

Central Wesleyan
of Holland



Years Ended
May 31,
2023 and 2022

Consolidated
Financial
Statements

Rehmann

CENTRAL WESLEYAN OF HOLLAND

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INDEPENDENT AUDITORS' REPORT

August 24, 2023

Finance Committee
Central Wesleyan of Holland
Holland, Michigan

Opinion

We have audited the accompanying consolidated financial statements of **Central Wesleyan of Holland** (the "Church") (a Michigan not-for-profit organization), which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related consolidated notes to the financial statements (the "consolidated financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Central Wesleyan of Holland** as of May 31, 2023 and 2022, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principles

As described in Notes 1 and 8 to the consolidated financial statements, effective June 1, 2022, the Church adopted Accounting Standards Codification (ASC) Topic 842, *Leases*, and Accounting Standards Update No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to these matters.

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 accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



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

Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Church's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Church's ability to continue as a going concern for a reasonable period of time.

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

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CENTRAL WESLEYAN OF HOLLAND

Consolidated Statements of Financial Position

	May 31	
	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 435,134	\$ 682,230
Investments	1,880,323	1,576,902
Pledges receivable, net	50,470	136,605
Employee retention tax credits receivable (Note 1)	1,299,213	-
Employee retention tax credits interest receivable (Note 1)	99,374	-
Prepaid expenses and other assets	287,736	246,984
Total current assets	4,052,250	2,642,721
 Pledges receivable, net of allowance and current portion	30,872	-
Beneficial interest in charitable remainder annuity trust	10,000	11,000
Right-of-use assets (Notes 1 and 8)	2,161,445	-
Property and equipment, net	34,464,872	32,278,251
Total assets	<u>\$ 40,719,439</u>	<u>\$ 34,931,972</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,111,540	\$ 185,857
Accrued compensation	499,728	304,143
Current portion of operating lease obligations (Notes 1 and 8)	345,600	-
Deferred revenue	51,528	60,210
Total current liabilities	2,008,396	550,210
 Operating lease obligations, net of current portion (Notes 1 and 8)	1,823,459	-
Note and construction line of credit payables	4,195,000	2,270,000
Total liabilities	<u>8,026,855</u>	<u>2,820,210</u>
 Commitments (Note 4)		
Net assets		
Without donor restrictions	30,976,657	30,230,680
With donor restrictions	1,715,927	1,881,082
Total net assets	<u>32,692,584</u>	<u>32,111,762</u>
Total liabilities and net assets	<u>\$ 40,719,439</u>	<u>\$ 34,931,972</u>

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

CENTRAL WESLEYAN OF HOLLAND

Consolidated Statement of Activities

For the Year Ended May 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenues and gains			
Contributions	\$ 10,305,978	\$ 1,874,901	\$ 12,180,879
Program donations	486,543	-	486,543
Net investment return	24,991	-	24,991
Rentals	91,734	-	91,734
Tuition	446,012	-	446,012
Food sales	164,545	-	164,545
Employee retention tax credits (Note 1)	1,398,586	-	1,398,586
Excess of assets acquired over liabilities assumed in acquisition of churches (Note 12)	115,836	-	115,836
Change in fair value of time restricted beneficial interest in charitable remainder annuity trust	(1,000)	-	(1,000)
Total support, revenues and gains	13,033,225	1,874,901	14,908,126
Net assets released from restrictions	2,040,056	(2,040,056)	-
Total support, revenues, gains and net assets released from restrictions	15,073,281	(165,155)	14,908,126
Expenses and losses			
Program services - Church ministry	12,434,521	-	12,434,521
Supporting services: Ministry support	1,738,978	-	1,738,978
Total expenses	14,173,499	-	14,173,499
Loss on disposal of property and equipment	153,805	-	153,805
Total expenses and losses	14,327,304	-	14,327,304
Change in net assets	745,977	(165,155)	580,822
Net assets, beginning of year	30,230,680	1,881,082	32,111,762
Net assets, end of year	<u>\$ 30,976,657</u>	<u>\$ 1,715,927</u>	<u>\$ 32,692,584</u>

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

CENTRAL WESLEYAN OF HOLLAND

Consolidated Statement of Activities

For the Year Ended May 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support, revenues and gains			
Contributions	\$ 9,286,614	\$ 1,001,843	\$ 10,288,457
Program donations	257,890	-	257,890
Net investment return	10,057	-	10,057
Rentals	142,502	-	142,502
Tuition	129,508	-	129,508
Food sales	148,175	-	148,175
Total support, revenues and gains	9,974,746	1,001,843	10,976,589
Net assets released from restrictions	1,247,875	(1,247,875)	-
Total support, revenues, gains and net assets released from restrictions	11,222,621	(246,032)	10,976,589
Expenses			
Program services - Church ministry	9,814,563	-	9,814,563
Supporting services:			
Ministry support	1,588,246	-	1,588,246
Total expenses	11,402,809	-	11,402,809
Change in net assets	(180,188)	(246,032)	(426,220)
Net assets, beginning of year	30,410,868	2,127,114	32,537,982
Net assets, end of year	<u>\$ 30,230,680</u>	<u>\$ 1,881,082</u>	<u>\$ 32,111,762</u>

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

CENTRAL WESLEYAN OF HOLLAND

Consolidated Statement of Functional Expenses

For the Year Ended May 31, 2023

	Program Services	Supporting Services	
	Church ministry	Ministry support	Total
Expenses			
Bank service fees and taxes	\$ 121,553	\$ 94,145	\$ 215,698
Benevolence gifts	141,356	-	141,356
Church supplies	207,466	96,542	304,008
Depreciation	1,694,733	-	1,694,733
Amortization	36,042	248,939	284,981
District membership	153,059	-	153,059
Insurance	-	68,746	68,746
Interest	3,265	158,751	162,016
Meals	190,676	43,075	233,751
Meetings and events	372,893	-	372,893
Ministry production	662,196	6,868	669,064
Minor capital improvements	354,417	-	354,417
Miscellaneous church	447,930	3,171	451,101
Missions and outreach support	895,470	-	895,470
Postage	7,824	332	8,156
Printing and copying	32,120	3,039	35,159
Professional fees	9,822	-	9,822
Rental	20,260	77,715	97,975
Repairs and maintenance	264,750	10,317	275,067
Salaries and benefits	6,306,069	540,431	6,846,500
Telephone	70,805	6,204	77,009
Trainings, curriculum and leadership development	305,878	-	305,878
Travel	122,743	3,470	126,213
Utilities	13,194	377,233	390,427
Total expenses	\$ 12,434,521	\$ 1,738,978	\$ 14,173,499

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

CENTRAL WESLEYAN OF HOLLAND

Consolidated Statement of Functional Expenses

For the Year Ended May 31, 2022

	Program Services	Supporting Services	
	Church ministry	Ministry support	Total
Expenses			
Bank service fees and taxes	\$ 165,481	\$ 76,325	\$ 241,806
Benevolence gifts	83,063	-	83,063
Church supplies	169,113	224,633	393,746
Depreciation	1,670,685	-	1,670,685
District membership	153,059	-	153,059
Insurance	-	70,034	70,034
Interest expense	-	94,725	94,725
Meals	139,320	31,922	171,242
Meetings and events	236,347	-	236,347
Ministry production	597,786	6,717	604,503
Minor capital improvements	209,871	-	209,871
Miscellaneous church	199,864	656	200,520
Missions and outreach support	599,401	-	599,401
Postage	7,331	649	7,980
Printing and copying	20,761	2,109	22,870
Professional fees	5,971	8,486	14,457
Rental	36,800	230,414	267,214
Repairs and maintenance	273,746	-	273,746
Salaries and benefits	4,880,026	476,172	5,356,198
Telephone	68,119	6,669	74,788
Trainings, curriculum and leadership development	205,353	-	205,353
Travel	80,579	4,682	85,261
Utilities	11,887	354,053	365,940
Total expenses	\$ 9,814,563	\$ 1,588,246	\$ 11,402,809

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

CENTRAL WESLEYAN OF HOLLAND

Consolidated Statements of Cash Flows

	Year Ended May 31	
	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 580,822	\$ (426,220)
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	-
Depreciation	1,694,733	1,670,685
Amortization of right-of-use assets	284,981	-
Contributions related to capital campaign	(145,224)	-
Provision for uncollectable promises to give	77,622	275,000
Reinvested income on investments	(9,984)	(8,005)
Realized and unrealized loss on investments	7,292	40,290
Loss on disposal of property and equipment	153,805	-
Excess of assets acquired over liabilities assumed in acquisition of churches	(115,836)	-
Changes in operating assets and liabilities:		
Pledges receivable	58,983	-
Employee retention tax credits receivable	(1,299,213)	-
Employee retention tax credits interest receivable	(99,374)	-
Prepaid expenses and other assets	(40,752)	(41,215)
Accounts payable and accrued expenses	564,068	61,652
Accrued compensation	195,585	59,684
Operating lease obligations	(277,367)	-
Deferred revenue	(8,682)	54,210
Net cash provided by operating activities	<u>1,622,459</u>	<u>1,686,081</u>
Cash flows from investing activities		
Purchases and construction of property and equipment	(4,097,646)	(911,570)
Proceeds on sale of property and equipment	62,489	-
Purchases of investments	(423,280)	(1,577,364)
Proceeds from sales of investments	600,000	2,096,861
Net cash used in investing activities	<u>(3,858,437)</u>	<u>(392,073)</u>
Cash flows from financing activities		
Pledges collected related to capital campaign	63,882	256,454
Proceeds from construction revolving line of credit	1,925,000	-
Repayments of note payable	-	(1,092,871)
Net cash provided by (used in) financing activities	<u>1,988,882</u>	<u>(836,417)</u>
Net (decrease) increase in cash and cash equivalents	<u>(247,096)</u>	<u>457,591</u>
Cash and cash equivalents, beginning of year	682,230	224,639
Cash and cash equivalents, end of year	<u>\$ 435,134</u>	<u>\$ 682,230</u>

Other Cash Flow Information:

During the year ended May 31, 2023, the Church had \$361,615 in accounts payable related to the construction of property and equipment.

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

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying consolidated financial statements present the consolidated financial position, changes in net assets and cash flows of Central Wesleyan of Holland, a Michigan not-for-profit corporation, and its subsidiary (described below, collectively the "Church").

Central Wesleyan of Holland is a local body of believers and is part of the world-wide Wesleyan Church denomination. The Church averaged 6,674 and 5,674 individuals in morning worship attendance during the years ended May 31, 2023 and 2022, respectively. During both 2023 and 2022, approximately \$12.2 million and \$10.3 million, respectively, 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 employed a full-time equivalent staff of 112 and 63 at the years ended May 31, 2023 and 2022, respectively. In addition to paid staff positions, the ministries of the Church use volunteers in more than 1,500 ministry positions (see further description below in Volunteer Hours section).

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 98 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 eight satellite locations, the La Roca Church within the Holland location, The Local Church in the Grand Rapids, Michigan area, Overflow Church in the Benton Harbor, Michigan area, LifeBridge Church in the South Haven, Michigan area, The Well in the Columbia, Tennessee area, Captivate Church in the San Diego, California area, Makers Church Northwest in the Pacific Northwest, and Redeemer City Church in Tampa, Florida.

Water's Edge West (doing business as "Captivate Church") is a wholly-owned subsidiary of Central Wesleyan of Holland. The articles of incorporation for Water's Edge West identify this connection. The discipline of the Wesleyan Church makes provision for subsidiary corporations and that is the authority used to form this corporation. The consolidated financial statements of the Central Wesleyan of Holland include the results of operations of Captivate Church. All intercompany accounts have been eliminated.

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

Risks and Economic Uncertainties

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a global pandemic, continues to spread throughout the United States of America and the globe. The pandemic has resulted in an increase in the demands on the Church for providing immediate financial support and/or services to its members. At this time management does not believe that the negative financial impacts of the pandemic, if any, would be material to the Church.

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

During fiscal 2023, the Church applied for \$1,299,213 in Employee Retention Tax Credits ("ERTC") pursuant to the CARES Act. The ERTC allows for a refundable tax credit against certain employment taxes if certain eligibility requirements are met. The Church accounts for the ERTC as a conditional grant, and as all conditions have been met for qualification of the credit during the year ended May 31, 2023, the Organization recognized \$1,299,213 related to the ERTC as a receivable and support in fiscal 2023, along with \$99,374 in interest which was received with installment receipts totaling of \$1,062,244 subsequent to year end.

The significant accounting policies of the Church are described below.

Use of Estimates

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of support and revenues 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, the value of assets acquired in acquisition, allowance of uncollectible pledges receivable, calculation of the lease liability, and the fair value of investments.

Basis of Presentation

Net assets, support, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Church does not have any donor-imposed restrictions that are perpetual in nature. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 2023 and 2022, 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.

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

Investments

Investments held by the Church consist of mutual funds, investment in the Wesleyan Investment Foundation 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 or other sources. 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. Net investment return is reported in the consolidated statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less direct investment management and custodial fees.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in these consolidated financial statements.

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).

Pledges Receivable, Net

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 consolidated 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. Management has deemed \$28,100 (\$11,240 related to the noncurrent portion) and \$275,000 an allowance on pledge receivables as of May 31, 2023 and 2022, respectively. Additionally, management has made a present value adjustment of \$2,776 at May 31, 2023 and no adjustment as of May 31, 2022.

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

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 net assets with donor restrictions.

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 for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. 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 are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions are recognized as support in the period the unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and right of return - are not recognized until the conditions on which they depend on have been met. Contributions of assets other than cash are recognized at their estimated fair value. There were no conditional promises to give at May 31, 2023 and 2022. When a restriction has been satisfied or expires, with donor restrictions net assets are reclassified to net assets without donor restrictions. Amounts not expected to be collected within one year are classified as long-term.

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

Volunteer Hours

The Church relies on volunteers in various capacities to carry out its mission. These donated services don't meet the revenue recognition criteria under generally accepted accounting principles. The volunteer hours for the years ended May 31, 2023 and 2022 are summarized in the chart below:

	2023	2022
Facilities	1,664	1,630
Programming		
Worship arts	2,444	2,371
Tech	3,500	3,395
Guest	2,756	2,150
Celebrate recovery	1,092	928
Small group, Sunday school	9,300	6,975
Christmas desserts & breakfasts	260	252
Local missions	3,000	1,950
Playland	1,740	1,688
Café	250	243
	<hr/>	<hr/>
Total programming	24,342	19,951
	<hr/>	<hr/>
Total volunteer hours	26,006	21,581

Revenue Recognition

The Church operates two coffee shops to support its mission. The Church recognizes exchange revenue from food and beverage concessions at the coffee shops at the time of sale. Customers pay for goods sold on a stand-alone selling price basis at the point of sale which occurs at a point in time. Control is transferred immediately to the customer at the point of sale.

Beginning in fiscal year 2022, the Church started operating a Christian home-school academy to support the mission of the Church. The students pay for benefits up front, and the performance obligation of the exchange element is satisfied over time as the benefits are consumed. A portion of tuition is deferred at year end and will be recognized as tuition revenue when earned in the next school year.

Functional Expenses

The cost of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expense present the natural classification detail of expenses by function. Expenses are generally charged to functional departments as incurred for the various activities except for payroll costs, which have been allocated based on functional utilization.

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

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 consolidated 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.”

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 in these jurisdictions to identify potential uncertain tax positions.

The Church has evaluated its income tax filing positions for tax years 2019 through 2022, the years which remain subject to examination as of May 31, 2023. The Church concluded that there are no significant uncertain tax positions requiring recognition in the Church’s consolidated financial statements. The Church does not expect the total amount of unrecognized tax benefits (“UTB”) (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Church does not have any amounts accrued for interest and penalties related to UTBs at May 31, 2023 or 2022, and is not aware of any claims for such amounts by federal or state income tax authorities.

Leases, including Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) established Accounting Standards Codification (ASC) Topic 842, *Leases* (ASC 842), by issuing Accounting Standards Update (ASU) No. 2016-02 (ASU 2016-02). The standard, as amended, establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the consolidated statements of financial position for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the consolidated statements of activities.

The Church adopted ASU 2016-02, as amended, effective June 1, 2022. Financial information has not been updated and the disclosures required under the new standard have not been provided for dates and periods before June 1, 2022. The Church elected the new standard's package of practical expedients, which permits the Church to maintain prior conclusions about lease identification, lease classification, and initial direct costs. The Church elected to use the go-forward practical expedient to not separate lease and non-lease components for all of the leases. The Church also elected to use the short-term lease recognition exemption for all leases that qualify.

Upon adoption, the Church recognized operating lease liabilities and operating lease ROU assets of \$2,446,426, for the present value of the remaining minimum rental payments on existing operating leases. Corresponding amounts were not reclassified in prior periods as those prior periods are presented under ASC 840, *Leases*. Refer to Note 8 to the consolidated financial statements for information regarding leases.

CENTRAL WESLEYAN OF HOLLAND

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The Church's lease arrangements relate to the worship space for Redeemer City Church in Florida and the Well in Tennessee and a space for the Living Room Cafe in South Haven, which have lease terms greater than one year. The Church is required to make fixed minimum rent payments, relating to its right to use an underlying leased asset.

The Church determines whether an arrangement contains a lease at the arrangement's inception. If a lease is determined to exist, its related term is assessed at lease commencement, once the underlying asset is made available by the lessor for the Church's use. The Church's assessment of the lease term reflects the non-cancellable period of the lease, inclusive of any rent-free periods and/or periods covered by early-termination options for which the Church is not considered reasonably certain of exercising, as well as periods covered by renewal options for which it is considered reasonably certain of exercising. The Church also determines lease classification as either operating or finance (formerly referred to as "capital") at lease commencement, which governs the pattern of expense recognition and the presentation thereof reflected in the consolidated statements of activities over the lease term.

For leases with a lease term exceeding one year, a lease liability is recorded on the Church's statement of financial position at lease commencement reflecting the present value of its fixed payment obligations over such term. A corresponding right-of-use ("ROU") asset equal to the initial lease liability is also recorded, increased by any prepaid rent and/or initial direct costs incurred in connection with execution of the lease, and reduced by any lease incentives received. For purposes of measuring the present value of its fixed payment obligations for a given lease, the Church uses the risk-free discount rate, determined based on information available at lease commencement, as rates implicit in its leasing arrangements are not readily determinable.

For operating leases, fixed lease payments are recognized as operating lease cost on a straight-line basis over the lease term. For finance leases, the initial ROU asset is depreciated on a straight-line basis over the lease term, along with recognition of interest expense associated with accretion of the lease liability, which is ultimately reduced by the related fixed payments as they are made. For leases with a lease term of 12 months or less (referred to as a "short-term lease"), any fixed lease payments are recognized on a straight-line basis over such term and are not recognized on the consolidated statement of financial position. Variable lease cost, if any, is recognized as incurred for all leases.

Management annually reviews these ROU assets for impairment whenever events or circumstances indicate that their carrying values may not be fully recoverable.

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New Accounting Pronouncement

In 2023, the Church adopted Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021. The Church adopted the standard on June 1, 2022. Adoption of this standard did not have a significant impact on the consolidated financial statements as there were no such material transactions during fiscal 2023 or 2022.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to May 31, 2023, the most recent consolidated statement of financial position presented herein, through August 24, 2023, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified other than the matter previously described in the Risks and Economic Uncertainties section.

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, mutual funds, and money market funds. The Church considers its money market funds and mutual funds 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.

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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.

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:

2023	Total	Level 1	Level 2	Level 3
Money market funds	\$ 702,949	\$ 702,949	\$ -	\$ -
Investment in Wesleyan Investment Foundation	1,177,374	-	-	1,177,374
Total investments	1,880,323	702,949	-	1,177,374
Beneficial interest in charitable remainder annuity trust	10,000	-	-	10,000
Total assets at fair market value	<u>\$ 1,890,323</u>	<u>\$ 702,949</u>	<u>\$ -</u>	<u>\$ 1,187,374</u>
2022	Total	Level 1	Level 2	Level 3
Bond mutual funds	\$ 321,822	\$ 321,822	\$ -	\$ -
Equity mutual funds	381,917	381,917	-	-
Money market funds	11,900	11,900	-	-
Investment in Wesleyan Investment Foundation	861,263	-	-	861,263
Total investments	1,576,902	715,639	-	861,263
Beneficial interest in charitable remainder annuity trust	11,000	-	-	11,000
Total assets at fair market value	<u>\$ 1,587,902</u>	<u>\$ 715,639</u>	<u>\$ -</u>	<u>\$ 872,263</u>

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The Church owns shares in the Wesleyan Investment Foundation; fair value was classified as Level 3 at May 31, 2023 and 2022. 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:

	2023	2022
Beginning balance	\$ 861,263	\$ 1,121,747
Deposits	900,000	1,570,000
Withdrawals	(600,000)	(1,846,861)
Net investment return	16,111	16,377
Total	\$ 1,177,374	\$ 861,263

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:

	2023	2022
Beginning balance	\$ 11,000	\$ 11,000
Change in fair value	(1,000)	-
Total	\$ 10,000	\$ 11,000

3. PLEDGES RECEIVABLE, NET

For consolidated financial statement reporting purposes, promises to give are reported as pledges receivable in the consolidated statements of financial position and are recognized with donor restriction contributions in the consolidated statements of activities. Promises to give are discounted (when material) and recorded as pledges receivable. Pledge receivables are summarized as follows for May 31:

	2023	2022
Pledges receivable	\$ 112,218	\$ 411,605
Less: allowance for doubtful accounts	(28,100)	(275,000)
Less: present value adjustment	(2,776)	-
Pledges receivable, net	\$ 81,342	\$ 136,605

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	2023	2022
Due in one year	\$ 50,470	\$ 136,605
Due in 1 - 5 years	30,872	-
Total pledges receivables, net	<u>\$ 81,342</u>	<u>\$ 136,605</u>

4. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at May 31:

	2023	2022
Land	\$ 2,624,877	\$ 2,624,877
Buildings	53,638,910	53,913,311
Furniture and equipment	1,303,780	1,520,325
Vehicles	275,389	215,127
Construction in progress	3,892,403	344,059
Total	61,735,359	58,617,699
Less accumulated depreciation	<u>(27,270,487)</u>	<u>(26,339,448)</u>
Property and equipment, net	<u>\$ 34,464,872</u>	<u>\$ 32,278,251</u>

Depreciation expense amounted to \$1,694,733 and \$1,670,685 during 2023 and 2022, respectively.

As of May 31, 2023, the Church had construction commitments of approximately \$1,136,000 on construction projects in progress.

5. BORROWED DEBT

Revolving Line of Credit

Revolving line of credit borrowings consist of \$1,925,000 in outstanding draws on a \$3,500,000 revolving line of credit available to fund capital projects for the Church. This secured revolving line of credit was opened on September 20, 2022 and matures on September 20, 2025. It is secured by a real estate mortgage dated March 31, 2016. Interest is charged at a variable rate based on the Secured Overnight funding rate ("SOFR") with a tenor of one month, not less than 3% and not more than the maximum rate allowed by applicable law (effective rate of 6.94% at May 31, 2023). The Church must meet certain requirements, including maintaining tangible net assets without donor restrictions above \$30,000,000 and working capital above \$1,200,000.

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Note Payable

On August 28, 2019, the Church signed a \$6,300,000 promissory note with interest of 3.49%. The outstanding principal balance at May 31, 2023 of \$2,270,000 is payable in annual installments of \$630,000 plus accrued interest for five years with the final balloon payment due August 25, 2026. The August 25, 2022 and 2023 payments were advanced paid, as such no amount is due until August 25, 2024. Proceeds from the loan were used for the purchase and renovations of a building in San Diego, California and to refinance existing debt. The promissory note is collateralized by a real estate mortgage dated March 14, 2016.

During the years ended May 31, 2023 and 2022, the Church incurred and paid \$93,433 and \$94,725 in interest on borrowed debt, respectively.

Scheduled annual principal payments for borrowed debt, is as follows:

Year Ended May 31,	Principal
2024	\$ -
2025	630,000
2026	2,555,000
2027	<u>1,010,000</u>
Total	<u><u>\$ 4,195,000</u></u>

6. RELATED PARTY TRANSACTIONS

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

	2023	2022
Cash paid to the Wesleyan Church denomination and its subsidiaries:		
The Great Lakes District, the Wesleyan Denomination, and the Wesleyan Educational Institutions	\$ 154,059	\$ 153,059
Investment management fees paid to firm by which member of finance committee is employed	2,502	4,267
Attorney fees paid to firm by which member of finance committee is employed	4,540	3,119

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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, 2023 and 2022, was \$236,216 and \$249,915, respectively.

8. LEASES

The Church leases worship space for The Well in Tennessee and Redeemer City Church in Florida, and retail space for the Living Room Cafe in South Haven. Net lease cost during the year ended May 31, 2023 is composed entirely of operating lease cost totaling \$352,164. The lease agreement expires on February 28, 2031 for The Well, January 31, 2026 for Redeemer City Church, and December 31, 2025 for the Living Room Cafe. Short-term leases are insignificant.

In accordance with lease accounting guidance in effect prior to its adoption of ASU 2016-02, the Church recognized operating rent expense of \$254,300 for the year ended May 31, 2022. Such amounts do not include expense recognized related to non-lease components.

The following table summarizes other information related to the Church's leases during the year ended May 31, 2023:

Cash paid for amounts included in the measurement of lease obligations:		
Operating cash flows from operating leases	\$	344,550
Weighted-average remaining lease-term - operating leases		
		7.3 years
Weighted average discount rate - operating leases		
		2.93%

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The following table presents a maturity analysis summary of the Church's lease obligations recorded on the consolidated statement of financial position as of May 31, 2023:

Year	Operating Leases
2024	\$ 345,600
2025	345,600
2026	324,100
2027	294,000
2028	294,000
Thereafter	<u>808,500</u>
Total lease payments	2,411,800
Less discount to present value	<u>242,741</u>
Total lease obligations	2,169,059
Less current portion	<u>(345,600)</u>
Long-term lease obligations	<u>\$ 1,823,459</u>

9. 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.

10. NET ASSETS WITH DONOR RESTRICTIONS

Substantially all the restrictions on net assets at May 31, 2023 and 2022, relate to funds received for specific purposes, as designated at time of gift, that are subject to restrictions for expenditure for those specific purposes. These funds are utilized as expenditures are incurred for that purpose. Additionally, the Church has a beneficial interest in a charitable remainder annuity trust that will be utilized through the passage of time.

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Net assets with donor restrictions consist of the following at May 31:

	2023	2022
Purpose restrictions:		
Benevolence	\$ 152,017	\$ 197,146
Missions	2,935	2,934
Building	42,890	125,552
Youth	36,690	117,925
Other	13,314	18,314
Pledges receivable	81,342	136,605
End Spiritual Loneliness	355,035	-
Global and local missions	1,021,704	1,271,606
Time restrictions:		
Donor restricted fund:		
Beneficial interest in charitable remainder annuity trust	10,000	11,000
	<u>\$ 1,715,927</u>	<u>\$ 1,881,082</u>

11. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following as of May 31:

	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 435,134	\$ 682,230
Investments	1,880,323	1,576,902
Current portion of pledges receivable, net	50,470	136,605
Employee retention credit receivable	1,299,213	-
Employee retention credit interest receivable	99,374	-
Subtotal	<u>3,764,514</u>	<u>2,395,737</u>
Less amounts unavailable for general expenditures within one year due to:		
Restricted by donors - specified purposes	<u>(1,675,055)</u>	<u>(1,870,082)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,089,459</u>	<u>\$ 525,655</u>

In addition to available financial assets, the Church receives contributions to help support annual expenditures and their mission.

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12. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers of the Church for the years ended May 31, 2023 and 2022, is as follows:

	2023	2022
Tuition	\$ 446,012	\$ 129,508
Facilities/equipment rentals	91,734	142,502
Food sales	164,545	148,175
Total	\$ 702,291	\$ 420,185

Food sales are recognized at a point in time as control does not transfer to the customer until the point of sale. Tuition is recognized over time as the customer simultaneously receives and consumes the benefit of the services.

The Church's deferred revenue from revenue from contracts with customers were as follows for the years ended May 31, 2023 and 2022:

	2023	2022
Beginning of the year	\$ 40,667	\$ -
End of the year	27,375	40,667

13. ACQUISITION OF CHURCHES

In June 2022, the Church acquired Redeemer City Church in Tampa, Florida, in order for the Church to continue to extend its outreach to a new location. Assets acquired consisted of residual cash of \$88,691. No consideration was given by the Church in this transaction.

In June 2022, the Church acquired Makers Church Northwest in the Pacific Northwest, in order for the Church to continue to extend its outreach to a new location. Assets acquired consisted of residual cash of \$27,145. No consideration was given by the Church in this transaction.

