

HOUSTON NORTHWEST BAPTIST CHURCH

REPORT OF EXAMINATION

For the Years Ended December 31, 2018 and 2017

Hajovsky, Jones & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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June 5, 2019

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, 2018 and 2017, and the related statements of activity, cash flows and functional expenses – modified cash basis 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 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.

June 5, 2019

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, 2018 and 2017, and its support, revenue and expenses for the years 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.

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,	
	2018	2017
Current assets:		
Cash - including interest bearing accounts	\$ 1,414,152	\$ 2,419,210
Short -term investments	449,019	1,300,000
Petty cash	937	937
Total current assets	1,864,108	3,720,147
Fixed assets:		
Land	2,534,144	2,455,144
Buildings and improvements	11,345,503	9,531,561
Furniture, fixtures and equipment	312,973	168,282
Computer equipment	70,234	70,234
Other equipment	1,346,492	1,183,581
	15,609,346	13,408,802
Less accumulated depreciation	6,662,565	6,344,680
	8,946,780	7,064,122
Other assets		
Loan costs (net of accumulated amortization)	87,414	-
	87,414	-
 Total assets	 \$ 10,898,302	 \$ 10,784,269
LIABILITIES AND NET ASSETS		
Current liabilities:		
Deferred revenue	\$ 42,228	\$ 345,776
Current portion of long-term debt	-	2,793,995
Total current liabilities	42,228	3,139,771
Other liabilities:		
Long-term debt - net of current portion above	-	-
Total other liabilities	-	-
Total liabilities	42,228	3,139,771
Net assets:		
Without donor restrictions	10,328,330	5,844,398
With donor restrictions	527,744	1,800,100
Total net assets	10,856,074	7,644,498
 Total liabilities and net assets	 \$ 10,898,302	 \$ 10,784,269

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

HOUSTON NORTHWEST BAPTIST CHURCH
STATEMENTS OF ACTIVITY
MODIFIED CASH BASIS

	Without Donor Restrictions		With Donor Restrictions	
	For the Years Ended			
	2018	2017	2018	2017
Support and revenue:				
Tithes and offerings	\$ 6,406,787	\$ 3,951,072	\$ 791,436	\$ 1,164,158
Interest income	39,826	887		
Insurance proceeds	728,653	570,987		
Ministry revenues	296,252	363,457		
Total support and revenue	7,471,518	4,886,403	791,436	1,164,158
Net assets released from restrictions	2,063,792	741,581	(2,063,792)	(741,581)
Total support and reclassifications	9,535,310	5,627,984	(1,272,356)	422,577
Expenses:				
Ministries (program services):				
Missions	585,242	408,791		
Christian development:				
Students	146,833	103,588		
Creative arts and media	80,276	333,658		
Childrens	76,213	83,053		
Mother's Day Out (MDO)	158,734	162,079		
Family and other ministries	27,972	12,864		
Discipleship	36,916	95,939		
Church Plants	70,233	35,891		
Hospitality and communications	78,109	94,658		
Seminary scholarships	7,844	11,995		
Total ministries	1,268,372	1,342,516	-	-
Supporting services:				
Administrative	236,911	229,094		
Facilities	909,250	1,018,289		
Flood cleanup	186,073	452,750		
Fundraising	83,900	39,962		
Pastoral and support staff	2,366,871	2,234,542		
Total supporting services	3,783,005	3,974,637	-	-
Total expenses	5,051,377	5,317,152	-	-
Increase (decrease) in net assets	4,483,933	310,832	(1,272,356)	422,577
Net assets - beginning of year	5,844,398	5,533,566	1,800,100	1,377,523
Net assets - end of year	\$ 10,328,330	\$ 5,844,398	\$ 527,744	\$ 1,800,100

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

HOUSTON NORTHWEST BAPTIST CHURCH
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS

	For the Years Ended	
	December 31, 2018	December 31, 2017
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 3,211,577	\$ 733,409
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operating activities -		
Depreciation and amortization	320,899	290,874
Increase (decrease) in deferred revenue	(303,548)	323,804
Net cash provided by operating activities	3,228,928	1,348,087
Cash flows from investing activities:		
Insurance proceeds received for flooded assets	-	365,129
Payment of loan costs	(90,428)	-
Purchase of fixed assets	(2,200,544)	(292,270)
Net cash provided by or used for investing activities	(2,290,972)	72,859
Cash flows from financing activities:		
Payments on long-term debt	(2,793,995)	(115,509)
Net cash used for financing activities	(2,793,995)	(115,509)
Net increase (decrease) in cash	(1,856,039)	1,305,437
Cash at beginning of year	3,720,147	2,414,710
Cash at end of year	\$ 1,864,108	\$ 3,720,147
Interest expense paid during the year - included in facilities	\$ 85,402	\$ 176,732

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

HOUSTON NORTHWEST BAPTIST CHURCH
STATEMENT OF FUNCTIONAL EXPENSES
 For the Year Ended December 31, 2018
 MODIFIED CASH BASIS

	Missions	Students	Media	Children	MDO	Family	Discipleship	Church Plants	Hospitality	Seminary	Admin	Facilities	Flood	Fundraising	Staff	Totals
Salaries, benefits and payroll taxes:																
Pastors and ministers															1,565,168	1,565,168
Staff															684,436	684,436
Mothers Day Out (MDO)					127,733										82,210	127,733
Other																82,210
Bank fees											1,994					1,994
Benevolence	251,135															251,135
Books/curriculum				15,368		893										16,261
Camps and activities		120,626		40,593		2,418										163,637
Computer equipment and software											144,146					144,146
Contract services			3,300										186,073			186,073
Demolition																3,300
Digital purchases and licenses			7,475		5,698											7,475
Equipment			42,387													42,387
Equipment leasing												28,495				28,495
Facilities					1,754											1,754
Hurricane Harvey repairs												86,729				86,729
Insurance												51,798				51,798
Interest expense												85,402				85,402
Lay counseling						12,734										12,734
Maintenance												146,404				146,404
Meals					1,218	4,688					570					10,648
Office											41,478					41,478
Other facility costs											16,091					17,794
Other ministry expenses		8,670	2,338			50	28,805									55,954
Printing														27,814		27,814
Professionals fees														47,689		47,689
Promotions and communications										41,417						48,049
Rent					11,400		5,301									11,400
Scholarships		5,650		1,774						7,844						15,266
Security									21,001			2,262				23,263
Spanish ministry						6,016										6,016
Special events				7,892					8,280					8,397		24,579
Supplies			4,601	3,361	10,052				6,690			8,338				33,042
Support and Grants				1,831												408,981
Training/education/retreats	334,107			4,063	879		2,810	70,233	711		31,259				18,661	55,573
Travel															16,396	16,396
Utilities												190,392				190,392
Widow's care																1,173
Depreciation		11,887	16,003								1,373	288,622				317,885
Amortization																3,014
Totals	585,242	146,833	80,276	76,213	158,734	27,972	36,916	70,233	78,109	7,844	236,911	909,250	186,073	83,900	2,366,871	5,051,377

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

HOUSTON NORTHWEST BAPTIST CHURCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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.

Net Assets -

Net assets of the Church consist of the following:

- Without Donor Restrictions – These net assets are available for general obligations of the Church.
- With Donor Restrictions – These net assets are restricted by donors to be used for some specific purpose or by time limitations.

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 with donor restrictions or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Gifts of cash and other assets are reported as support with donor restrictions 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, 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.

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 net assets with donor restrictions to net assets without donor restrictions at that time.

HOUSTON NORTHWEST BAPTIST CHURCH
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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

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	\$ 11,887
Ministries – Christian Development – Creative Arts and Media	16,003
Supporting Services – Administrative	1,373
Supporting Services – Facilities	<u>288,622</u>
	<u>\$317,885</u>

Cash

For purposes of the cash flow statement, cash consists of all bank accounts, short term investment assets 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.

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.

HOUSTON NORTHWEST BAPTIST CHURCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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

Deferred Revenue –

Revenue from ministries which has been collected but is attributable to the subsequent accounting period in the amount of \$42,228 and \$44,178 for 2018 and 2017, respectively, and donations received in 2017 in a fundraising campaign which were intended for 2018 are accounted for in the balance sheet as deferred revenue.

NOTE B - Long-term Debt:

The Church had 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 in 2017 and it was repaid in full in 2018.

Interest expense paid on all notes for the periods ended December 31, 2018 and 2017, was \$85,402 and \$176,732, respectively, which is included in supporting services – facilities in the statement of activity.

The Church entered into a new loan agreement in the amount of \$10,500,000 with Frost Bank on August 28, 2018. The purpose of the new loan is to finance the construction of new buildings and other facilities and to purchase furniture and equipment to rebuild from the flooding in 2017. No amounts have been borrowed as of December 31, 2018. As of the date of this report, the amount of \$1,711,830 has been advanced under the loan agreement during 2019.

The new loan will be secured by the real property owned by the Church and other assets. Loan costs in the amount of \$90,428 were incurred in securing the loan agreement and are being amortized over the ten year period of the loan. Interest payments will be payable monthly after the first amount is advanced. Principal payments will begin September 2020 and continue until August 2028 when all principal will be due and payable.

NOTE C - Net Assets With Donor Restrictions:

Tithes and offerings designated by the donor for a particular purpose are separately accounted for in the financial statements as net assets with donor restrictions. As these amounts are expended for the designated purpose they are reclassified as net assets without donor restrictions. Net assets with donor restrictions as of December 31, 2018 includes \$73,856 for facility upgrades, \$226,603 for benevolence, \$156,634 for local and global missions, \$40,050 for Houston area flood relief and \$30,601 for other ministries of the Church.

All other tithes and offerings are shown as net assets without donor restrictions. The Church has reserved \$55,459 of net assets without donor restrictions for Church Plants.

HOUSTON NORTHWEST BAPTIST CHURCH

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

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 Frost Bank and maintains deposits in excess of insured limits.

The Church also has \$449,019 and \$1,300,000, as of December 31, 2018 and 2017, respectively, 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 June 5, 2019, 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.

In addition to the loss reflected in the statement of activity for 2017 are expenses incurred in 2018 and 2017 to clean up the flooded property and the purchase of fixed assets needed to operate the Church. Insurance proceeds attributable to the cleanup and the purchase of fixed assets is reflected as revenue in the statement of activity.