

HOUSTON NORTHWEST BAPTIST CHURCH

REPORT OF EXAMINATION

For the Year Ended December 31, 2017 and the Ten Months Ended December 31, 2016

Hajovsky, Jones & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Houston, Texas

HAJOVSKY, JONES & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
14614 FALLING CREEK, SUITE 105
HOUSTON, TEXAS 77068
(281) 440-0142
FAX (281) 440-9409

MICHAEL J. HAJOVSKY, C.P.A.
RICHARD A. JONES, C.P.A.

MEMBERS
AMERICAN INSTITUTE
CERTIFIED PUBLIC ACCOUNTANTS

April 25, 2018

INDEPENDENT AUDITORS' REPORT

Finance Committee
Houston Northwest Baptist Church
Houston, Texas

We have audited the accompanying financial statements of Houston Northwest Baptist Church which comprise the statements of assets, liabilities and net assets – modified cash basis as of December 31, 2017 and 2016, and the related statements of activity and cash flows – modified cash basis for the year and the ten months 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 the modified cash basis of accounting as described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal controls 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 risk 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.

April 25, 2018

INDEPENDENT AUDITORS' REPORT (continued)

Auditor's Responsibility (continued)

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 assets, liabilities and net assets of Houston Northwest Baptist Church as of December 31, 2017 and 2016, and its support, revenue and expenses for the year and the ten months then ended, in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

We draw attention to Note A of the financial statements, which describes the change in accounting period. Management has changed the accounting period from a fiscal year ending at the end of February to the calendar year. As a result, the comparative statements of activity and cash flows cover the year ended December 31, 2017 and the ten months ended December 31, 2016.

Hajovsky, Jones & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS

HOUSTON NORTHWEST BAPTIST CHURCH
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
MODIFIED CASH BASIS

ASSETS	December 31,	
	2017	2016
Current assets:		
Cash - including interest bearing accounts	\$ 3,719,210	\$ 2,413,773
Petty cash	937	937
Total current assets	3,720,147	2,414,710
Fixed assets:		
Land	2,455,144	2,455,144
Buildings and improvements	9,531,561	12,077,041
Furniture, fixtures and equipment	168,282	421,656
Computer equipment	70,234	221,240
Other equipment	1,183,581	1,742,727
	13,408,802	16,917,808
Less accumulated depreciation	6,344,680	9,489,953
	7,064,122	7,427,855
Total assets	\$ 10,784,269	\$ 9,842,565
LIABILITIES AND NET ASSETS		
Current liabilities:		
Deferred revenue	\$ 345,776	\$ 21,972
Current portion of long-term debt	2,793,995	115,509
Total current liabilities	3,139,771	137,481
Other liabilities:		
Long-term debt - net of current portion above	-	2,793,995
Total other liabilities	-	2,793,995
Total liabilities	3,139,771	2,931,476
Net assets:		
Unrestricted	5,844,398	5,533,566
Temporarily designated	1,800,100	1,377,523
Total net assets	7,644,498	6,911,089
Total liabilities and net assets	\$ 10,784,269	\$ 9,842,565

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

HOUSTON NORTHWEST BAPTIST CHURCH
STATEMENTS OF ACTIVITY
MODIFIED CASH BASIS

	Unrestricted		Temporarily Designated	
	For the Year and		Ten Months Ended	
	2017	2016	2017	2016
Support and revenue:				
Tithes and offerings	\$ 3,951,072	\$ 3,266,084	\$ 1,164,158	\$ 890,423
Interest income	887	1,047		
Insurance proceeds	570,987	-		
Ministry revenues	363,457	425,105		
Total support and revenue	<u>4,886,403</u>	<u>3,692,236</u>	<u>1,164,158</u>	<u>890,423</u>
Reclassification of temporarily designated net assets satisfied by payments	<u>741,581</u>	<u>279,103</u>	<u>(741,581)</u>	<u>(279,103)</u>
Total support and reclassifications	<u>5,627,984</u>	<u>3,971,339</u>	<u>422,577</u>	<u>611,320</u>
Expenses:				
Ministries (program services):				
Missions	408,791	439,466		
Christian development:				
Students	103,588	105,996		
Creative arts and media	333,658	51,089		
Childrens	83,053	113,781		
Mother's Day Out	162,079	133,458		
Family and other ministries	12,864	17,178		
Discipleship	95,939	76,581		
Church Plants	35,891			
Hospitality and communications	94,658	44,481		
Seminary scholarships	11,995	9,000		
Total ministries	<u>1,342,516</u>	<u>991,030</u>	<u>-</u>	<u>-</u>
Supporting services:				
Administrative	229,094	157,236		
Facilities	1,018,289	935,359		
Flood cleanup	452,750	-		
Fundraising	39,962	-		
Pastoral and support staff	2,234,542	1,864,002		
Total supporting services	<u>3,974,637</u>	<u>2,956,597</u>	<u>-</u>	<u>-</u>
Total expenses	<u>5,317,152</u>	<u>3,947,627</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	310,832	23,712	422,577	611,320
Net assets - beginning of year	<u>5,533,566</u>	<u>5,509,854</u>	<u>1,377,523</u>	<u>766,203</u>
Net assets - end of year	<u>\$ 5,844,398</u>	<u>\$ 5,533,566</u>	<u>\$ 1,800,100</u>	<u>\$ 1,377,523</u>

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

HOUSTON NORTHWEST BAPTIST CHURCH
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS

	Year Ended December 31, <u>2017</u>	Ten Months Ended December 31, <u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 733,409	\$ 635,032
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities -		
Depreciation and amortization	290,874	334,932
Increase (decrease) in deferred revenue	<u>323,804</u>	<u>(7,606)</u>
Net cash provided by operating activities	<u>1,348,087</u>	<u>962,358</u>
 Cash flows from investing activities:		
Insurance proceeds received for flooded assets	365,129	
Purchase of fixed assets	<u>(292,270)</u>	<u>(89,877)</u>
Net cash provided by or used for investing activities	<u>72,859</u>	<u>(89,877)</u>
 Cash flows from financing activities:		
Payments on long-term debt	<u>(115,509)</u>	<u>(90,896)</u>
Net cash used for financing activities	<u>(115,509)</u>	<u>(90,896)</u>
 Net increase in cash	1,305,437	781,585
Cash at beginning of year	<u>2,414,710</u>	<u>1,633,125</u>
Cash at end of year	<u>\$ 3,720,147</u>	<u>\$ 2,414,710</u>
 Interest expense paid during the year - included in facilities	<u>\$ 176,732</u>	<u>\$ 152,481</u>

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

HOUSTON NORTHWEST BAPTIST CHURCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE A - Summary of Significant Accounting Policies:

Organization -

Houston Northwest Baptist Church serves the northwest area of Houston and Harris County. The vision of the Church is to make Houston more like Heaven by helping Houstonians become more like Jesus. The mission of the Church is to lead people to live life so others will see Jesus.

Basis of Accounting -

The Church's policy is to prepare its financial statements on the modified cash basis of accounting; consequently, certain revenues are recognized when received and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred.

Change in Accounting Period –

Management has changed the accounting period from a fiscal year ending at the end of February to the calendar year. As a result, the prior period statement of activity and statement of cash flow cover ten months from March 1, 2016 to December 31, 2016.

Net Assets -

Net assets of the Church consist of the following:

- Unrestricted: Undesignated – Available for General Activities – These net assets are available for general obligations of the Church.
- Temporarily Designated (Temporarily Restricted) – These net assets are restricted by donors to be used for some specific purpose or by time limitations.

The Church has no permanently restricted net assets.

Contributions -

Contributions from Church members and others provide substantially all of the revenue used to provide the services of the Church. Contributions received are recorded as unrestricted or temporarily designated support, depending on the existence and/or nature of any donor restrictions. Gifts of cash and other assets are reported as temporarily designated support if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily designated net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

HOUSTON NORTHWEST BAPTIST CHURCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE A - Summary of Significant Accounting Policies (continued) –

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets 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 Church reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Church reclassifies temporarily designated net assets to unrestricted net assets at that time.

Fixed Assets -

Fixed assets are recorded at cost if purchased and at estimated fair value if donated. Depreciation expense is computed on the straight-line method over the following estimated useful lives:

Buildings	20-30 years
Furniture and fixtures	10 years
Equipment	10 years

Depreciation expense is included in the statement of activity in the following expenses and amounts:

Ministries – Christian Development – Students	\$ 2,237
Ministries – Christian Development – Creative Arts and Media	16,003
Supporting Services – Administrative	1,373
Supporting Services – Facilities	<u>214,152</u>
	<u>\$233,765</u>

Cash

For purposes of the cash flow statement, cash consists of all bank accounts and petty cash.

Donated Services -

A large number of Church members and others have contributed significant amounts of time to the ministries of the Church without compensation. The financial statements do not reflect the value of those contributed services because, although clearly substantial, no reliable basis exists for determining an appropriate amount.

Donated Securities -

Marketable securities received as contributions are valued at fair market value. It is the practice of the Church to sell such securities immediately or shortly after the date of acquisition. Therefore, any gain or loss from holding the securities is not significant to the financial statements and is not recorded separately herein.

HOUSTON NORTHWEST BAPTIST CHURCH
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE A - Summary of Significant Accounting Policies (continued) –

Estimates -

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses.

Deferred Revenue –

Revenue from ministries which has been collected but is attributable to the subsequent accounting period in the amount of \$44,178 and donations received in a fundraising campaign which were intended for 2018 in the amount of \$198,438 are accounted for in the balance sheet as deferred revenue. Also included in deferred revenue is insurance proceeds of \$103,160 which will be used in 2018 for flood damage restoration and rebuilding.

NOTE B - Long-term Debt:

The Church has a note payable to Bank of the West, secured by the Church's real property and other assets. The note is repayable in monthly principal payments of \$9,329 through June 2017 and then \$9,923 through May 2018 followed with payment of the remaining principle due June 2018. Interest is due monthly at the annual rate of 6.1%. The entire balance of \$2,793,995 is shown as a current liability although it is anticipated that all or a portion of the debt will be refinanced in 2018.

Interest expense paid on all notes for the periods ended December 31, 2017 and 2016, was \$176,732 and \$152,481, respectively, which is included in supporting services – facilities in the statement of activity.

NOTE C - Temporarily Designated Net Assets (Temporarily Restricted Net Assets):

Tithes and offerings designated by the donor for a particular purpose are separately accounted for in the financial statements as temporarily designated net assets. As these amounts are expended for the designated purpose they are reclassified as unrestricted net assets. Temporarily designated net assets as of December 31, 2017 includes \$1,030,386 for debt reduction, \$68,892 for facility upgrades, \$190,219 for benevolence, \$193,401 for local and global missions, \$283,603 for Houston area flood relief and \$33,599 for other ministries of the Church.

All other tithes and offerings are shown as unrestricted net assets. In addition to the temporarily restricted net assets above, the Church has reserved \$430,259 of unrestricted net assets for specified purposes.

HOUSTON NORTHWEST BAPTIST CHURCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE D - Functional Allocation of Expenses:

The costs of providing the various ministries of the Church have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Salaries and benefits have not been allocated on a functional basis but are included in pastoral and support staff. A significant portion of this expense is directly related to the ministries of the church.

NOTE E - Significant Concentrations of Credit Risk:

The Church maintains its cash accounts with Wells Fargo Bank and Bank of the West and maintains deposits in excess of insured limits.

The Church also has \$1,300,000 invested with the Southern Baptists of Texas Foundation in a loan pool consisting of the debt of Southern Baptist churches and other ministries. These funds are not insured and are subject to investment risks. The funds are shown as cash due to the highly liquid nature of the account.

NOTE F – Subsequent Events:

Subsequent events were evaluated through April 25, 2018, which is the date the financial statements were available to be issued.

NOTE G – Income Tax Status:

The Church is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and related state statutes. Further, the Church is not required to and does not file any state or federal tax returns other than payroll reports.

NOTE H – Hurricane Harvey Flood Losses:

The Church suffered damages to fixed assets from the flooding of its facilities due to Hurricane Harvey in August 2017. Fixed assets with an original cost of \$3,801,276 have been determined to be destroyed. The net asset value (cost less accumulated depreciation) of the assets destroyed by the flooding was \$365,129, offset by a portion of the insurance proceeds received in 2017. Additional insurance proceeds of \$103,160 are included in deferred income. The Church will incur additional costs in 2018 which will absorb the deferred income and additional insurance proceeds to be received in 2018.

In addition to the loss reflected in the statement of activity are expenses incurred to clean up the flooded property and the purchase of fixed assets needed to operate the Church. Insurance proceeds in the amount of \$570,987 attributable to the cleanup and the purchase of fixed assets is reflected as revenue in the statement of activity.