

**Mercy Hill Church  
Financial Statements  
December 31, 2025 and 2024**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Elders  
Mercy Hill Church  
Greensboro, NC

### **Opinion**

We have audited the accompanying financial statements of Mercy Hill Church (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2025 and 2024 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.

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, 2025 and 2024 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mercy Hill Church and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Hill Church's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Independent Auditor's Report  
Mercy Hill Church

**Auditor's Responsibilities for the Audit of the Financial Statements**

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mercy Hill Church's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Hill Church's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Freeman & Bornema, PLLC*

February 4, 2026

**Mercy Hill Church**  
**Statements of Financial Position**  
**As of December 31, 2025 and 2024**

	<b>2025</b>	<b>2024</b>
<b><u>ASSETS</u></b>		
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 2,846,421	\$ 7,892,700
Sales Tax Receivable	42,192	84,409
Receivable - NCB	20,000	-
Prepaid Expenses	114,657	-
Total Current Assets	3,023,270	7,977,109
<u>Property and Equipment</u>		
Land, Buildings and Improvements	43,399,381	11,811,899
Leasehold Improvements	1,296,339	2,367,264
Furniture and Equipment	3,756,745	1,324,912
Total Cost	48,452,465	15,504,075
Less Accumulated Depreciation	1,634,626	2,648,180
Net Property and Equipment	46,817,839	12,855,895
<u>Other Assets</u>		
Right of Use Asset - Operating	355,117	473,489
Security Deposit	-	22,446
Construction in Progress	-	28,098,529
Total Other	355,117	28,594,464
Total Assets	50,196,226	49,427,468
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<u>Current Liabilities</u>		
Accounts Payable and Accrued Expenses	131,521	48,687
Accrued Interest Payable	59,734	-
Construction Payable	-	397,644
Current Portion of Long-Term Debt	548,000	-
Current Portion of Operating Lease Liability	118,372	118,372
Current Portion of Finance Lease Liability	60,000	-
Total Current Liabilities	917,627	564,703
<u>Long-Term Liabilities</u>		
Accrued Long Term Incentive Compensation	61,953	-
Operating Lease Liability	236,745	355,117
Finance Lease Liability	110,000	-
Long-Term Debt	18,467,281	19,233,573
Total Long-Term Liabilities	18,875,979	19,588,690
Total Liabilities	19,793,606	20,153,393
<u>Net Assets</u>		
Net Assets without Donor Restrictions		
Without Restriction or Designation	1,892,369	7,439,714
Net Investment in Property and Equipment	27,572,824	21,576,238
Total Net Assets without Donor Restrictions	29,465,193	29,015,952
Net Assets with Donor Restrictions	937,427	258,123
Total Net Assets	30,402,620	29,274,075
Total Liabilities and Net Assets	50,196,226	49,427,468

See Notes to Financial Statements

**Mercy Hill Church**  
**Statements of Activities and Changes in Net Assets**  
**For the Years Ended December 31, 2025 and 2024**

	<b>2025</b>	<b>2024</b>
<b><u>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</u></b>		
<u>Offerings, Support and Revenues</u>		
Tithes and Offerings	\$ 11,865,641	\$ 12,918,341
Collaborative Income	156,274	-
Other Income and Ministry Support	193	5,304
Interest Income	74,400	171,181
Net Assets Released from Restrictions	216,721	251,228
Total Support and Revenues	12,313,229	13,346,054
<u>Expenses</u>		
Program Expenses	10,326,223	7,124,824
General and Administrative	1,029,477	798,662
Total Functional Expenses	11,355,700	7,923,486
Disposal of Leasehold Improvements	508,288	-
Total Expenses	11,863,988	7,923,486
Change in Net Assets without Donor Restrictions	449,241	5,422,568
<b><u>CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</u></b>		
Offerings and Support with Restrictions	896,025	162,951
Net Assets Released from Restrictions	(216,721)	(251,228)
Change in Net Assets with Donor Restrictions	679,304	(88,277)
Change in Net Assets	1,128,545	5,334,291
Net Assets - Beginning of Year	29,274,075	23,939,784
Net Assets - Ending of Year	30,402,620	29,274,075

See Notes to Financial Statements

**Mercy Hill Church**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2025**

	<u>Program Expense</u>	<u>General and Administrative</u>	<u>Total</u>
<b><u>Operating Expenses</u></b>			
Salaries, Benefits and Payroll Taxes	\$ 4,802,604	\$ 533,623	\$ 5,336,227
Adoption Ministry	27,060	-	27,060
Bank, Service and Processing Fees	-	115,807	115,807
Church Plant	121,788	-	121,788
Collaborative Expenses	156,274	-	156,274
Communications Expense	115,069	-	115,069
Conferences and Travel	82,185	9,132	91,317
Equipment Expense	109,540	5,765	115,305
Facility Maintenance and Repairs	235,791	14,613	250,404
Honorarium	22,224	-	22,224
Insurance	74,872	3,941	78,813
Information Technology	175,055	9,213	184,268
Ministry Expense	960,398	-	960,398
Missions Expense	908,382	-	908,382
Office Expense	48,366	6,272	54,638
Professional Fees	-	123,495	123,495
Rent Expense - Regional Road Campus	52,517	2,764	55,281
Rent Expense - High Point Campus	160,779	-	160,779
Safety	152,303	8,016	160,319
SENT Initiative	234,056	-	234,056
Staff Development	96,899	10,767	107,666
Utilities	219,326	11,543	230,869
Total Operating Expenses	<u>8,755,488</u>	<u>854,951</u>	<u>9,610,439</u>
<b><u>Other Expenses</u></b>			
Depreciation Expense	397,185	44,132	441,317
Interest Expense	1,173,550	130,394	1,303,944
Total Other Expenses	<u>1,570,735</u>	<u>174,526</u>	<u>1,745,261</u>
Total Functional Expenses	<u><u>10,326,223</u></u>	<u><u>1,029,477</u></u>	<u><u>11,355,700</u></u>

See Notes to Financial Statements

**Mercy Hill Church**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2024**

	<u>Program Expense</u>	<u>General and Administrative</u>	<u>Total</u>
<b><u>Operating Expenses</u></b>			
Salaries, Benefits and Payroll Taxes	\$ 3,942,997	\$ 438,111	\$ 4,381,108
Adoption Ministry	17,175	-	17,175
Bank, Service and Processing Fees	-	100,661	100,661
Church Plant	148,061	-	148,061
Communications Expense	113,561	-	113,561
Conferences and Travel	38,741	4,304	43,045
Equipment Expense	40,101	2,111	42,212
Facility Maintenance and Repairs	180,445	9,497	189,942
Honorarium	4,776	-	4,776
Insurance	54,689	2,878	57,567
Information Technology	167,317	8,807	176,124
Ministry Expense	636,060	-	636,060
Missions Expense	414,769	-	414,769
Office Expense	36,740	6,622	43,362
Professional Fees	-	138,227	138,227
Rent Expense - Regional Road Campus	423,283	22,278	445,561
Rent Expense - High Point Campus	156,154	-	156,154
Safety	110,568	5,820	116,388
SENT Initiative	25,289	-	25,289
Staff Development	110,816	12,313	123,129
Utilities	151,966	7,998	159,964
Total Operating Expenses	<u>6,773,508</u>	<u>759,627</u>	<u>7,533,135</u>
<b><u>Other Expenses</u></b>			
Depreciation Expense	351,316	39,035	390,351
Total Other Expenses	<u>351,316</u>	<u>39,035</u>	<u>390,351</u>
Total Functional Expenses	<u><u>7,124,824</u></u>	<u><u>798,662</u></u>	<u><u>7,923,486</u></u>

See Notes to Financial Statements

**Mercy Hill Church**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2025 and 2024**

	<b>2025</b>	<b>2024</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Change in Net Assets	\$ 1,128,545	\$ 5,334,291
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities:		
Items not (Providing) Requiring Cash:		
Depreciation	441,317	390,351
Amortization of Finance Costs	83,285	-
Loss on Disposal of Leasehold Improvements	508,288	-
Donation of Publicly Traded Securities	(86,141)	(620,647)
Changes in Current Assets and Liabilities:		
(Increase) Decrease in Prepaid Expenses	(114,657)	5,239
(Increase) Decrease in Sales Tax Receivable	42,217	308,297
(Increase) Decrease in Receivable - NCB	(20,000)	-
Increase (Decrease) in Accounts Payable	82,834	(32,979)
Increase (Decrease) in Accrued Interest Payable	59,734	-
Increase (Decrease) in Construction Payable	(397,644)	(4,220,660)
Net Cash Provided (Used) by Operating Activities	1,727,778	1,163,892
 <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Proceeds from Sale of Investments	86,141	620,647
Security Deposit	22,446	-
Purchase of Property, Fixtures and Equipment	(176,529)	(2,258,496)
Construction in Progress Expenditures	(6,466,491)	(9,855,147)
Net Cash Provided (Used) by Investing Activities	(6,534,433)	(11,492,996)
 <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>		
Long Term Incentive Compensation Accrual	61,953	-
Proceeds from Construction Loan	-	12,512,534
Principal Payments on Construction Loan	(301,577)	-
Net Cash Provided (Used) by Financing Activities	(239,624)	12,512,534
Change in Cash and Cash Equivalents	(5,046,279)	2,183,430
Cash and Cash Equivalents - Beginning of Year	7,892,700	5,709,270
Cash and Cash Equivalents - End of Year	2,846,421	7,892,700
 <b><u>Supplemental Disclosure</u></b>		
Cash Paid for Interest - Expensed	1,160,925	-
Cash Paid for Interest - Capitalized	-	871,197

**Mercy Hill Church**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

**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 and online.

The Church is a member of the Evangelical Council for Financial Accountability (ECFA).

**2. SUMMARY OF 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

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

Net assets, revenues, gains and losses are classified based upon donor-imposed restrictions. US GAAP requires the Church to report information regarding its financial position according to the following net asset classification:

Net Assets Without Donor Restrictions – Represents those resources over which the Board of Elders has discretionary control and may be expended for any purpose in performing the primary objectives of the Church. Designated amounts represent those revenues which the Board has set aside for a particular purpose. Property and equipment net of related debt is considered unrestricted.

Net Assets With Donor Restrictions – Represents those resources subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be satisfied by actions of the Church or passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Measure of Operations

The statement of activities reports changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Church’s ministry activities and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered unusual or nonrecurring.

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 an original maturity of three months or less.

**Mercy Hill Church**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

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

Investments

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.

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.

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, 2025 and 2024, there were no outstanding unconditional promises to give that would require recognition of a pledge receivable.

Revenues are reported as increases in Net Assets without Restrictions 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 Net Assets without Restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in Net Assets without Restrictions unless their use is restricted by donor-imposed stipulations. Contributions with restrictions are reported as increases in Net Assets with Restrictions, 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".

Amounts received with donor restrictions that are satisfied in the same period as received are recorded as net assets with donor restrictions.

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.

**Mercy Hill Church**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

**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, 2025 and 2024, 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 recognition thresholds 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, 2025 and 2024.

Functional Expenses

The cost of providing ministry programs and other activities has been summarized on a functional basis in the statement of functional expense. Supporting services include management and general expenses that are not directly identifiable with any specific function or program but provide for the overall support and direction of the Church. Certain costs have been allocated among ministry programs and supporting services. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, Benefits & Taxes	Time and effort
Staff Development	Time and effort
Facility & Rent (Occupancy)	Square footage
Equipment and IT	Time and effort
Depreciation	Square footage
Interest and Amortization	Square footage

Leases

The Church determines if an arrangement is a lease or contains a lease at inception of a contract. Leases are included in right-of-use (ROU) assets and lease liabilities in the Statement of Financial Position. Lease liabilities reflect the present value of the future minimum lease payments over the lease term. ROU assets reflect the related operating lease liability and also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term.

The Church does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less), or leases that are considered to be immaterial. Instead, the payments of those leases are reported as lease expense on a straight-line basis over the lease term.

**Mercy Hill Church  
Notes to Financial Statements  
December 31, 2025 and 2024**

**3. LIQUIDITY**

The following represents the Church's financial assets at December 31, 2025 and 2024:

	2025	2024
Financial Assets at Year End:		
Cash and Cash Equivalents	\$ 2,846,421	\$ 7,892,700
Receivables	62,192	84,409
Total Financial Assets	2,908,613	7,977,109
Less: Amounts not available to be used within one year:		
Net Assets with Donor Restrictions	937,427	258,123
Financial assets available to meet general expenditures over the next twelve months	1,971,186	7,718,986

In addition to financial assets available to meet general expenditures over the next 12 months, the Church operates with a balanced budget and anticipates collecting sufficient support to cover general expenditures not covered by donor restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Church's cash and shows positive cash generated by operations for the years ended December 31, 2025 and 2024. As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and bank savings accounts.

**4. PROPERTY AND EQUIPMENT**

Land and Buildings

In July 2014, the Church received properties at Edgefield Road, Moutline Drive, and Donvic Drive in Greensboro, NC, as a contribution from a 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 15, 2017, the Church sold the Donvic Drive property. The properties at Edgefield Road and Moutline Drive now serve as The Mercy Hill Student Center.

On May 23, 2016, the Church purchased the Clifton Road property for \$1,271,183 and has renovated the facility which is being used as a campus for ministry operations.

In November 2020, the Church received property in McLeansville, NC at Huffine Mill Trail as a contribution from a church that was in the process of dissolution. Pursuant to generally accepted accounting principles, the property was recorded at market value totaling \$1,111,400. The property is known as the Northeast Campus and is being used as a campus for ministry operations.

On December 22, 2021, the Church purchased property in Greensboro, NC at Pleasant Ridge Road for \$3,085,831. The Church has developed the property for another ministry campus with administrative offices (Note 5).

**Mercy Hill Church  
Notes to Financial Statements  
December 31, 2025 and 2024**

**4. PROPERTY AND EQUIPMENT (continued)**

Land and Buildings (continued)

On August 1, 2024, the Church purchased property in Martinsville, VA for \$2,125,041. The property and facility is utilized for staff and ministry events and as a retreat facility for ministry events.

Leased Buildings

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. Renovations to the Regional Rd. campus have been capitalized as leasehold improvements. In 2025, the Regional Road lease was terminated and the Church vacated the property. A loss on disposal of the assets was recorded in the amount of \$508,288.

In November 2018, the Church entered into a lease for a facility in High Point, NC and incurred expenditures for leasehold improvements.

Summary of Property and Equipment

At December 31, 2025 and 2024 the Church's property and equipment were as follows:

	<u>2025</u>	<u>2024</u>
Land and Building:		
Edgefield Road	\$ 3,178,078	\$ 3,155,675
Northeast Campus	1,504,361	1,494,561
Clifton Road	1,864,008	1,864,008
Pleasant Ridge Road	34,660,576	3,172,614
Mercy Hill Retreat Center	2,192,358	2,125,041
Total Land and Building	<u>43,399,381</u>	<u>11,811,899</u>
Leasehold Improvements:		
Regional Road	-	1,173,730
High Point Campus	1,296,339	1,193,534
Total Leasehold Improvements	<u>1,296,339</u>	<u>2,367,264</u>
Furniture and Equipment	<u>3,756,745</u>	<u>1,324,912</u>
Total Cost	<u>48,452,465</u>	<u>15,504,075</u>
Accumulated Depreciation:		
Leasehold Improvements	313,814	920,892
Property and Equipment	1,320,812	1,727,288
Total Accumulated Depreciation	<u>1,634,626</u>	<u>2,648,180</u>
Net Property and Equipment	<u>46,817,839</u>	<u>12,855,895</u>

**Mercy Hill Church**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

**5. CONSTRUCTION IN PROGRESS**

The Church acquired the Pleasant Ridge property at the end of 2021 (Note 4) and entered into an agreement to construct a facility for church and ministry services.

During the years ended December 31, 2022, 2023, 2024 and 2025, the Church incurred construction expenditures and other costs including architectural, engineering, permits and consulting fees with respect to development. Construction in Progress expenditures were capitalized and accumulated construction in progress expenditures was \$28,098,529 at December 31, 2024. During 2025, total construction in progress expenditures in the amount of \$31,504,901 was reclassified to Building and Improvements.

Included in Construction in Progress were amounts recorded as Construction Payable for expenditures incurred but not yet paid in the amount of \$397,644 at December 31, 2024.

**6. DEBT**

Pinnacle Bank

The Church obtained a revolving line of credit from Pinnacle Bank dated January 28, 2019, with a maximum advance amount of \$500,000 and maturing on January 28, 2020. The line of credit has been renewed, most recently on December 18, 2023, and now matures on December 28, 2024. The advance limit is now \$350,000. Monthly payments of interest are due, with any principal balance due at maturity. The interest rate is the bank's base rate, plus .75% with a floor of 5.50%. There was no balance outstanding on the line of credit at December 31, 2024 or 2023.

On December 19, 2022 the Church entered into a Promissory Note and Construction Loan Agreement with Pinnacle Bank for a construction loan with a maximum advance of \$19,650,000 and a maturity date of December 19, 2029. The loan is secured by assets identified in a Security Agreement including real property, improvements constructed or to be constructed thereon, a deposit account, an assignment of a life insurance policy on the life of the Church's Lead Pastor and other assets.

The loan is payable in monthly installments of interest only for the first 30 months of the loan followed by 53 monthly installments of principal and interest, based on the principal balance as of May 19, 2025 and a twenty (20) year amortization term. The interest rate is 5.85%. The monthly payments effective June 2025 are \$140,061. A final payment of accrued interest and any remaining principal shall be due at maturity on December 19, 2029.

During the first five (5) years of the loan, a prepayment premium in the amount of 1% of the principal prepaid by refinancing with another lender will be due. The loan agreement contains the certain loan covenants, including: (i) maintenance of a minimum debt service coverage ratio of 1.20 to 1.00 beginning December 31, 2024; (ii) the existing Line of Credit will be reduced to \$350,000; (iii) the First Mortgage Bonds must be paid off by December 31, 2024; (iv) the Key Man Life Insurance Policy of the Lead Pastor shall be maintained until the principal balance of the loan is below \$5,000,000; and (v) there will be no secondary financing for the project and any indebtedness in excess of \$100,000 in the aggregate without prior consent from the bank.

The balance of the loan was \$19,348,423 and \$19,650,000 at December 31, 2025 and 2024.

**Mercy Hill Church  
Notes to Financial Statements  
December 31, 2025 and 2024**

**6. DEBT (continued)**

Pinnacle Bank (continued)

The Church incurred various costs related to efforts to obtain financing by issuing the Pinnacle Bank Loan. These costs totaled \$416,427 and were capitalized and are being amortized over the term of the related debt. Deferred finance costs are reported on the statement of financial position as a deduction from the face amount of the debt. These costs are presented net of accumulated amortization.

A summary of the Construction Loan Payable at December 31, 2025 and 2024 is as follows:

	2025	2024
Construction Loan – Pinnacle Bank	\$ 19,348,423	\$ 19,650,000
Less Unamortized Finance Costs	333,142	416,427
Long-Term Debt Net of Finance Costs	19,015,281	19,233,573
Less: Current Portion	548,000	-
Net Loan Payable	18,467,281	19,233,573

Components of interest expense for the years ended December 31, 2025 and 2024 were as follows:

	2025	2024
Interest Expense on Construction Loan	\$1,220,659	\$871,197
Amortization of Loan Finance Costs	83,285	
Less Interest Capitalized	-	(871,197)
Interest Expense for Year	1,303,944	-

**7. LEASES**

Short-Term Lease – Regional Road Facility

In 2013, the Church entered into an agreement to lease property for its Regional Road campus. Between 2014 and 2016, the Church expanded into additional space in the Regional Road facility, and various amendments to the original lease agreements were executed. 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 included two additional five-year renewal options for the Church. On November 1, 2019, the lease was amended to reduce the renewal terms from four to one renewal term. The amended lease began on November 1, 2019, with a monthly base rent of \$34,373 per month for 48 months. On June 22, 2023, the lease was amended to extend the lease for an additional 9 months. The amended lease began on November 1, 2023, with a monthly base rent of \$36,092. On July 31, 2024, the lease was amended to extend the lease for an additional six months. The amended lease began on August 1, 2024 with a monthly base rent of \$37,896. The lease was terminated and the Church vacated the property on February 28, 2025.

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 area expenses, was \$55,281 and \$445,561 for the years ended December 31, 2025 and 2024.

**Mercy Hill Church**  
**Notes to Financial Statements**  
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**7. LEASES (continued)**

Finance Leases

The church has a finance lease for worship equipment. The lease term is for 24 months with no interest and a \$50,000 buyout due at the end of the lease period. Payments in the amount of \$5,000 are due on the 10<sup>th</sup> of each month, beginning January 1, 2026. The related equipment is included in furniture and equipment.

Lease payments required under the lease agreement over the next 5 years are as follows:

<u>Year ending December 31,</u>	<u>2025</u>	<u>2024</u>
2026	\$ 60,000	\$ -
2027	60,000	-
2028	50,000	-
Total	<u>170,000</u>	-
Less Current Portion	<u>60,000</u>	-
Long-Term Portion	<u><u>110,000</u></u>	<u><u>-</u></u>

Operating Lease - High Point Campus

In 2018, the Church entered into an agreement to lease property for a new High Point campus. The term of the lease commenced on November 1, 2018 and ends on December 31, 2023. The Church has the option of renewing the lease for two (2) additional five (5) year terms. Rental payments in the annual amount of \$136,968, paid in monthly amounts of \$11,414, began on January 1, 2019..

Future minimum lease payments and reconciliation to the balance sheet at December 31, 2025 and 2024 are as follows:

	<u>2025</u>	<u>2024</u>
<u>Non-cash financing and investing cash flows</u>		
Right of Use Assets obtained in exchange for:		
Operating Leases	<u>\$ -</u>	<u>\$ -</u>
 Change in ROU Assets and Operating Lease Liabilities	 <u>(118,373)</u>	 <u>(118,373)</u>

Supplemental Balance Sheet Information

Operating Leases:

Operating Lease – Right of Use Asset	<u>355,117</u>	<u>473,489</u>
Current Portion of Operating Lease Liability	118,372	118,372
Long-term Portion of Operating Lease Liability	<u>236,745</u>	<u>355,117</u>
Total Operating Lease Liability	<u><u>355,117</u></u>	<u><u>473,489</u></u>

Weighted Average Remaining Lease Term

Operating Leases	3.0 years	4.0 years
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Weighted Average Discount Rate

Operating Leases	7.00%	7.00%
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**Mercy Hill Church  
Notes to Financial Statements  
December 31, 2025 and 2024**

**7. LEASES (continued)**

Operating Lease - High Point Campus (continued)

Future minimum lease payments and reconciliation to the balance sheet at December 31, 2025 and 2024, are as follows:

<u>Year ended December 31,</u>	<u>2025</u>	<u>2024</u>
2025	\$ -	\$ 145,305
2026	145,305	145,305
2027	145,305	145,305
2028	145,305	145,305
Total Future Undiscounted Lease Payments	<u>435,915</u>	<u>581,220</u>
Less Present Value Discount	<u>80,798</u>	<u>107,731</u>
Total Lease Liabilities	<u>355,117</u>	<u>473,489</u>
Less Current Portion of Lease Liabilities	<u>118,372</u>	<u>118,372</u>
Long Term Portion of Lease Liabilities	<u><u>236,745</u></u>	<u><u>355,117</u></u>

**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 \$196,646 and \$168,253 for the years ended December 31, 2025 and 2024.

The Church is adopting an Lead and Executive Team Long-Term Incentive Compensation Plan to attract, retain and incentivize certain employees. For the year-ended December 31, 2025, expense in the amount of \$61,953 was accrued and is included as part of salaries and benefits expense.

**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 February 4, 2026, which is the date the financial statements were available to be issued.