

Central Wesleyan
of Holland



Years Ended
May 31,
2024 and 2023

Consolidated
Financial
Statements

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CENTRAL WESLEYAN OF HOLLAND

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INDEPENDENT AUDITORS' REPORT

September 17, 2024

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, 2024 and 2023, 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 the Church as of May 31, 2024 and 2023, 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 Principle

As described in Note 1 to the consolidated financial statements, effective June 1, 2023, the Church adopted Accounting Standards Codification Topic 326, *Financial Instruments - Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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

| ASSETS | May 31 | |
|---|----------------------|----------------------|
| | 2024 | 2023 |
| Current assets | | |
| Cash and cash equivalents | \$ 627,453 | \$ 435,134 |
| Investments | 1,710,570 | 1,880,323 |
| Pledges receivable, net of allowance | 963,132 | 50,470 |
| Employee retention tax credits receivable | 336,344 | 1,299,213 |
| Employee retention tax credits interest receivable | 5,287 | 99,374 |
| Prepaid expenses and other assets | 410,208 | 287,736 |
| Total current assets | 4,052,994 | 4,052,250 |
| Pledges receivable, net of allowance and current portion | - | 30,872 |
| Beneficial interest in charitable remainder annuity trust | 17,000 | 10,000 |
| Net operating lease right-of-use assets | 2,160,342 | 2,161,445 |
| Net property and equipment | 34,393,747 | 34,464,872 |
| Total assets | \$ 40,624,083 | \$ 40,719,439 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 206,399 | \$ 1,111,540 |
| Accrued compensation | 596,279 | 499,728 |
| Current portion of long-term debt | 630,000 | - |
| Current portion of operating lease obligations | 461,213 | 345,600 |
| Deferred revenue | 99,903 | 51,528 |
| Total current liabilities | 1,993,794 | 2,008,396 |
| Operating lease obligations, net of current portion | 1,711,733 | 1,823,459 |
| Long-term debt, net of current portion | 3,640,000 | 4,195,000 |
| Total liabilities | 7,345,527 | 8,026,855 |
| Net assets | | |
| Without donor restrictions | 30,997,691 | 30,976,657 |
| With donor restrictions | 2,280,865 | 1,715,927 |
| Total net assets | 33,278,556 | 32,692,584 |
| Total liabilities and net assets | \$ 40,624,083 | \$ 40,719,439 |

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, 2024

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|----------------------|
| Support, revenues and gains | | | |
| Contributions | \$ 11,825,125 | \$ 2,972,819 | \$ 14,797,944 |
| Program donations | 670,599 | - | 670,599 |
| Net investment return | 49,064 | - | 49,064 |
| Rentals | 75,330 | - | 75,330 |
| Tuition | 715,075 | - | 715,075 |
| Food sales | 171,487 | - | 171,487 |
| Employee retention tax credit | 68,300 | - | 68,300 |
| Change in fair value of time restricted beneficial interest in charitable remainder annuity trust | - | 7,000 | 7,000 |
| Total support, revenues and gains | 13,574,980 | 2,979,819 | 16,554,799 |
| Net assets released from restrictions | 2,414,881 | (2,414,881) | - |
| Total support, revenues, gains and net assets released from restrictions | 15,989,861 | 564,938 | 16,554,799 |
| Expenses | | | |
| Program services - Church ministry | 13,981,391 | - | 13,981,391 |
| Supporting services: | | | |
| Ministry support | 1,983,138 | - | 1,983,138 |
| Total expenses | 15,964,529 | - | 15,964,529 |
| Loss on disposal of property and equipment | 4,298 | - | 4,298 |
| Total expenses and losses | 15,968,827 | - | 15,968,827 |
| Change in net assets | 21,034 | 564,938 | 585,972 |
| Net assets, beginning of year | 30,976,657 | 1,715,927 | 32,692,584 |
| Net assets, end of year | \$ 30,997,691 | \$ 2,280,865 | \$ 33,278,556 |

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 | 1,398,586 | - | 1,398,586 |
| Excess of assets acquired over liabilities assumed in acquisition of churches | 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 | 13,034,225 | 1,873,901 | 14,908,126 |
| Net assets released from restrictions | 2,039,056 | (2,039,056) | - |
| Total support, revenues, gains and net assets released from restrictions | 15,073,281 | (165,155) | 14,908,126 |
| Expenses | | | |
| 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 | \$ 30,976,657 | \$ 1,715,927 | \$ 32,692,584 |

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, 2024

| | Program Services | Supporting Services | |
|--|----------------------|------------------------|----------------------|
| | Church ministry | Ministry support | Total |
| Expenses | | | |
| Salaries and benefits | \$ 8,031,130 | \$ 516,983 | \$ 8,548,113 |
| Depreciation | 1,741,428 | - | 1,741,428 |
| Ministry production | 1,141,003 | 10,217 | 1,151,220 |
| Missions and outreach support | 785,426 | - | 785,426 |
| Rental | 54,590 | 419,231 | 473,821 |
| Utilities | 13,659 | 363,507 | 377,166 |
| Meetings and events | 369,001 | 585 | 369,586 |
| Church supplies | 217,486 | 98,455 | 315,941 |
| Interest | 3,057 | 267,122 | 270,179 |
| Meals | 221,694 | 45,439 | 267,133 |
| Bank service fees and taxes | 154,974 | 97,122 | 252,096 |
| Trainings, curriculum and leadership development | 238,570 | - | 238,570 |
| Miscellaneous church | 230,090 | 3,229 | 233,319 |
| Repairs and maintenance | 219,282 | 1,706 | 220,988 |
| District membership | 164,137 | - | 164,137 |
| Benevolence gifts | 128,810 | 329 | 129,139 |
| Travel | 119,245 | 3,325 | 122,570 |
| Insurance | 1,206 | 86,281 | 87,487 |
| Minor capital improvements | 26,516 | 58,000 | 84,516 |
| Telephone | 54,695 | 6,133 | 60,828 |
| Printing and copying | 53,188 | 3,287 | 56,475 |
| Professional fees | 8,606 | 1,326 | 9,932 |
| Postage | 3,598 | 861 | 4,459 |
| Total expenses | \$ 13,981,391 | \$ 1,983,138 | \$ 15,964,529 |

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 | | | |
| Salaries and benefits | \$ 6,306,069 | \$ 540,431 | \$ 6,846,500 |
| Depreciation | 1,694,733 | - | 1,694,733 |
| Missions and outreach support | 895,470 | - | 895,470 |
| Ministry production | 662,196 | 6,868 | 669,064 |
| Miscellaneous church | 447,930 | 3,171 | 451,101 |
| Utilities | 13,194 | 377,233 | 390,427 |
| Rental | 56,302 | 326,654 | 382,956 |
| Meetings and events | 372,893 | - | 372,893 |
| Minor capital improvements | 354,417 | - | 354,417 |
| Trainings, curriculum and leadership development | 305,878 | - | 305,878 |
| Church supplies | 207,466 | 96,542 | 304,008 |
| Repairs and maintenance | 264,750 | 10,317 | 275,067 |
| Meals | 190,676 | 43,075 | 233,751 |
| Bank service fees and taxes | 121,553 | 94,145 | 215,698 |
| Interest | 3,265 | 158,751 | 162,016 |
| District membership | 153,059 | - | 153,059 |
| Benevolence gifts | 141,356 | - | 141,356 |
| Travel | 122,743 | 3,470 | 126,213 |
| Telephone | 70,805 | 6,204 | 77,009 |
| Insurance | - | 68,746 | 68,746 |
| Printing and copying | 32,120 | 3,039 | 35,159 |
| Professional fees | 9,822 | - | 9,822 |
| Postage | 7,824 | 332 | 8,156 |
| 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 Statements of Cash Flows

| | Year Ended May 31 | |
|---|--------------------|--------------------|
| | 2024 | 2023 |
| Cash flows from operating activities | | |
| Change in net assets | \$ 585,972 | \$ 580,822 |
| 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 | (7,000) | 1,000 |
| Depreciation | 1,741,428 | 1,694,733 |
| Amortization of operating right-of-use assets | 345,184 | 284,981 |
| Contributions related to capital campaign | (422,184) | (145,224) |
| Provision for uncollectable pledges | 55,850 | 77,622 |
| Reinvested income on investments | (51,155) | (9,984) |
| Realized and unrealized (gain) loss on investments | (37,019) | 7,292 |
| Loss on sale and disposal of property and equipment | 4,298 | 153,805 |
| Excess of assets acquired over liabilities assumed in acquisition of churches | - | (115,836) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | (611,219) | 58,983 |
| Employee retention tax credits receivable | 962,869 | (1,299,213) |
| Employee retention tax credits interest receivable | 94,087 | (99,374) |
| Prepaid expenses and other assets | (122,472) | (40,752) |
| Accounts payable and accrued expenses | (905,141) | 564,068 |
| Accrued compensation | 96,551 | 195,585 |
| Operating lease obligations | (340,195) | (277,367) |
| Deferred revenue | 48,375 | (8,682) |
| Net cash provided by operating activities | 1,438,229 | 1,622,459 |
| Cash flows from investing activities | | |
| Purchases and construction of property and equipment | (1,674,601) | (4,097,646) |
| Proceeds on sale of property and equipment | - | 62,489 |
| Purchases of investments | (1,276,182) | (423,280) |
| Proceeds from sales of investments | 1,575,000 | 600,000 |
| Net cash used in investing activities | (1,375,783) | (3,858,437) |
| Cash flows from financing activities | | |
| Contributions and pledges collected related to capital campaign | 54,873 | 63,882 |
| Proceeds from construction revolving line of credit | 1,067,000 | 1,925,000 |
| Repayment on construction revolving line of credit | (992,000) | - |
| Net cash provided by financing activities | 129,873 | 1,988,882 |
| Net increase (decrease) in cash and cash equivalents | 192,319 | (247,096) |
| Cash and cash equivalents, beginning of year | 435,134 | 682,230 |
| Cash and cash equivalents, end of year | \$ 627,453 | \$ 435,134 |

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, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Mission

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 8,060 and 6,674 individuals in morning worship attendance during the years ended May 31, 2024 and 2023, respectively. During fiscal year 2024 and 2023, approximately \$14.8 million and \$12.2 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 164 and 112 at the years ended May 31, 2024 and 2023, 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 113 acres of land on the south side of Holland, Michigan. The Church is considered a regional church and has a wide influence beyond the City of Holland. Additionally, the Church has 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.

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

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 as of May 31, 2024 or 2023. 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.

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.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand, and money market accounts. The Church maintains deposits in banks that are insured by the Federal Deposit Insurance Corporation, and therefore credit losses are not expected. At times throughout the year, the Church's bank balances may exceed insured limits. The Church maintains its cash equivalents in depository accounts and money market accounts that primarily invest in United States Treasury securities. The Church has not experienced any credit losses and does not believe it is exposed to any significant credit loss on these funds. United States Treasury securities are backed by the full faith and credit of the U.S. government and have a long history of no credit losses. Management believes the Church is not exposed to any significant interest rate or other financial risk on these deposits.

Prepaid Expenses and Other Assets

Payments to vendors or employees for services that will benefit periods beyond the Church's fiscal year ends are recorded as prepaid expenses.

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

Investments

Investments held by the Church consist of investments 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. 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 the market value of investments. 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 (level 3).

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

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 \$96,740 and \$28,100 (\$11,240 related to the noncurrent portion in 2023) an allowance on pledge receivables as of May 31, 2024 and 2023, respectively. Additionally, management has made a present value adjustment of \$2,776 at May 31, 2023 and no adjustment as of May 31, 2024.

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

Property and equipment are stated at cost. Donated property and equipment are recorded at fair value at the date of the donation. Donations are reported as support without donor restrictions unless the donor has restricted the use of the donated asset to a specific purpose. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Church reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Management reviews these assets for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 5 to 40 years. 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.

Promises to Give and Contributions

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. 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 received are recorded with or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction has been satisfied or expires, net assets with donor restrictions 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, 2024 and 2023 are summarized in the chart below:

| | 2024 | 2023 |
|---------------------------------|---------------|---------------|
| Facilities | 4,882 | 1,664 |
| Programming | | |
| Small group, Sunday school | 11,026 | 9,300 |
| Worship arts | 5,860 | 2,444 |
| Tech | 5,412 | 3,500 |
| Guest | 5,153 | 2,756 |
| Celebrate recovery | 3,000 | 1,092 |
| Local missions | 3,000 | 3,000 |
| Playland | 2,200 | 1,740 |
| Café | 974 | 250 |
| Christmas desserts & breakfasts | 352 | 260 |
| Total programming | 36,977 | 24,342 |
| Total volunteer hours | 41,859 | 26,006 |

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.

The Church also operates 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.

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. Although the Church was granted an income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” Such income, pursuant to the Internal Revenue Code and related regulations, includes certain investment income. The Church has been classified as not a private foundation.

The Church analyzes its income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, for all open tax years in these jurisdictions, to identify potential uncertain tax positions.

Management has evaluated the Church's income tax filing positions for 2020 through 2023, the years which remain subject to examination as of May 31, 2024. 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, 2024 or 2023, and is not aware of any claims for such amounts by federal or state income tax authorities.

Functional Allocation of Expenses

The costs 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. Although the methods of allocation are considered reasonable, other methods could be used that would produce a different amount.

Leases

The Church leases worship space for The Well in Tennessee, the Redeemer City Church in Florida, and Captivate Church in California, retail space for the Living Room Cafe in South Haven, and office space for Captivate Church in California. The Church's leases generally have initial terms ranging from three to ten years and may include renewal or early-termination options, rent escalation clauses, and/or lease incentives in the form of construction allowances and rent abatements. The Church is required to make fixed minimum rent payments, variable rent payments, or a combination thereof, relating to its right to use an underlying leased asset. The Church is also often required to pay for certain other costs that do not relate specifically to its right to use an underlying leased asset, but that are associated with the asset, including common area maintenance fees and/or certain other costs (referred to collectively herein as "non-lease components"), which may be fixed or variable in amount, depending on the terms of the respective lease agreement.

CENTRAL WESLEYAN OF HOLLAND

Consolidated Notes to Financial Statements

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 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 12 months, a lease liability is recorded on the Church's consolidated statements 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 the execution of the lease, and reduced by any lease incentives received. The Church includes fixed payment obligations related to non-lease components in the measurement of ROU assets and lease liabilities, as it elects to account for lease and non-lease components together as a single lease component. Variable lease payments are not included in the measurement of ROU assets and lease liabilities. ROU assets associated with finance leases are presented separate from those associated with operating leases, and are included within net property and equipment on the Church's consolidated statement of financial position. 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 reviews these ROU assets for impairment whenever events or circumstances indicate that their carrying values may not be fully recoverable.

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Change in Accounting Principle

The Financial Accounting Standards Board issued Accounting Standards Update 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, in June 2016. The standard replaced the incurred loss impairment methodology with a new methodology that reflects current expected credit losses ("CECL") on financial assets, including receivables, held-to-maturity debt securities, and certain off-balance sheet commitments. The new methodology requires the measurement of all expected credit losses based on historical experience, current economic conditions, and reasonable and supportable forecasts. The standard also expands the required quantitative and qualitative disclosures for expected credit losses. On June 1, 2023, the Church adopted the standard using a modified retrospective method. The adoption of this standard did not have a significant impact on the Church's consolidated financial statements and disclosures.

Reclassification

Certain amounts as reported in the 2023 consolidated financial statements have been reclassified to conform with the 2024 presentation.

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, 2024, the most recent consolidated statement of financial position presented herein, through September 17, 2024, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified other than the matter described in Note 13.

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

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

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.

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

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

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

| May 31, 2024 | Level 1 | Level 2 | Level 3 | Total |
|---|-------------------|-------------|---------------------|---------------------|
| Money market funds | \$ 639,649 | \$ - | \$ - | \$ 639,649 |
| Investment in Wesleyan Investment Foundation | - | - | 1,070,921 | 1,070,921 |
| Total investments | 639,649 | - | 1,070,921 | 1,710,570 |
| Beneficial interest in charitable remainder annuity trust | - | - | 17,000 | 17,000 |
| Total assets at fair market value | <u>\$ 639,649</u> | <u>\$ -</u> | <u>\$ 1,087,921</u> | <u>\$ 1,727,570</u> |
| May 31, 2023 | Level 1 | Level 2 | Level 3 | Total |
| Money market funds | \$ 702,949 | \$ - | \$ - | \$ 702,949 |
| Investment in Wesleyan Investment Foundation | - | - | 1,177,374 | 1,177,374 |
| Total investments | 702,949 | - | 1,177,374 | 1,880,323 |
| Beneficial interest in charitable remainder annuity trust | - | - | 10,000 | 10,000 |
| Total assets at fair market value | <u>\$ 702,949</u> | <u>\$ -</u> | <u>\$ 1,187,374</u> | <u>\$ 1,890,323</u> |

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The Church owns shares in the Wesleyan Investment Foundation; fair value was classified as Level 3 at May 31, 2024 and 2023. 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:

| | 2024 | 2023 |
|-----------------------|---------------------|---------------------|
| Beginning balance | \$ 1,177,374 | \$ 861,263 |
| Deposits | 1,017,392 | 900,000 |
| Withdrawals | (1,175,000) | (600,000) |
| Net investment return | 51,155 | 16,111 |
| Total | \$ 1,070,921 | \$ 1,177,374 |

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:

| | 2024 | 2023 |
|----------------------|------------------|------------------|
| Beginning balance | \$ 10,000 | \$ 11,000 |
| Change in fair value | 7,000 | (1,000) |
| Total | \$ 17,000 | \$ 10,000 |

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 restricted 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:

| | 2024 | 2023 |
|------------------------------------|-------------------|------------------|
| Pledges receivable | \$ 1,059,872 | \$ 112,218 |
| Less: allowance for uncollectibles | 96,740 | 28,100 |
| Less: present value adjustment | - | 2,776 |
| Pledges receivable, net | \$ 963,132 | \$ 81,342 |

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| | 2023 | 2022 |
|---------------------------------------|-------------------|------------------|
| Due in one year | \$ 963,132 | \$ 50,470 |
| Due in 1 - 5 years | - | 30,872 |
| Total pledges receivables, net | <u>\$ 963,132</u> | <u>\$ 81,342</u> |

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following amounts at May 31:

| | 2024 | 2023 |
|-----------------------------------|----------------------|----------------------|
| Property and equipment | | |
| Land | \$ 2,624,877 | \$ 2,624,877 |
| Buildings | 58,108,993 | 53,638,910 |
| Furniture and equipment | 1,770,474 | 1,303,780 |
| Vehicles | 277,965 | 275,389 |
| Construction in progress | 593,425 | 3,892,403 |
| Total | <u>63,375,734</u> | <u>61,735,359</u> |
| Less accumulated depreciation | <u>28,981,987</u> | <u>27,270,487</u> |
| Net property and equipment | <u>\$ 34,393,747</u> | <u>\$ 34,464,872</u> |

Depreciation expense was \$1,741,428 and \$1,694,733 in 2024 and 2023, respectively.

Construction in progress represents various improvement and expansion projects related to the Church's buildings. There was no capitalized interest related to construction in progress for fiscal year 2024 or 2023. Management estimates there were approximately \$50,000 of costs left to complete these projects as of May 31, 2024.

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5. BORROWED DEBT

Revolving Line of Credit

Revolving line of credit borrowings consist of outstanding draws (\$2,000,000 and \$1,925,000 at May 31, 2024 and 2023, respectively) on a \$3,500,000 revolving line of credit available to fund capital projects for the Church, which expires September 20, 2025. 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 7.263% and 6.94% at May 31, 2024 and 2023, respectively). 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. Borrowings are collateralized by a real estate mortgage dated March 14, 2016.

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, 2024 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, 2023 scheduled payment was advanced paid, and accordingly the total outstanding balance at May 31, 2023 was classified as long-term. 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.

Scheduled annual principal maturities for borrowed debt for each of the three years succeeding May 31, 2024 are summarized as follows:

| Year | Amount |
|--------------|----------------------------|
| 2025 | \$ 630,000 |
| 2026 | 2,630,000 |
| 2027 | <u>1,010,000</u> |
| Total | <u><u>\$ 4,270,000</u></u> |

Interest expense and interest paid on borrowed debt was \$203,026 and \$93,433 in 2024 and 2023, respectively.

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6. RELATED PARTY TRANSACTIONS

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

| | 2024 | 2023 |
|--|------------|------------|
| Cash paid to the Wesleyan Church denomination and its subsidiaries: | | |
| The Great Lakes District, the Wesleyan Denomination, and the Wesleyan Educational Institutions | \$ 164,167 | \$ 154,059 |
| Investment management fees paid to firm by which a member of finance committee is employed | 3,723 | 2,502 |
| Attorney fees paid to firm by which a member of finance committee is employed | 4,474 | 4,540 |

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. Contributions recorded for the years ended May 31, 2024 and 2023, was \$326,464 and \$236,216, respectively.

8. LEASES

The following table summarizes the composition of net lease cost during the years ended May 31:

| | 2024 | 2023 |
|-------------------------|-------------------|-------------------|
| Operating lease cost | \$ 410,408 | \$ 352,164 |
| Short-term lease cost | 128,637 | 97,975 |
| Total lease cost | \$ 539,045 | \$ 450,139 |

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

| | 2024 | 2023 |
|--|------------|------------|
| Cash paid for amounts included in the measurement of lease obligations: | | |
| Operating cash flows from operating leases | \$ 405,418 | \$ 344,550 |
| Right-of-use assets obtained in exchange for new operating lease obligations | 344,081 | - |
| Weighted-average remaining lease-term - operating leases (years) | 5.89 | 7.30 |
| Weighted average discount rate - operating leases | 3.14% | 2.93% |

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, 2024:

| Year | Operating Leases |
|--|----------------------------|
| 2025 | \$ 461,213 |
| 2026 | 441,553 |
| 2027 | 360,838 |
| 2028 | 302,240 |
| 2029 | 294,000 |
| Thereafter | <u>514,500</u> |
| Total lease payments | 2,374,344 |
| Less discount on present value | <u>201,398</u> |
| Total lease obligations | 2,172,946 |
| Less current portion | <u>461,213</u> |
| Long-term operating lease obligations | <u><u>\$ 1,711,733</u></u> |

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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, 2024 and 2023, relate to funds received for specific purposes, as designated at the time of the 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.

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

| | 2024 | 2023 |
|---|---------------------|---------------------|
| Purpose restrictions: | | |
| Global and local missions | \$ 669,040 | \$ 1,021,704 |
| Pray it forward | 527,248 | - |
| The Local Church capital campaign | 381,294 | - |
| End Spiritual Loneliness | 314,626 | 355,035 |
| Benevolence | 175,850 | 152,017 |
| Building | 76,660 | 42,890 |
| Pledges receivable | 67,883 | 81,342 |
| Youth | 27,019 | 36,690 |
| Missions | 12,996 | 2,935 |
| Other | 11,249 | 13,314 |
| Time restrictions: | | |
| Donor restricted fund: | | |
| Beneficial interest in charitable remainder annuity trust | 17,000 | 10,000 |
| | <u>\$ 2,280,865</u> | <u>\$ 1,715,927</u> |

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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:

| | 2024 | 2023 |
|---|---------------------|---------------------|
| Financial assets: | | |
| Cash and cash equivalents | \$ 627,453 | \$ 435,134 |
| Investments | 1,710,570 | 1,880,323 |
| Current portion of pledges receivable, net | 963,132 | 50,470 |
| Employee retention credit receivable | 336,344 | 1,299,213 |
| Employee retention credit interest receivable | 5,287 | 99,374 |
| Subtotal | 3,642,786 | 3,764,514 |
| Less amounts unavailable for general expenditures within one year due to: | | |
| Restricted by donors - specified purposes | 2,263,865 | 1,675,055 |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 1,378,921 | \$ 2,089,459 |

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

12. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers of the Church for the years ended May 31, 2024 and 2023, is as follows:

| | 2024 | 2023 |
|------------------------------|-------------------|-------------------|
| Tuition | \$ 715,075 | \$ 446,012 |
| Facilities/equipment rentals | 75,330 | 91,734 |
| Food sales | 171,487 | 164,545 |
| Total | \$ 961,892 | \$ 702,291 |

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.

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The Church's deferred revenue from contracts with customers was as follows for the years ended May 31, 2024 and 2023:

| | 2024 | 2023 |
|-----------------------|-----------|-----------|
| Beginning of the year | \$ 27,375 | \$ 40,667 |
| End of the year | 53,430 | 27,375 |

13. SUBSEQUENT EVENT

On August 16, 2024, Central Wesleyan Church obtained a new line of credit from Macatawa bank valued at \$10 million, which included a new church purchase and refinancing of existing debt.

On August 20, 2024, Central Wesleyan Church (dba The Local Church) purchased a property located in Grand Rapids, Michigan for \$4.1 million.

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