

CENTRAL UNITED METHODIST CHURCH, INC.

December 31, 2017 and 2016

**Consolidated Financial Statements – Modified Cash Basis
And
Supplementary Information**

With

Independent Auditor's Report



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Independent Auditor's Report

Finance Committee
Board of Trustees
Central United Methodist Church, Inc.
Fayetteville, Arkansas

We have audited the accompanying consolidated financial statements of Central United Methodist Church, Inc., which comprise the consolidated statement of assets, liabilities and net assets – modified cash basis as of December 31, 2017 and 2016, and the related consolidated statement of revenue, expenses and changes in net assets – modified cash basis for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the modified cash basis of accounting as described in Note 1.b.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the consolidated 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 entities' 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets – modified cash basis of Central United Methodist Church, Inc. as of December 31, 2017 and 2016, and its revenue, expenses and changes in net assets – modified cash basis for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.b.

Basis of Accounting

We draw attention to Note 1.b. of the consolidated financial statements, which describes the basis of accounting. The consolidated 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.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
September 7, 2018

Consolidated Statement of Assets, Liabilities and Net Assets – Modified Cash Basis

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 2,942,663	\$ 2,083,835
Investments	852,930	749,910
Note receivable	10,000	12,000
Property and equipment, net	<u>24,415,269</u>	<u>24,543,936</u>
Total assets	<u>\$ 28,220,862</u>	<u>\$ 27,389,681</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Payroll taxes withheld	\$ 3,951	\$ 5,532
Notes payable	<u>4,473,725</u>	<u>5,351,337</u>
Total liabilities	<u>4,477,676</u>	<u>5,356,869</u>
Net assets		
Unrestricted		
Undesignated	20,444,028	20,014,978
Designated	425,607	371,731
Temporarily restricted	2,569,379	1,366,931
Permanently restricted	<u>304,172</u>	<u>279,172</u>
Total net assets	<u>23,743,186</u>	<u>22,032,812</u>
Total liabilities and net assets	<u>\$ 28,220,862</u>	<u>\$ 27,389,681</u>

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

CENTRAL UNITED METHODIST CHURCH, INC.

**Consolidated Statement of Revenue, Expenses and Changes in Net Assets –
Modified Cash Basis**

For the Years Ended December 31, 2017 and 2016

	2017			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Support and revenue				
Offerings/contributions	\$ 4,763,868	\$ 3,312,944	\$ 25,000	\$ 8,101,812
Central Children's Academy	415,048	-	-	415,048
Realized gain on investments	3,513	8,745	-	12,258
Unrealized gain on investments	24,345	35,121	-	59,466
Rental income	131,505	-	-	131,505
Interest income	22,453	8,755	-	31,208
Other income	8,723	-	-	8,723
Loss on disposal of property and equipment	(10,098)	-	-	(10,098)
United States Department of Agriculture	5,996	-	-	5,996
	<u>5,365,353</u>	<u>3,365,565</u>	<u>25,000</u>	<u>8,755,918</u>
Net assets released from restrictions	<u>2,163,117</u>	<u>(2,163,117)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>7,528,470</u>	<u>1,202,448</u>	<u>25,000</u>	<u>8,755,918</u>
Expenses				
Program services	5,683,285	-	-	5,683,285
General and administrative	1,329,164	-	-	1,329,164
Fund-raising	33,095	-	-	33,095
Total expenses	<u>7,045,544</u>	<u>-</u>	<u>-</u>	<u>7,045,544</u>
Changes in net assets	482,926	1,202,448	25,000	1,710,374
Net assets - beginning of year	<u>20,386,709</u>	<u>1,366,931</u>	<u>279,172</u>	<u>22,032,812</u>
Net assets - end of year	<u>\$ 20,869,635</u>	<u>\$ 2,569,379</u>	<u>\$ 304,172</u>	<u>\$ 23,743,186</u>

2016			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 4,975,789	\$ 2,255,132	\$ -	\$ 7,230,921
339,228	-	-	339,228
1,840	6,154	-	7,994
10,609	14,520	-	25,129
123,705	-	-	123,705
7,529	7,781	-	15,310
34,187	-	-	34,187
-	-	-	-
7,481	-	-	7,481
5,500,368	2,283,587	-	7,783,955
2,193,474	(2,193,474)	-	-
<u>7,693,842</u>	<u>90,113</u>	<u>-</u>	<u>7,783,955</u>
5,352,455	-	-	5,352,455
1,304,621	-	-	1,304,621
-	-	-	-
<u>6,657,076</u>	<u>-</u>	<u>-</u>	<u>6,657,076</u>
1,036,766	90,113	-	1,126,879
<u>19,349,943</u>	<u>1,276,818</u>	<u>279,172</u>	<u>20,905,933</u>
<u>\$ 20,386,709</u>	<u>\$ 1,366,931</u>	<u>\$ 279,172</u>	<u>\$ 22,032,812</u>

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

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

1. Summary of Significant Accounting Policies

- a. **Organization** – Central United Methodist Church, Inc. (the “Church”) is a nonprofit corporation. The Church was organized in 1832 and incorporated in May 2008 and is a constituent of the General Conference of United Methodist Churches. The Church is dedicated to spreading the Gospel through establishing, developing and promoting all aspects of church ministry within Fayetteville, Arkansas and the surrounding communities.

U of A Wesley College Ministry, Inc. (the “Ministry”) is a nonprofit corporation. The Ministry was incorporated in October 1984. The Ministry is dedicated to reaching and receiving students into a community of faith in Jesus Christ, to strengthen their relationship with God, each other, and the church to nurture them as maturing leaders and disciples of Jesus Christ, and to equip and support their Christian witness and service at the University of Arkansas and beyond.

The Church and the Ministry are collectively referred to herein as the “Entities.”

- b. **Basis of accounting** – The accompanying consolidated financial statements were 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. Under the modified cash basis of accounting, revenue is generally recognized when received and expenses are recognized when paid, except for investment and property and equipment activities.
- c. **Financial statement presentation** – The Entities report information regarding their financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Permanently restricted net assets represent net assets resulting from contributions where use is limited by donor-imposed stipulations that neither expire by passage of time, nor can be fulfilled or otherwise removed by actions of the Entities. Temporarily restricted net assets represent net assets resulting from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Entities. All other net assets are considered to be unrestricted.

Revenue is reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Gains and losses on the disposition of assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or laws. Expenses are generally reported as decreases in unrestricted net assets. Contributions with donor-imposed restrictions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. When donor-imposed time conditions expire, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets. This reclassification is reported as net assets released from restrictions.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

1. Summary of Significant Accounting Policies (cont.)

- d. **Consolidation policy** – Not-for-profit organizations must follow certain rules and guidelines when reporting for related entities. Included are rules as to when consolidation is required. The decision to consolidate when not-for-profit entities are financially interrelated is based on two concepts, control and economic interest. Control is defined as the ability to determine the direction of management and policies. The Church exerts control over the Ministry. Economic interest is present if one entity holds significant resources that must be used for the benefit of the reporting not-for-profit entity. The Church maintains an economic interest in the Ministry.

All significant intercompany transactions and balances have been eliminated.

- e. **Estimates** – The preparation of consolidated financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated statement of assets, liabilities and net assets – modified cash basis and reported amounts of revenue and expenses in the accompanying statement of revenue, expenses and changes in net assets – modified cash basis. Actual results could differ from those estimates.
- f. **Investments** – Marketable equity securities with readily determinable fair values and all debt securities are reported at their fair values in the accompanying consolidated statement of assets, liabilities and net assets – modified cash basis. Unrealized gains and losses are included in the accompanying statement of revenue, expenses and changes in net assets. Investment income includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments net of investment management fees. Realized gains or losses on securities sold are based on the specific identification method. The Church also has invested funds with the United Methodist Foundation of Arkansas (“UM Foundation”), which pools funds from many organizations together in order to maximize the returns on investments. The current fair value of the pooled investments, along with investment income and realized gains and losses, and unrealized gains and losses are allocated to the participants in the pool based on their ownership interest.
- g. **Property and equipment** – Buildings, furniture and fixtures and other assets are stated at cost, if purchased, or fair market value at date of donation if contributed. Acquisitions of property and equipment in excess of \$2,500 are capitalized. Depreciation of buildings and equipment is provided on the straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 40 years.
- h. **Revenue recognition** – The Entities recognize revenue when received. Investment income and other revenue are recorded when received, except for unrealized gains or losses of investments which are recognized based upon changes in the related assets fair value.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

1. Summary of Significant Accounting Policies (cont.)

- i. **Contributions** – Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of revenue, expenses and changes in net assets as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations regarding how long those long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

- j. **Donated services and property** – Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills and are provided by individuals possessing those skills. The Entities receive a substantial amount of services donated by its members in carrying out the Entities' ministry. No amounts have been reflected in the accompanying consolidated financial statements for those services since they do not meet the above criteria.

Donations of property 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 asset 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. Expirations of donor restrictions are recorded when the donated or acquired assets are placed in service as instructed by the donor. Temporarily restricted net assets are reclassified to unrestricted net assets at that time.

- k. **Functional expenses** – The costs of providing the various programs and activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting service benefited based on management's best estimate.
- l. **Income taxes** – The Entities are exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and a similar code section under Arkansas Statutes and exempt from Internal Revenue Service annual information return filing requirements. The Ministry is considered a Church-affiliated organization. Accordingly, no provision for federal or state income taxes has been made.
- m. **Advertising** – Advertising costs are expensed as they are incurred.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

1. Summary of Significant Accounting Policies (cont.)

- n. **Recent account pronouncements** – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 is the product of a joint project between the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue. ASU 2014-09 amends the Accounting Standards Codification (“ASC”) and creates a new Topic 606, “Revenue from Contracts with Customers.” This new topic describes a step by step process to achieve the FASB’s core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new topic also adds improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” issued in August 2015, defers the implementation of ASU 2014-09 for nonpublic entities to annual reporting periods beginning after December 15, 2018. Early adoption is permitted for reporting periods beginning after December 15, 2016. ASU 2014-09 may be applied either retrospectively or through the use of a modified-retrospective method. The Entities are evaluating the application of ASU 2014-09 and the effect it is expected to have on their consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” Accounting by lessors is largely unchanged from existing standards. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The guidance requires all leases to be recorded as assets and liabilities on the financial statements of the lessee. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Under this standard, leases are considered to either be finance leases or operating leases. This consideration determines the financial statement classification of payments on lease liabilities during the lease term but assets and liabilities are required to be recorded for both. For nonpublic entities, this guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Entities have the option of applying the provisions of ASU 2016-02 using either a modified retrospective approach or, alternatively, at the adoption date, with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Entities are currently evaluating the impact of ASU 2016-02 on their consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, “Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.” ASU 2016-14 is a project of the FASB to improve the current net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance and cash flows. ASU 2016-14 amends ASC Topic 958. The amendments in this update make several improvements to current reporting requirements that address the following: complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent; deficiencies in the transparency and utility of information useful in assessing an entity’s liquidity caused by potential misunderstandings and confusion about the term *unrestricted net assets* and how restrictions or limits imposed by donors, grantors, laws, contracts, and governing boards

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

1. Summary of Significant Accounting Policies (cont.)

affect an entity's liquidity, classes of net assets, and financial performance; inconsistencies in the type of information provided about expenses of the period; and impediment of preparing the indirect method reconciliation if a not-for-profit chooses to use the direct method of presenting operating cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application is permitted. The Entities are evaluating the application of ASU 2016-14 and the effect it will have on their future consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction under Topic 606 guidance. In addition, the amendments provide additional guidance about how to determine whether a contribution is conditional and may include a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. For nonpublic entities this guidance is effective for contributions received for fiscal years beginning after December 15, 2018 with early adoption permitted. For contributions made this guidance is effective for fiscal years beginning after December 15, 2019. ASU 2018-08 may be applied either retrospectively or through the use of a modified-retrospective method. The Entities are evaluating the application of ASU 2018-08 and the effect it is expected to have on their consolidated financial statements.

2. Investments

Investments are comprised of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Cumulative Unrealized Gain</u>
<u>December 31, 2017</u>			
Pooled investments held by the UM Foundation	\$ 698,994	\$ 852,930	\$ 153,936
<u>December 31, 2016</u>			
Pooled investments held by the UM Foundation	\$ 655,440	\$ 749,910	\$ 94,470

The Church has invested funds with the UM Foundation which pools funds from many churches together in order to maximize the returns on investments. Ownership interests in the pooled investments are assigned by the dollar amount originally invested in the pool.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

2. **Investments (cont.)**

The current fair value of the pooled investments, along with investment income and realized and unrealized gains (losses), are allocated to the participants in the pool based on their ownership interest.

3. **Note Receivable**

The Church's note receivable consists of a noninterest-bearing note due from an associate pastor. The note, which originated May 23, 2012, requires annual payments of \$2,000, with a final payment due June 2022. Note receivable was \$10,000 and \$12,000 for the years ended December 31, 2017 and 2016, respectively.

Annual aggregate maturities of the note receivable are as follows:

2018	\$	2,000
2019		2,000
2020		2,000
2021		2,000
2022		<u>2,000</u>
	\$	<u>10,000</u>

4. **Property and Equipment**

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 5,197,883	\$ 5,197,883
Buildings and improvements	27,877,293	27,799,556
Furniture and equipment	1,599,944	1,713,858
Vehicles	289,985	232,635
Construction in progress	<u>627,829</u>	<u>74,215</u>
	35,592,934	35,018,147
Less accumulated depreciation	<u>11,177,665</u>	<u>10,474,211</u>
Property and equipment, net	<u>\$ 24,415,269</u>	<u>\$ 24,543,936</u>

Depreciation expense was \$938,235 and \$897,350 for the years ended December 31, 2017 and 2016, respectively.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

5. Line of Credit

The Church has an unsecured \$500,000 line of credit with a local bank with a variable rate of interest at Prime less 0.25% (currently at 4.25%), which matures February 27, 2019. There was no outstanding balance on the line of credit at December 31, 2017 or 2016.

6. Notes Payable

Notes payable consist of the following:

	<u>2017</u>	<u>2016</u>
Note payable to a bank, interest rate of 2.95%, monthly payments of principal and interest of \$15,658 until September 2019, outstanding principal and interest due October 2019, secured by real estate.	\$ 2,803,973	\$ 2,913,947
Note payable to a bank, fixed interest rate of 3.19%, monthly payments of principal and interest of \$19,534 until December 2019, outstanding principal and interest due January 2020, secured by certain real property.	1,404,752	2,117,390
Note payable to a bank, interest rate of 3.19%, monthly payments of interest on unpaid balance until March 2020, when all remaining interest and principal is due in full, secured by certain real property.	<u>265,000</u>	<u>320,000</u>
	<u>\$ 4,473,725</u>	<u>\$ 5,351,337</u>

Annual aggregate maturities of notes payable are as follows:

2018	\$ 299,001
2019	2,895,986
2020	<u>1,278,738</u>
	<u>\$ 4,473,725</u>

Total interest expense paid was \$143,160 and \$180,804, which is included in interest expense and U of A Wesley College Ministry, Inc. on the accompanying consolidated schedule of functional expenses – modified cash basis for the years ended December 31, 2017 and 2016, respectively.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

7. Restricted Net Assets

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Ministries		
Congregational care	\$ 47,836	\$ 63,775
Missions - outreach	581,528	468,211
Other	109,091	203,050
Student	64,312	25,216
Education	104,360	82,444
Property and equipment acquisition/maintenance	<u>1,662,252</u>	<u>524,235</u>
	<u>\$ 2,569,379</u>	<u>\$ 1,366,931</u>

Permanently restricted net assets are restricted to investments, the income from which is expendable to support operations consist of the following:

	<u>2017</u>	<u>2016</u>
Buildings and grounds (landscaping)	\$ 15,000	\$ 15,000
Education	129,648	129,648
Property maintenance	97,330	72,330
Worship	<u>62,194</u>	<u>62,194</u>
	<u>\$ 304,172</u>	<u>\$ 279,172</u>

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

8. Unrestricted - Designated Net Assets

Unrestricted - designated net assets consist of cash and investments set aside by the Board of Trustees, committees of the Entities and childcare operations for specific purposes as identified and approved. Unrestricted - designated net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Cash		
Central Children's Academy	\$ 32,127	\$ 23,780
Wesley Foundation building	<u>77,052</u>	<u>60,252</u>
Total cash	<u>109,179</u>	<u>84,032</u>
Investments		
Worship ministries	14,433	12,912
Property replacement fund	123,569	116,606
Trustee parsonage	<u>178,426</u>	<u>158,181</u>
Total investments	<u>316,428</u>	<u>287,699</u>
	<u>\$ 425,607</u>	<u>\$ 371,731</u>

9. Employee Benefit Plan

The Church participates in a defined contribution retirement plan managed by Wespath Benefits and Investments. Employees are eligible to participate on the first day of service, providing they have attained age 21. Participants who do not have at least 1,000 hours of service or work less than 20 hours per week are not eligible to participate in the plan. The Church provides a 1% match for each percentage of pay contributed by the employee up to a maximum of 6% (i.e. if the employee contributes 4% the Church will match this at 4%). Employees must have completed 12 months of service to receive the Church's match. Matching contributions by the Church were \$63,561 and \$41,887 for the years ended December 31, 2017 and 2016, respectively.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

10. Commitments

The Church leases a building and property to an unrelated party under an operating lease that expires July 31, 2021, at which time the leasee has the option to purchase the building and property at fair market value. Total rental income from this lease was \$123,705 for the years ended December 31, 2017 and 2016.

Future minimum rental payments to be received under this operating lease are as follows:

2018	\$	123,705
2019		123,705
2020		123,705
2021		<u>72,161</u>
	\$	<u>443,276</u>

At December 31, 2017, the Church was in the process of constructing an expansion to the Church sanctuary and the construction of an organ. Total commitments relating to these two projects were approximately \$3.7 million as of December 31, 2017.

11. Concentrations of Credit Risk

The majority of the Entities' contributions are received from members located in the Northwest Arkansas community. As such, the Entities' ability to generate resources via contributions is dependent upon the economic health of the area. An economic downturn could cause a decrease in contributions that coincides with an increase in demand for the Church's services.

For the year ended December 31, 2017, 15% of total contributions received were made by one donor, however, this donor provided less than 10% of funding for the operational budget for the Entities during the year. For the year ended December 31, 2016, 37% of total contributions received were made by one donor, however, this donor provided less than 10% of funding for the operational budget for the Entities during the year.

The Entities use financial institutions in which they maintain cash balances, which at times may exceed federally insured limits. The Entities have not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk related to cash. Throughout the year, the Entities maintained cash in a repurchase agreement account that is 100% collateralized. Cash equivalents included an overnight repurchase agreement of \$2,468,070 and \$1,769,515 at December 31, 2017 and 2016, respectively. The Entities had no uninsured and uncollateralized cash balances at December 31, 2017 or 2016.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

12. Endowments

The Church's endowments consist of donor-restricted endowment funds, as well as funds designated by the Board of Trustees to function as endowments that are held by the UM Foundation. As required by ASC 958, "Presentation of Financial Statements," net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Finance Committee of the Church has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Church classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Church in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Church considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Church and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Church
- (7) The investment policies of the Church

Endowment net assets and activity is as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at December 31, 2015	\$ 250,460	\$ 145,726	\$ 279,172	\$ 675,358
Contributions	20,130	13,250	-	33,380
Distributions	-	(4,392)	-	(4,392)
Investment income, net	<u>17,109</u>	<u>28,455</u>	<u>-</u>	<u>45,564</u>
Endowment net assets at December 31, 2016	287,699	183,039	279,172	749,910
Contributions	2,000	-	25,000	27,000
Distributions	(6,404)	(3,330)	-	(9,734)
Investment income, net	<u>33,133</u>	<u>52,621</u>	<u>-</u>	<u>85,754</u>
Endowment net assets at December 31, 2017	<u>\$ 316,428</u>	<u>\$ 232,330</u>	<u>\$ 304,172</u>	<u>\$ 852,930</u>

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

12. **Endowments** (cont.)*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Church to retain as a fund of perpetual duration. There were no deficiencies reported as of December 31, 2017 or 2016.

Return Objectives and Risk Parameters

The Church follows the investment and spending policies of the UM Foundation for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Church must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results for certificates of deposit while assuming a moderate level of investment risk. The Church expects its endowment funds, over time, to provide an annualized rate of return that will support the spending policy of the endowments of 4.5%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Church relies on a total return strategy as defined by the UM Foundation in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Church targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints as managed by the UM Foundation.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The UM Foundation establishes a charitable disbursement rate which is based on careful consideration of the factors listed in the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) enacted by Arkansas in 2009, which includes preservation of the fund, general economic conditions, and the expected total return from income and appreciation of investments. The amount available for distributions in the earnings of the endowment amounts are distributed on an as needed basis and are restricted based on the purpose of the endowment. It is the responsibility of the UM Foundation to periodically review the spending policy in light of actual returns and, if necessary, recommend adjustments in the income distribution for the preservation of Church purchasing power and cash flow.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

13. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, promises to give, accounts payable, accrued liabilities and certain other liabilities approximates fair value due to the short-term maturities of these assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Church utilizes market data or assumptions that the Church believes market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

Financial assets and liabilities recorded on the accompanying statement of assets, liabilities and net assets are categorized based on the inputs to the valuation techniques as follows:

- **Level 1** – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.
- **Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain corporate debt securities and derivative contracts.
- **Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes long-term derivative contracts and real estate.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

13. Fair Value Measurements (cont.)

The following are the major categories of assets and liabilities measured at fair value on a recurring basis using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2017</u>				
Pooled investments held by the UM Foundation	\$ -	\$ 852,930	\$ -	\$ 852,930
<u>December 31, 2016</u>				
Pooled investments held by the UM Foundation	\$ -	\$ 749,910	\$ -	\$ 749,910

In determining the appropriate levels, the Church performs a detailed analysis of the assets and liabilities that are measured at fair value. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

For investment securities traded in a market that is not active, fair value is determined using unobservable inputs or value drivers and is generally determined using expected cash flow and appropriate risk-adjusted discount rates. Expected cash flows are based primarily on the contractual cash flows of the instrument, and the risk-adjusted discount rate is typically the contractual coupon rate of the instrument on the measurement date, adjusted for changes in interest rate spreads of the yields on comparable corporate or municipal bonds and yields on U.S. Treasuries between the date of purchase and the measurement date.

The Church has utilized information provided by the UM Foundation that oversees the pooled funds to determine fair market value of the investments and, as such, inputs are classified as Level 2 inputs.

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2017 and 2016

14. Contingencies

Associated with real estate purchased in September 2014, it has been determined that the current tenant has the right to purchase the property for a fixed price of \$1.2 million at the end of the lease term, which is currently July 2021. Subsequent to the 2014 purchase, the Church became aware that the purchase option was not subject to fair market value as understood at the time of the purchase. If this purchase option is exercised, it could potentially subject the Church to a loss on the sale of the real estate. Due to this potential loss, the Church has initiated litigation to rescind the original purchase. The Church is carrying a note payable on the property with a principal balance of approximately \$2.8 million at December 31, 2017. If the Church is unsuccessful in remedying this situation, it could potentially recognize a loss of approximately \$1.9 million at the date the option is exercised.

15. Subsequent Events

Subsequent to year-end, the Entities entered into two lines of credit. The first line of credit is for the use in construction of the Church sanctuary. This line of credit has a maximum borrowing of \$1,300,000, interest at Prime less 0.25%, matures February 2020 and is secured by real property. The second line of credit is for the use in the Ministry operations. This line of credit has a maximum borrowing of \$250,000, interest is fixed at 4.25%, matures March 2020 and is secured by rents and real property.

Subsequent to year-end, the Entities entered into an agreement to sell one of their houses. Total sale price was \$295,000, which resulted in a net gain of approximately \$137,000.

The Entities evaluated the events and transactions subsequent to their December 31, 2017 consolidated statement of assets, liabilities and net assets – modified cash basis date and determined there were no additional significant events, other than noted above, to report through September 7, 2018, which is the date the Entities issued their consolidated financial statements.

Independent Auditor's Report on Supplementary Information

Finance Committee
Board of Trustees
Central United Methodist Church, Inc.
Fayetteville, Arkansas

We have audited the consolidated financial statements of Central United Methodist Church, Inc. as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated September 7, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The supplementary information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with the modified cash basis of accounting. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
September 7, 2018

CENTRAL UNITED METHODIST CHURCH, INC.

Consolidated Schedule of Functional Expenses – Modified Cash Basis

For the Years Ended December 31, 2017 and 2016

	2017			
	Program Services	General and Administrative	Fund-raising	Total
Shared ministries	\$ 515,426	\$ -	\$ -	\$ 515,426
Capital campaign	-	-	33,095	33,095
Central's Activity Center	5,853	-	-	5,853
Central Children's Academy	153,360	-	-	153,360
Children's ministries	57,812	-	-	57,812
Congregational care ministries	47,606	-	-	47,606
Counseling ministries	343	-	-	343
Depreciation	825,080	113,155	-	938,235
Interest expense	117,427	16,105	-	133,532
Mission - outreach ministries	644,803	-	-	644,803
Hospitality	26,002	-	-	26,002
Nurture - witness ministries	5,602	-	-	5,602
Other	4,452	93,218	-	97,670
Property maintenance	654,879	-	-	654,879
Salaries and employee benefits				
Central Children's Academy	272,688	-	-	272,688
Central United Methodist Church	1,604,351	872,060	-	2,476,411
Student ministries	100,953	-	-	100,953
Vision - new ministries	2,681	-	-	2,681
Worship ministries	67,914	-	-	67,914
Office expense	-	198,043	-	198,043
U of A Wesley College Ministry, Inc.	263,342	36,583	-	299,925
Genesis Church	312,711	-	-	312,711
	<u>\$ 5,683,285</u>	<u>\$ 1,329,164</u>	<u>\$ 33,095</u>	<u>\$ 7,045,544</u>
Total functional expenses	<u>\$ 5,683,285</u>	<u>\$ 1,329,164</u>	<u>\$ 33,095</u>	<u>\$ 7,045,544</u>

2016		
<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
\$ 616,658	\$ -	\$ 616,658
-	-	-
-	-	-
87,584	-	87,584
34,687	-	34,687
75,177	-	75,177
723	-	723
789,125	108,225	897,350
152,466	20,910	173,376
523,472	-	523,472
23,370	-	23,370
11,853	-	11,853
15,338	118,484	133,822
593,527	-	593,527
252,210	-	252,210
1,574,144	835,292	2,409,436
127,027	-	127,027
2,919	-	2,919
56,667	-	56,667
-	193,104	193,104
205,693	28,606	234,299
209,815	-	209,815
<u>\$ 5,352,455</u>	<u>\$ 1,304,621</u>	<u>\$ 6,657,076</u>

See independent auditor's report on supplementary information.

Consolidated Schedule of Investments – Modified Cash Basis

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted - designated		
Music ministry	\$ 14,433	\$ 12,912
Property replacement fund	123,569	116,606
Trustee parsonage fund	<u>178,426</u>	<u>158,181</u>
Total unrestricted - designated	<u>316,428</u>	<u>287,699</u>
Temporarily restricted		
Landscape	5,072	2,957
Education	104,360	82,444
Property maintenance	68,327	54,366
Ministerial student	26,262	19,444
Music ministry scholarship	<u>28,309</u>	<u>23,828</u>
Total temporarily restricted	<u>232,330</u>	<u>183,039</u>
Permanently restricted		
Central Children's Academy endowment	5,829	5,829
Children's media	4,051	4,051
Children's ministry	107,637	107,637
Landscape endowment	15,000	15,000
Library memorial	2,002	2,002
Ministerial student	47,150	47,150
Music scholarship	15,044	15,044
Property maintenance	97,330	72,330
Youth ministry	<u>10,129</u>	<u>10,129</u>
Total permanently restricted	<u>304,172</u>	<u>279,172</u>
Total investments	<u>\$ 852,930</u>	<u>\$ 749,910</u>

See independent auditor's report on supplementary information.