

Central Wesleyan
of Holland



Years Ended
May 31,
2018 and 2017

Financial
Statements and
Supplementary
Information

CENTRAL WESLEYAN OF HOLLAND

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INDEPENDENT AUDITORS' REPORT

June 29, 2018

Finance Committee
Central Wesleyan of Holland
Holland, Michigan

We have audited the accompanying statements of financial position of the *Central Wesleyan of Holland*, (the "Church") (a Michigan not-for-profit organization), as of May 31, 2018 and 2017, and the related statements of activities and cash flows 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 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.

Independent Auditors' 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Church'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 Church's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Wesleyan of Holland, as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Rehmann Lobson LLC

CENTRAL WESLEYAN OF HOLLAND

Statements of Financial Position

| | May 31 | |
|---|----------------------|----------------------|
| | 2018 | 2017 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 72,999 | \$ 868,881 |
| Investments | 1,741,081 | 1,950,654 |
| Pledges receivable, net of allowance of \$812,100 and \$847,900 in 2018 and 2017, respectively | 376,212 | 563,418 |
| Prepaid expenses and other assets | 158,319 | 140,176 |
| Total current assets | <u>2,348,611</u> | <u>3,523,129</u> |
| Pledges receivable, net of current portion | - | 563,418 |
| Beneficial interest in charitable remainder annuity trust | 6,000 | 7,000 |
| Property and equipment, net | <u>29,865,737</u> | <u>28,336,569</u> |
| Total assets | <u>\$ 32,220,348</u> | <u>\$ 32,430,116</u> |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 118,038 | \$ 692,525 |
| Accrued compensation | 186,238 | 266,560 |
| Note payable, current portion | 292,058 | - |
| Total current liabilities | <u>596,334</u> | <u>959,085</u> |
| Noncurrent liabilities: | | |
| Note payable, net of current portion | <u>4,257,942</u> | <u>4,342,500</u> |
| Total liabilities | <u>4,854,276</u> | <u>5,301,585</u> |
| Net assets | | |
| Unrestricted: | | |
| Designated | 834,905 | 1,142,743 |
| Net investment in property and equipment | 25,315,737 | 24,179,491 |
| Total unrestricted | <u>26,150,642</u> | <u>25,322,234</u> |
| Temporarily restricted | <u>1,215,430</u> | <u>1,806,297</u> |
| Total net assets | <u>27,366,072</u> | <u>27,128,531</u> |
| Total liabilities and net assets | <u>\$ 32,220,348</u> | <u>\$ 32,430,116</u> |

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

CENTRAL WESLEYAN OF HOLLAND

Statement of Activities

For the Year Ended May 31, 2018

| | Unrestricted | Temporarily Restricted | Total |
|---|----------------------|------------------------|----------------------|
| Support and revenues | | | |
| Contributions | \$ 5,571,458 | \$ 1,429,551 | \$ 7,001,009 |
| Program fees | 364,043 | - | 364,043 |
| Investment income | 11,629 | - | 11,629 |
| Total support and revenues | 5,947,130 | 1,429,551 | 7,376,681 |
| Net assets released from restrictions | 2,019,418 | (2,019,418) | - |
| Total support, revenues and net assets released from restrictions | 7,966,548 | (589,867) | 7,376,681 |
| Expenses | | | |
| Personnel and benefits | 3,355,461 | - | 3,355,461 |
| Leadership and training | 100,834 | - | 100,834 |
| Administration | 482,552 | - | 482,552 |
| Worship Arts | 445,861 | - | 445,861 |
| Discipleship and spiritual formation | 189,075 | - | 189,075 |
| Facilities | 779,694 | - | 779,694 |
| Buildings | 747,813 | - | 747,813 |
| United Stewardship fund | 135,000 | - | 135,000 |
| Missions | 100,136 | - | 100,136 |
| Next Gen | 801,714 | - | 801,714 |
| Total expenses | 7,138,140 | - | 7,138,140 |
| Change in net assets before nonoperating item | 828,408 | (589,867) | 238,541 |
| Nonoperating item | | | |
| Change in fair value of time restricted beneficial interest in charitable remainder annuity trust | - | (1,000) | (1,000) |
| Change in net assets | 828,408 | (590,867) | 237,541 |
| Net assets, beginning of year | 25,322,234 | 1,806,297 | 27,128,531 |
| Net assets, end of year | \$ 26,150,642 | \$ 1,215,430 | \$ 27,366,072 |

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

CENTRAL WESLEYAN OF HOLLAND

Statement of Activities

For the Year Ended May 31, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---|----------------------|------------------------|----------------------|
| Support and revenues | | | |
| Contributions | \$ 5,189,872 | \$ 1,827,809 | \$ 7,017,681 |
| Program fees | 219,028 | - | 219,028 |
| Investment income | 54,017 | - | 54,017 |
| Total support and revenues | 5,462,917 | 1,827,809 | 7,290,726 |
| Net assets released from restrictions | 2,997,868 | (2,997,868) | - |
| Total support, revenues and net assets released from restrictions | 8,460,785 | (1,170,059) | 7,290,726 |
| Expenses | | | |
| Personnel and benefits | 3,145,005 | - | 3,145,005 |
| Leadership and training | 134,172 | - | 134,172 |
| Administration | 393,142 | - | 393,142 |
| Worship Arts | 303,979 | - | 303,979 |
| Discipleship and spiritual formation | 85,622 | - | 85,622 |
| Facilities | 622,510 | - | 622,510 |
| Buildings | 1,871,563 | - | 1,871,563 |
| United Stewardship fund | 180,000 | - | 180,000 |
| Missions | 99,558 | - | 99,558 |
| Next Gen | 874,205 | - | 874,205 |
| La Roca | 14,205 | - | 14,205 |
| Total expenses | 7,723,961 | - | 7,723,961 |
| Change in net assets before nonoperating item | 736,824 | (1,170,059) | (433,235) |
| Nonoperating item | | | |
| Change in fair value of time restricted beneficial interest in charitable remainder annuity trust | - | (10,000) | (10,000) |
| Change in net assets | 736,824 | (1,180,059) | (443,235) |
| Net assets, beginning of year | 24,585,410 | 2,986,356 | 27,571,766 |
| Net assets, end of year | \$ 25,322,234 | \$ 1,806,297 | \$ 27,128,531 |

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

CENTRAL WESLEYAN OF HOLLAND

Statements of Cash Flows

| | Year Ended May 31 | |
|---|--------------------|--------------------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Change in net assets | \$ 237,541 | \$ (443,235) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Change in value of beneficial interest in charitable remainder annuity trust | 1,000 | 10,000 |
| Depreciation | 1,382,750 | 1,333,970 |
| Reinvested income on investments | (20,815) | (20,933) |
| Realized (gain) loss on investments | 1,639 | (1,912) |
| Unrealized (gain) loss on investments | 30,486 | (10,895) |
| Changes in: | | |
| Prepaid expenses and other assets | (18,143) | (11,267) |
| Accounts payable and accrued expenses | (574,487) | 438,700 |
| Accrued compensation | (80,322) | 16,120 |
| Net cash provided by operating activities | <u>959,649</u> | <u>1,310,548</u> |
| Cash flows from investing activities | | |
| Purchases and construction of property and equipment | (2,911,918) | (6,145,601) |
| Purchases of investments | (1,359,121) | (1,452,371) |
| Proceeds from sales of investments | <u>1,557,384</u> | <u>1,053,521</u> |
| Net cash used in investing activities | <u>(2,713,655)</u> | <u>(6,544,451)</u> |
| Cash flows from financing activities | | |
| Change in pledges receivable related to capital campaign: | | |
| Change in allowance for uncollectible | (35,800) | 161,800 |
| Change in present value | (13,911) | (90,568) |
| Change in pledges receivable | 800,335 | 888,391 |
| Proceeds from note payable | 857,500 | 4,342,500 |
| Payments of note payable | <u>(650,000)</u> | <u>-</u> |
| Net cash provided by financing activities | <u>958,124</u> | <u>5,302,123</u> |
| Net increase (decrease) in cash and cash equivalents | (795,882) | 68,220 |
| Cash and cash equivalents, beginning of year | <u>868,881</u> | <u>800,661</u> |
| Cash and cash equivalents, end of year | <u>\$ 72,999</u> | <u>\$ 868,881</u> |

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

NOTES TO FINANCIAL STATEMENTS

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Central Wesleyan of Holland (the “Church”) is a local body of believers and is part of the world-wide Wesleyan Church denomination. The Church averaged 4,447 and 4,201 individuals in morning worship attendance during the years ended May 31, 2018 and 2017, respectively. During both 2018 and 2017, approximately \$7.0 million, was received in contributions by the Church for it to carry on its mission of reaching Holland and beyond with the Gospel of Jesus Christ.

The Church employs a full-time equivalent staff of 59. In addition to paid staff positions, the ministries of the Church use volunteers in more than 1,500 ministry positions.

The primary ministries of the Church are public worship services, graded Christian education classes, after school programs for under-privileged children, missions in Holland and around the world, and a wide range of programs for special needs such as financial counseling and divorce recovery.

The Church has approximately 254,500 square feet of buildings set on 113 acres of land on the south side of Holland, Michigan. The Church is considered a regional church and has a wide influence beyond the City of Holland. Additionally, the Church has a satellite location, The Local Church, in the Grand Rapids area.

The Church's revenues consist primarily of contributions from members.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include, but are not limited to the useful lives of depreciable assets, uncollectible pledges receivable and the fair value of investments.

Basis of Presentation

The Church reports information regarding its financial position and activities based upon the existence or absence of donor-imposed restrictions according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, and interest from investing in income-producing assets, less the expenses incurred in providing services, raising contributions, and performing administrative functions. Temporarily restricted net assets generally result from contributions and interest from investing in income-producing assets, and other inflows of assets, which are held for specific purposes as stipulated by the donor. Temporarily restricted net assets are released from restrictions by the passage of time or by actions of the Church, pursuant to the donors' stipulations. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. The Church had no permanently restricted net assets as of May 31, 2018 or 2017. The Board has designated net position for property and equipment, the Water's Edge Network and future plans of the Church.

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand, and money market accounts. The Church maintains demand deposits in banks that are insured by the Federal Deposit Insurance Corporation up to \$250,000 per bank. At times during 2018 and 2017, the Church's bank balance on these accounts may have exceeded the insured limit. Management believes the Church is not exposed to any significant interest rate or other risk on these deposits.

Investments

Investments held by the Church consist of bond mutual funds and money market funds. These investments are presented as current as management considers them to be part of normal cash management activities. Such investments are carried at fair value, based on quoted market prices. Investments received as donations are initially recorded at fair value on the date of receipt. Realized gains and losses on the sale of investments are determined based on the first-in, first-out method. Unrealized gains and losses are the result of changes in market value of investments and are included in investment income.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (level 3).

For a further discussion of Fair Value Measurements, refer to Note 2.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the years in which the promises were made. Amortization of the discount is included in contribution revenues in the statements of activities. Pledges receivable is stated at the amount management expects to collect from outstanding pledges at year-end. Management's estimate of the allowance for uncollectible pledges is based on historical collections from prior pledge campaigns.

Beneficial Interest in Charitable Remainder Annuity Trust

The Church is the sole beneficiary of a charitable gift annuity contract that was established between a donor and The Wesleyan Church Corporation. Accordingly, the Church has recognized contribution revenue and a receivable from The Wesleyan Church Corporation equal to the present value of the estimated future distribution expected to be received when the agreement expires, which occurs at the death of the donor. The discount rate used to calculate the present value of the annuity contract was 5.4%, with actuarial assumptions based on published life expectancy tables adopted by the Internal Revenue Service. The carrying value of the agreement is reported as a time restricted component of temporarily restricted net assets.

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

Property and Equipment and Depreciation

Property and equipment are stated at cost or, in the case of donations, estimated fair value. Property and equipment items are capitalized at cost when paid for all new assets over \$10,000 and \$50,000 for repair or renovations to an existing asset. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 40 years.

Contributions

Contributions received, including unconditional promises to give, are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities. All other restricted support is reported as an increase in temporarily restricted or permanently restricted net assets, as applicable.

Income Taxes

The Church is a not-for-profit organization, exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and is exempt from similar state and local taxes. Accordingly, no provision has been made for income taxes in the accompanying financial statements. Although the Church was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income such as interest received from sources other than directly from program fees.

The Church analyzes its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years (2013 through 2017) in these jurisdictions to identify potential uncertain tax positions. The Church treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of its administration expenses. The Church does not have any amounts accrued for unrecognized tax benefits at May 31, 2018 and 2017.

Reclassifications

Certain amounts in the May 31, 2017 financial statements have been reclassified to conform with the May 31, 2018 presentation.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to May 31, 2018, the most recent statement of financial position presented herein, through June 29, 2018, the date these financial statements were available to be issued. No significant such events or transactions were identified, other than those matters described in Note 12.

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

Upcoming Accounting Pronouncement

In August 2016, The Financial Accounting Standards Board issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which will be effective for the Church's annual financial statements for the year ending May 31, 2019. This ASU 1) reduces the number of net asset classes presented from three to two; (2) requires enhanced disclosures concerning board designated net assets; (3) requires the presentation of expenses by functional and natural classification in one location; (4) requires quantitative and qualitative disclosures about liquidity and availability of financial assets; (5) requires the presentation of investment return net of external and direct internal investment expenses; and (6) requires the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise. Management has evaluated the provisions of ASU 2016-14 and has determined that the presentation of the financial statements will need to be modified as required by the ASU. Additionally, investment expenses will be netted against investment return in the statements of activities.

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Church utilizes fair value measurements to record fair value adjustments to certain of its assets, and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

The Church groups its assets at fair value into three levels (termed the fair value hierarchy), based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds. The Church considers its marketable investment securities to be Level 1 assets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. The Church holds no assets classified as Level 2.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. The Church considers Investments held in Wesleyan Investment Foundation and the beneficial interest in charitable remainder annuity trust to be classified as Level 3 assets.

The preceding methods described may produce a fair value calculation that may not be reflective of future fair values. Furthermore, although the Church believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

The following tables set forth by level, within the fair value hierarchy, the Church's assets measured at fair value on a recurring basis as of May 31:

| 2018 | Total | Level 1 | Level 2 | Level 3 |
|---|---------------------|-------------------|-------------|-------------------|
| Bond mutual funds | \$ 785,646 | \$ 785,646 | \$ - | \$ - |
| Money market funds | 5,435 | 5,435 | - | - |
| Investment in Wesleyan Investment Foundation | 950,000 | - | - | 950,000 |
| Total investments | 1,741,081 | 791,081 | - | 950,000 |
| Beneficial interest in charitable remainder annuity trust | 6,000 | - | - | 6,000 |
| Total assets at fair market value | \$ 1,747,081 | \$ 791,081 | \$ - | \$ 956,000 |

| 2017 | Total | Level 1 | Level 2 | Level 3 |
|---|---------------------|-------------------|-------------|---------------------|
| Bond mutual funds | \$ 795,847 | \$ 795,847 | \$ - | \$ - |
| Money market funds | 4,807 | 4,807 | - | - |
| Investment in Wesleyan Investment Foundation | 1,150,000 | - | - | 1,150,000 |
| Total investments | 1,950,654 | 800,654 | - | 1,150,000 |
| Beneficial interest in charitable remainder annuity trust | 7,000 | - | - | 7,000 |
| Total assets at fair market value | \$ 1,957,654 | \$ 800,654 | \$ - | \$ 1,157,000 |

The Church owns shares in the Wesleyan Investment Foundation; fair value was classified as Level 3 at May 31, 2018 and 2017. The total fair value of these funds is the sum of the fair values of the underlying securities held by the Foundation. The Church is allocated its portion of the total fair value of the funds based on its proportionate shares to the total shares, which may vary. The activity for the years ended May 31, of the Level 3 investment in Wesleyan Investment Foundation assets were:

| | 2018 | 2017 |
|--|-------------------|---------------------|
| Beginning balance | \$ 1,150,000 | \$ 750,000 |
| Deposits | 1,200,000 | 1,149,700 |
| Withdrawals | (1,414,826) | (763,592) |
| Investment income/change in fair value | 14,826 | 13,892 |
| Total | \$ 950,000 | \$ 1,150,000 |

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

Fair value measurement of the beneficial interest in the charitable remainder annuity trust is determined by the underlying investments in the trust, the present value of the future payments to the donor, and any changes in actuarial assumptions. The activity for the years ended May 31, of the Level 3 beneficial interest in charitable remainder annuity trust assets were:

| | 2018 | 2017 |
|----------------------|-----------------|-----------------|
| Beginning balance | \$ 7,000 | \$ 17,000 |
| Change in fair value | (1,000) | (10,000) |
| Total | <u>\$ 6,000</u> | <u>\$ 7,000</u> |

Investment income for all investments is summarized as follows for the years ended May 31:

| | 2018 | 2017 |
|---------------------------------------|------------------|------------------|
| Dividend and interest income | \$ 43,754 | \$ 41,210 |
| Realized gain (loss) on investments | (1,639) | 1,912 |
| Unrealized gain (loss) on investments | (30,486) | 10,895 |
| Total | <u>\$ 11,629</u> | <u>\$ 54,017</u> |

3. PLEDGES RECEIVABLE

For financial statement reporting purposes, promises to give related to a capital campaign are reported as pledges receivable in the statements of financial position and are recognized as temporarily restricted contributions in the statements of activities. Promises to give are discounted (when material) and recorded as pledges receivable net of an allowance for uncollectable pledges.

| | 2018 | 2017 |
|---|-------------------|---------------------|
| Receivables in less than one year | \$ 376,212 | \$ 563,418 |
| Receivables in one to three years | - | 577,329 |
| Total pledges receivable | <u>376,212</u> | <u>1,140,747</u> |
| Less: discount to present value at 2.5% | <u>-</u> | <u>(13,911)</u> |
| Pledges receivable, net | <u>\$ 376,212</u> | <u>\$ 1,126,836</u> |

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

4. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at May 31:

| | 2018 | 2017 |
|-------------------------------|----------------------|----------------------|
| Land | \$ 1,411,108 | \$ 1,411,108 |
| Buildings | 47,334,651 | 38,195,884 |
| Furniture and equipment | 1,454,342 | 1,330,324 |
| Vehicles | 139,430 | 164,829 |
| Construction in progress | - | 6,617,094 |
| | <hr/> | <hr/> |
| Total | 50,339,531 | 47,719,239 |
| Less accumulated depreciation | (20,473,794) | (19,382,670) |
| | <hr/> | <hr/> |
| Property and equipment, net | <u>\$ 29,865,737</u> | <u>\$ 28,336,569</u> |

Depreciation expense amounted to \$1,382,750 and \$1,333,970 during 2018 and 2017, respectively.

The Church had commitments of approximately \$33,500 at May 31, 2018 related to conceptual design costs for future building improvement projects.

5. NOTE PAYABLE

On March 30, 2016, the Church signed a \$6,500,000 promissory note with interest of 200 basis points above the 30 day LIBOR rate (effective rate of 3.909% at May 31, 2018). Quarterly interest only payments are due until September 30, 2018. Then the outstanding principal balance is payable in quarterly installments including interest of \$190,000 for five years with the final balloon payment being due September 30, 2022. The promissory note is collateralized by a Real Estate Mortgage dated March 30, 2016. The Church has drawn \$4,550,000 against this note as of May 31, 2018. During the year ended May 31, 2018, the Church paid \$157,606 in interest expense.

Scheduled annual principal payments for the note payable, are as follows:

| Year Ended May 31, | Principal | Interest | Total |
|-----------------------|---------------------|-------------------|---------------------|
| 2019 | \$ 292,058 | \$ 147,226 | \$ 439,284 |
| 2020 | 601,798 | 158,202 | 760,000 |
| 2021 | 625,749 | 134,251 | 760,000 |
| 2022 | 650,652 | 109,347 | 759,999 |
| 2023 | 2,379,743 | 45,027 | 2,424,770 |
| | <hr/> | <hr/> | <hr/> |
| | <u>\$ 4,550,000</u> | <u>\$ 594,053</u> | <u>\$ 5,144,053</u> |

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

6. RELATED PARTY TRANSACTIONS

Related party transactions consist of the following for the years ended May 31:

| | 2018 | 2017 |
|--|------------|------------|
| Cash paid to the Wesleyan Church denomination and its subsidiaries: | | |
| The West Michigan District, the Wesleyan Denomination, and the Wesleyan Educational Institutions | \$ 189,179 | \$ 182,125 |
| Global Partners | 74,972 | 79,768 |
| District church planting and support | 55,884 | 9,825 |
| World Hope | - | 50,000 |
| Investment management fees paid to firm by which member of finance committee is employed | 4,056 | 3,029 |
| Support payments made to non-profits affiliated with an Elder, Deacon, or staff | 135,308 | 168,884 |
| Attorney fees paid to firm by which member of finance committee is employed | 981 | 1,125 |

7. RETIREMENT PLAN

The Church participates in a multiple employer plan qualified under Section 403(b) of the Internal Revenue Code, sponsored by the Wesleyan Church. Pastors and certain staff members are eligible to participate in the plan. Under this plan, the Church makes contributions to the plan for pastors and directors based on 12% of their respective salaries. For staff members who are not pastors or directors, the Church will match employee contributions up to the equivalent of 4% of their respective salaries. Contribution expense recorded for the years ended May 31, 2018 and 2017, was \$202,902 and \$186,575, respectively.

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

8. ALLOCATION OF EXPENSES

The cost of providing the various program services and supporting activities has been presented on a natural and departmental basis in the statements of activities. Expenses are generally charged to functional departments as incurred for the various activities except for the facility operating costs, which have been allocated based on functional utilization. The expenses for the Church on a functional basis are as follows for the years ended May 31:

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Program services: | | |
| Leadership and training | \$ 833,058 | \$ 794,999 |
| Worship arts | 1,558,800 | 1,706,552 |
| Student ministries | 699,335 | 273,442 |
| Discipleship | 2,060,670 | 3,068,982 |
| United stewardship fund and special gifts | 135,000 | 180,000 |
| LaRoca church plant | 108,818 | 74,617 |
| The Local Church | 424,119 | 179,466 |
| Missions | 955,896 | 966,179 |
| Water's edge network | 2,621 | - |
| Total program services | <u>6,778,317</u> | <u>7,244,237</u> |
| Supporting activities: | | |
| General and administration | 355,515 | 474,363 |
| Fund-raising | 4,308 | 5,361 |
| Total supporting activities | <u>359,823</u> | <u>479,724</u> |
| Total expenses | <u>\$ 7,138,140</u> | <u>\$ 7,723,961</u> |

9. CONCENTRATIONS

The Church receives contributions from a broad and diverse base of individual and business donors. For the years ended May 31, 2018 and May 31, 2017, no single donor contributed more than 5% of the Church's total support. Accordingly, management does not believe that the Church is subject to any significant revenue concentration.

10. RISK MANAGEMENT

The Church is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Church has purchased commercial insurance for all claims related to the previously stated risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

CENTRAL WESLEYAN OF HOLLAND

Notes to Financial Statements

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at May 31:

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Donor restricted fund: | | |
| Purpose restrictions: | | |
| Capital - building | \$ 493,916 | \$ 1,121,722 |
| Benevolence | 59,081 | 82,382 |
| Missions | 7,420 | 12,155 |
| Other | 17,494 | - |
| Time restrictions: | | |
| Beneficial interest in charitable remainder annuity trust | 6,000 | 7,000 |
| Global ministries fund: | | |
| Purpose restrictions - global and local missions | <u>631,519</u> | <u>583,038</u> |
| | <u>\$ 1,215,430</u> | <u>\$ 1,806,297</u> |

12. SUBSEQUENT EVENT

In late June 2018, the Church voted to merge with Overflow Church in Benton Harbor. Overflow Church averages between 250 and 300 in attendance, has estimated annual revenues of \$630,000 and had outstanding debt as of May 31, 2018 of \$439,500 for the land, church building, and house that it owns. The merger is expected to take place effective July 1, 2018.



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SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

June 29, 2018

Finance Committee
Central Wesleyan of Holland
Holland, Michigan

We have audited the financial statements of the *Central Wesleyan of Holland*, (the "Church") (a Michigan not-for-profit organization) as of May 31, 2018 and 2017, and our report thereon dated June 29, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purposes of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 22 through 31 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, which is the responsibility of management, has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Rehmann Robson LLC". The signature is written in a cursive, flowing style.

CENTRAL WESLEYAN OF HOLLAND

Comparison of Actual and Budgeted Income and Expenses for the General Fund

| | For the Year Ended May 31, 2018 | | | 2017 Actual |
|---|---------------------------------|------------------|----------------------------------|------------------|
| | Actual | Final Budget | Variance with Final Budget | |
| Support and revenues | | | | |
| Contributions | \$ 5,108,691 | \$ 5,139,600 | \$ (30,909) | \$ 5,108,498 |
| Program fees | 82,403 | 64,160 | 18,243 | 89,846 |
| Investment income | 18,386 | 15,500 | 2,886 | 17,401 |
| Total support and revenues | 5,209,480 | 5,219,260 | (9,780) | 5,215,745 |
| Expenses | | | | |
| Personnel and benefits | 3,083,839 | 3,138,900 | (55,061) | 3,023,853 |
| Leadership and training | 100,834 | 135,163 | (34,329) | 134,172 |
| Administration | 124,323 | 121,850 | 2,473 | 122,736 |
| Worship Arts | 290,622 | 299,592 | (8,970) | 277,217 |
| Discipleship and spiritual formation | 93,864 | 97,651 | (3,787) | 83,792 |
| Facilities | 455,578 | 466,776 | (11,198) | 442,912 |
| United Stewardship fund | 135,000 | 135,000 | - | 180,000 |
| Next Gen | 192,469 | 226,143 | (33,674) | 196,886 |
| La Roca | - | - | - | 12,929 |
| Total expenses | 4,476,529 | 4,621,075 | (144,546) | 4,474,497 |
| Change in net assets before nonoperating items | 732,951 | 598,185 | 134,766 | 741,248 |
| Nonoperating item | | | | |
| Transfers | (732,951) | (598,185) | (134,766) | (741,248) |
| Change in net assets | - | - | - | - |
| Net assets, beginning of year | - | - | - | - |
| Net assets, end of year | \$ - | \$ - | \$ - | \$ - |

See independent auditors' report on supplementary information.

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CENTRAL WESLEYAN OF HOLLAND

Combining Schedule of Financial Position By Fund

May 31, 2018

| | General Fund | Designated Fund | Donor Restricted Fund |
|---|-------------------|-------------------|-----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ (397,857) | \$ (23,039) | \$ 131,602 |
| Investments | 500,023 | 141,058 | 100,000 |
| Pledges receivable, net of allowance of \$812,100 | - | - | 376,052 |
| Prepaid expenses and other assets | 133,852 | 16,155 | - |
| Total current assets | <u>236,018</u> | <u>134,174</u> | <u>607,654</u> |
| Beneficial interest in charitable remainder annuity trust | - | - | 6,000 |
| Property and equipment, net | - | - | - |
| Total assets | <u>\$ 236,018</u> | <u>\$ 134,174</u> | <u>\$ 613,654</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 49,780 | \$ - | \$ 29,743 |
| Accrued compensation | 186,238 | - | - |
| Note payable, current portion | - | - | - |
| Total current liabilities | <u>236,018</u> | <u>-</u> | <u>29,743</u> |
| Noncurrent liabilities: | | | |
| Note payable, net of current portion | - | - | - |
| Total liabilities | <u>236,018</u> | <u>-</u> | <u>29,743</u> |
| Net assets | | | |
| Unrestricted: | | | |
| Designated | - | 134,174 | - |
| Net investment in property and equipment | - | - | - |
| Total unrestricted | <u>-</u> | <u>134,174</u> | <u>-</u> |
| Temporarily restricted | - | - | 583,911 |
| Total net assets | <u>-</u> | <u>134,174</u> | <u>583,911</u> |
| Total liabilities and net assets | <u>\$ 236,018</u> | <u>\$ 134,174</u> | <u>\$ 613,654</u> |

See independent auditors' report on supplementary information.



| Fixed Asset Fund | Property and Equipment Fund | Global Ministries | Water's Edge Network | Total |
|----------------------|-----------------------------|-------------------|----------------------|----------------------|
| \$ - | \$ (10,663) | \$ 176,502 | \$ 196,454 | \$ 72,999 |
| - | 513,700 | 486,300 | - | 1,741,081 |
| - | - | 160 | - | 376,212 |
| - | 1,384 | 4,017 | 2,911 | 158,319 |
| - | 504,421 | 666,979 | 199,365 | 2,348,611 |
| - | - | - | - | 6,000 |
| 29,865,737 | - | - | - | 29,865,737 |
| <u>\$ 29,865,737</u> | <u>\$ 504,421</u> | <u>\$ 666,979</u> | <u>\$ 199,365</u> | <u>\$ 32,220,348</u> |
| \$ - | \$ 2,150 | \$ 35,460 | \$ 905 | \$ 118,038 |
| - | - | - | - | 186,238 |
| 292,058 | - | - | - | 292,058 |
| 292,058 | 2,150 | 35,460 | 905 | 596,334 |
| 4,257,942 | - | - | - | 4,257,942 |
| 4,550,000 | 2,150 | 35,460 | 905 | 4,854,276 |
| - | 502,271 | - | 198,460 | 834,905 |
| 25,315,737 | - | - | - | 25,315,737 |
| 25,315,737 | 502,271 | - | 198,460 | 26,150,642 |
| - | - | 631,519 | - | 1,215,430 |
| 25,315,737 | 502,271 | 631,519 | 198,460 | 27,366,072 |
| <u>\$ 29,865,737</u> | <u>\$ 504,421</u> | <u>\$ 666,979</u> | <u>\$ 199,365</u> | <u>\$ 32,220,348</u> |

CENTRAL WESLEYAN OF HOLLAND

Combining Schedule of Activities By Fund

For the Year Ended May 31, 2018

| | General Fund | Designated Fund | Donor Restricted Fund |
|---|------------------|-------------------|-----------------------|
| Support and revenues | | | |
| Contributions | \$ 5,108,691 | \$ 94,672 | \$ 705,788 |
| Program fees | 82,403 | 191,534 | - |
| Investment income | 18,386 | (6,757) | - |
| Total support and revenues | 5,209,480 | 279,449 | 705,788 |
| Expenses | | | |
| Personnel and benefits | 3,083,839 | - | - |
| Leadership and training | 100,834 | - | - |
| Administration | 124,323 | 110,921 | 257,330 |
| Worship Arts | 290,622 | 14,417 | 1,131 |
| Discipleship and spiritual formation | 93,864 | 84,599 | - |
| Facilities | 455,578 | 78,900 | - |
| Building | - | - | - |
| United Stewardship fund | 135,000 | - | - |
| Missions | - | - | - |
| Next Gen | 192,469 | 30,627 | - |
| Total expenses | 4,476,529 | 319,464 | 258,461 |
| Change in net assets before nonoperating items | 732,951 | (40,015) | 447,327 |
| Nonoperating items | | | |
| Change in fair value of time restricted beneficial interest in charitable remainder annuity trust | - | - | (1,000) |
| Transfers | (732,951) | (163,193) | (1,085,675) |
| Total nonoperating items | (732,951) | (163,193) | (1,086,675) |
| Change in net assets | - | (203,208) | (639,348) |
| Net assets, beginning of year | - | 337,382 | 1,223,259 |
| Net assets, end of year | \$ - | \$ 134,174 | \$ 583,911 |

See independent auditors' report on supplementary information.

| Fixed Asset Fund | Property and Equipment Fund | Global Ministries | Water's Edge Network | Total |
|------------------|-----------------------------|-------------------|----------------------|---------------|
| \$ - | \$ - | \$ 723,763 | \$ 368,095 | \$ 7,001,009 |
| - | 81,707 | - | 8,399 | 364,043 |
| - | - | - | - | 11,629 |
| - | 81,707 | 723,763 | 376,494 | 7,376,681 |
| - | - | - | 271,622 | 3,355,461 |
| - | - | - | - | 100,834 |
| (104,164) | 37,944 | - | 56,198 | 482,552 |
| (141,214) | 209,999 | - | 70,906 | 445,861 |
| - | - | - | 10,612 | 189,075 |
| (559,083) | 714,516 | - | 89,783 | 779,694 |
| 100,674 | 646,067 | - | 1,072 | 747,813 |
| - | - | - | - | 135,000 |
| - | - | 96,664 | 3,472 | 100,136 |
| - | - | 578,618 | - | 801,714 |
| (703,787) | 1,608,526 | 675,282 | 503,665 | 7,138,140 |
| 703,787 | (1,526,819) | 48,481 | (127,171) | 238,541 |
| - | - | - | - | (1,000) |
| 432,459 | 1,392,860 | - | 156,500 | - |
| 432,459 | 1,392,860 | - | 156,500 | (1,000) |
| 1,136,246 | (133,959) | 48,481 | 29,329 | 237,541 |
| 24,179,491 | 636,230 | 583,038 | 169,131 | 27,128,531 |
| \$ 25,315,737 | \$ 502,271 | \$ 631,519 | \$ 198,460 | \$ 27,366,072 |

CENTRAL WESLEYAN OF HOLLAND

Combining Schedule of Financial Position By Fund

May 31, 2017

| | General Fund | Designated Fund | Donor Restricted Fund |
|---|-------------------|-------------------|-----------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ (13,810) | \$ 173,107 | \$ 101,139 |
| Investments | 250,023 | 150,631 | - |
| Pledges receivable, net of allowance of \$847,900 | - | - | 563,418 |
| Prepaid expenses and other assets | 116,140 | 16,921 | 3,300 |
| Total current assets | <u>352,353</u> | <u>340,659</u> | <u>667,857</u> |
| Pledges receivable, net of current portion | - | - | 563,418 |
| Beneficial interest in charitable remainder annuity trust | - | - | 7,000 |
| Property and equipment, net | - | - | - |
| Total assets | <u>\$ 352,353</u> | <u>\$ 340,659</u> | <u>\$ 1,238,275</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | \$ 85,793 | \$ 3,277 | \$ 15,016 |
| Accrued compensation | 266,560 | - | - |
| Total current liabilities | <u>352,353</u> | <u>3,277</u> | <u>15,016</u> |
| Noncurrent liabilities: | | | |
| Note payable, all noncurrent | - | - | - |
| Total liabilities | <u>352,353</u> | <u>3,277</u> | <u>15,016</u> |
| Net assets | | | |
| Unrestricted: | | | |
| Designated | - | 337,382 | - |
| Net investment in property and equipment | - | - | - |
| Total unrestricted | - | <u>337,382</u> | - |
| Temporarily restricted | - | - | <u>1,223,259</u> |
| Total net assets | - | <u>337,382</u> | <u>1,223,259</u> |
| Total liabilities and net assets | <u>\$ 352,353</u> | <u>\$ 340,659</u> | <u>\$ 1,238,275</u> |

See independent auditors' report on supplementary information.

| Fixed Asset Fund | Property and Equipment Fund | Global Ministries | The Local Church | Total |
|----------------------|-----------------------------|-------------------|-------------------|----------------------|
| \$ 187,222 | \$ 135,879 | \$ 116,213 | \$ 169,131 | \$ 868,881 |
| - | 1,063,700 | 486,300 | - | 1,950,654 |
| - | - | - | - | 563,418 |
| 1,000 | 1,215 | 1,600 | - | 140,176 |
| <u>188,222</u> | <u>1,200,794</u> | <u>604,113</u> | <u>169,131</u> | <u>3,523,129</u> |
| - | - | - | - | 563,418 |
| - | - | - | - | 7,000 |
| <u>28,336,569</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>28,336,569</u> |
| <u>\$ 28,524,791</u> | <u>\$ 1,200,794</u> | <u>\$ 604,113</u> | <u>\$ 169,131</u> | <u>\$ 32,430,116</u> |
| \$ 2,800 | \$ 564,564 | \$ 21,075 | \$ - | \$ 692,525 |
| - | - | - | - | 266,560 |
| <u>2,800</u> | <u>564,564</u> | <u>21,075</u> | <u>-</u> | <u>959,085</u> |
| <u>4,342,500</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,342,500</u> |
| <u>4,345,300</u> | <u>564,564</u> | <u>21,075</u> | <u>-</u> | <u>5,301,585</u> |
| - | 636,230 | - | 169,131 | 1,142,743 |
| <u>24,179,491</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>24,179,491</u> |
| <u>24,179,491</u> | <u>636,230</u> | <u>-</u> | <u>169,131</u> | <u>25,322,234</u> |
| - | - | 583,038 | - | 1,806,297 |
| <u>24,179,491</u> | <u>636,230</u> | <u>583,038</u> | <u>169,131</u> | <u>27,128,531</u> |
| <u>\$ 28,524,791</u> | <u>\$ 1,200,794</u> | <u>\$ 604,113</u> | <u>\$ 169,131</u> | <u>\$ 32,430,116</u> |

CENTRAL WESLEYAN OF HOLLAND

Combining Schedule of Activities By Fund

For the Year Ended May 31, 2017

| | General Fund | Designated Fund | Donor Restricted Fund |
|---|------------------|-------------------|-----------------------|
| Support and revenues | | | |
| Contributions | \$ 5,108,498 | \$ 32,275 | \$ 1,089,165 |
| Program fees | 89,846 | 72,503 | - |
| Investment income | 17,401 | 36,616 | - |
| Total support and revenues | 5,215,745 | 141,394 | 1,089,165 |
| Expenses | | | |
| Personnel and benefits | 3,023,853 | - | - |
| Leadership and training | 134,172 | - | - |
| Administration | 122,736 | 9,884 | 175,788 |
| Worship Arts | 277,217 | - | 1,039 |
| Discipleship and spiritual formation | 83,792 | 1,830 | - |
| Facilities | 442,912 | 62,165 | - |
| Building | - | - | - |
| United Stewardship fund | 180,000 | - | - |
| Missions | - | - | - |
| Next Gen | 196,886 | 32,023 | - |
| La Roca | 12,929 | - | 1,276 |
| Total expenses | 4,474,497 | 105,902 | 178,103 |
| Change in net assets before nonoperating items | 741,248 | 35,492 | 911,062 |
| Nonoperating items | | | |
| Change in fair value of time restricted beneficial interest in charitable remainder annuity trust | - | - | (10,000) |
| Transfers | (741,248) | 37,145 | (2,074,911) |
| Total nonoperating items | (741,248) | 37,145 | (2,084,911) |
| Change in net assets | - | 72,637 | (1,173,849) |
| Net assets, beginning of year | - | 264,745 | 2,397,108 |
| Net assets, end of year | \$ - | \$ 337,382 | \$ 1,223,259 |

See independent auditors' report on supplementary information.

| Fixed Asset Fund | Property and Equipment Fund | Global Ministries | The Local Church | Total |
|------------------|-----------------------------|-------------------|------------------|---------------|
| \$ - | \$ - | \$ 738,644 | \$ 49,099 | \$ 7,017,681 |
| - | 56,352 | - | 327 | 219,028 |
| - | - | - | - | 54,017 |
| - | 56,352 | 738,644 | 49,426 | 7,290,726 |
| - | - | - | 121,152 | 3,145,005 |
| - | - | - | - | 134,172 |
| - | 26,421 | - | 58,313 | 393,142 |
| - | 25,723 | - | - | 303,979 |
| - | - | - | - | 85,622 |
| - | 117,433 | - | - | 622,510 |
| (4,808,831) | 6,680,394 | - | - | 1,871,563 |
| - | - | - | - | 180,000 |
| - | - | 99,558 | - | 99,558 |
| - | - | 645,296 | - | 874,205 |
| - | - | - | - | 14,205 |
| (4,808,831) | 6,849,971 | 744,854 | 179,465 | 7,723,961 |
| 4,808,831 | (6,793,619) | (6,210) | (130,039) | (433,235) |
| - | - | - | - | (10,000) |
| (4,154,278) | 6,634,122 | - | 299,170 | - |
| (4,154,278) | 6,634,122 | - | 299,170 | (10,000) |
| 654,553 | (159,497) | (6,210) | 169,131 | (443,235) |
| 23,524,938 | 795,727 | 589,248 | - | 27,571,766 |
| \$ 24,179,491 | \$ 636,230 | \$ 583,038 | \$ 169,131 | \$ 27,128,531 |