$ 43,178
Benevolence	192,204	155,304
Lead pastors' discretionary	89,479	89,479
OCCRA grant	81,669	---
Various missions and ministries	<u>92,497</u>	<u>106,549</u>
	<u>\$ 497,281</u>	<u>\$ 394,510</u>

The net assets restricted for the lead pastors' discretion represents gifts the Church received that donors specifically designated to be used to support ministry initiatives sponsored by the lead pastors.

Note 5 - Related Party

One of the Church's lead pastors is also the executive director of the Bridge.

HERITAGE CHRISTIAN CHURCH
Notes to Financial Statements (Continued)
August 31, 2023 and 2022

Note 6 - Retirement Plan

For the licensed ministers who have chosen to elect out of social security coverage, the Church has contributed 7.65% of their compensation comprised of the total of their salary and housing allowance towards a life insurance policy. This expense totaled \$30,562 and \$36,728 for the years ending August 31, 2023 and 2022, respectively. In addition, the Church sponsors a Section 401(k) salary reduction plan that covers all eligible employees. For those eligible employees who elect to contribute to the plan, the Church will match 100% of each employee's contribution up to 3%. Thereafter, the Church will match 50% on the next 2%, up to a maximum of 4%. This expense totaled \$46,435 and \$36,499 for the years ended August 31, 2023 and 2022, respectively.

Note 7 - Operating Leases

The Church has obligations as a lessee for a copier and postage machine with initial noncancelable terms in excess of one year. The Church classified these leases as operating leases. These leases generally contain renewal options for periods ranging from two to five years. Because the Church is not reasonably certain to exercise these renewal options, the optional periods are not included in determining the lease term, and associated payments under these renewal options are excluded from lease payments. The Church's leases do not include termination options for either party to the lease or restrictive financial or other covenants. Payments due under the lease contracts include fixed payments.

Operating lease costs are reported in the statement of activities under Depreciation and amortization and Lease liability interest. The components of lease cost for the year ended August 31, 2023 are as follows:

Amortization expense	\$ 10,702
Interest expense	<u>1,518</u>
Total operating lease cost	<u>\$ 12,220</u>

Maturities of lease liabilities under noncancellable operating leases as of August 31, 2023 are as follows:

Year Ending December 31,	Amount
2024	\$ 10,750
2025	10,118
2026	8,855
2027	<u>7,748</u>
Total undiscounted lease payments	\$ 37,471
Less imputed interest	<u>(2,151)</u>
Total lease liabilities	<u>\$ 35,320</u>

Note 8 - Interest in Limited Liability Company

In January 2013, the Church helped organize and is one of three members of a nonprofit limited liability company, The Bridge Community Center, LLC ("Bridge"), which operates a mission center on the west side of Columbus, Ohio, ministering to the Somali community and other refugees.

During 2021, the Church formed two separate non-profit limited liability companies, Heritage Pathways Counseling, LLC and Heritage Preschool, LLC. These limited liability companies are operating under the Church as separate entities, but their operations are combined in the financial statements.

HERITAGE CHRISTIAN CHURCH
Notes to Financial Statements (Continued)
August 31, 2023 and 2022

Note 9 - Subsequent Events

The Church has evaluated subsequent events through December 11, 2023 which is the date the financial statements were available to be issued.