CENTRAL UNITED METHODIST CHURCH, INC.

December 31, 2018 and 2017

Consolidated Financial Statements – Modified Cash Basis
And
Supplementary Information

With

Independent Auditor's Report

FROST, PLLC
Certified Public Accountants

Table of Contents

FROST, PLLC
Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Central United Methodist Church, Inc., which comprise the consolidated statement of assets, liabilities and net assets – modified cash basis as of December 31, 2018 and 2017, and the related consolidated statements of revenue, expenses and changes in net assets – modified cash basis and functional expenses – modified cash basis for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the modified cash basis of accounting as described in Note 1.b.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the consolidated financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets – modified cash basis of Central United Methodist Church, Inc. as of December 31, 2018 and 2017, and its revenue, expenses and changes in net assets – modified cash basis for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.b.

Basis of Accounting

We draw attention to Note 1.b. of the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 12, 2019

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

December 31, 2018 and 2017

	2018	2017
Assets		
Cash	$ 2,075,744	$ 2,942,663
Investments	705,818	852,930
Note receivable	-	10,000
Property and equipment, net	27,579,917	24,415,269
Total assets	$ 30,361,479	$ 28,220,862
Liabilities and Net Assets		
Liabilities		
Payroll taxes withheld	$ 11,193	$ 3,951
Lines of credit	1,518,000	-
Notes payable	3,932,091	4,473,725
Total liabilities	5,461,284	4,477,676
Net assets		
Without donor restrictions		
Undesignated	22,901,514	20,444,028
Designated	254,571	425,607
With donor restrictions	1,744,110	2,873,551
Total net assets	24,900,195	23,743,186
Total liabilities and net assets	$ 30,361,479	$ 28,220,862

The accompanying notes are an integral part of these consolidated financial statements – modified cash basis.

CENTRAL UNITED METHODIST CHURCH, INC.

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

For the Years Ended December 31, 2018 and 2017

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue			
Offerings/contributions	$ 5,178,738	$ 2,724,503	$ 7,903,241
Central Children's Academy	440,046	-	440,046
Realized gain on investments	20,013	10,067	30,080
Unrealized gain (loss) on investments	(29,900)	(40,759)	(70,659)
Rental income	127,605	-	127,605
Interest income	90,617	10,242	100,859
Other income	11,253	-	11,253
Gain (loss) on disposal of property and equipment	75,722	-	75,722
United States Department of Agriculture	-	-	-
Net assets released from restrictions	3,833,494	(3,833,494)	-
Total support and revenue	9,747,588	(1,129,441)	8,618,147
Expenses			
Program services	6,053,853	-	6,053,853
Supporting services			
General and administrative	1,407,285	-	1,407,285
Fund-raising	-	-	-
Total expenses	7,461,138	-	7,461,138
Changes in net assets	2,286,450	(1,129,441)	1,157,009
Net assets - beginning of year	20,869,635	2,873,551	23,743,186
Net assets - end of year	$ 23,156,085	$ 1,744,110	$ 24,900,195

2017		
Without Donor Restrictions	With Donor Restrictions	Total
$ 4,763,868	$ 3,337,944	$ 8,101,812
415,048	-	415,048
3,513	8,745	12,258
24,345	35,121	59,466
131,505	-	131,505
22,453	8,755	31,208
8,723	-	8,723
(10,098)	-	(10,098)
5,996	-	5,996
2,163,117	(2,163,117)	-
7,528,470	1,227,448	8,755,918
5,683,285	-	5,683,285
1,329,164	-	1,329,164
33,095	-	33,095
7,045,544	-	7,045,544
482,926	1,227,448	1,710,374
20,386,709	1,646,103	22,032,812
$ 20,869,635	$ 2,873,551	$ 23,743,186

The accompanying notes are an integral part of these consolidated financial statements – modified cash basis.

CENTRAL UNITED METHODIST CHURCH, INC.

Consolidated Statement of Functional Expenses – Modified Cash Basis

For the Years Ended December 31, 2018 and 2017

	2018			
		Supporting Services		
	Program Services	General and Administrative	Fund-raising	Total Functional Expenses
Shared ministries	$ 568,566	$ -	$ -	$ 568,566
Capital campaign	-	-	-	-
Central's Activity Center	5,070	-	-	5,070
Central Children's Academy	151,743	-	-	151,743
Children's ministries	36,036	-	-	36,036
Congregational care ministries	29,225	-	-	29,225
Counseling ministries	582	-	-	582
Depreciation	802,613	110,074	-	912,687
Interest expense	244,003	33,464	-	277,467
Legal fees	29,390	-	-	29,390
Mission - outreach ministries	562,451	-	-	562,451
Hospitality	32,488	-	-	32,488
Nurture - witness ministries	6,397	-	-	6,397
Other	-	164,139	-	164,139
Property maintenance	743,733	-	-	743,733
Salaries and employee benefits				
Central Children's Academy	293,625	-	-	293,625
Central United Methodist Church, Inc.	1,602,649	837,333	-	2,439,982
Student ministries	130,099	-	-	130,099
Vision - new ministries	-	-	-	-
Worship ministries	257,843	-	-	257,843
Office expense	-	216,343	-	216,343
U of A Wesley College Ministry, Inc.	254,244	45,932	-	300,176
Genesis Church	303,096	-	-	303,096
Total functional expenses	$ 6,053,853	$ 1,407,285	$ -	$ 7,461,138

2017			
	Supporting Services		Total
Program Services	General and Administrative	Fund-raising	Functional Expenses
$ 515,426	$ -	$ -	$ 515,426
-	-	33,095	33,095
5,853	-	-	5,853
153,360	-	-	153,360
57,812	-	-	57,812
47,606	-	-	47,606
343	-	-	343
825,080	113,155	-	938,235
117,427	16,105	-	133,532
-	-	-	-
644,803	-	-	644,803
26,002	-	-	26,002
5,602	-	-	5,602
4,452	93,218	-	97,670
654,879	-	-	654,879
272,688	-	-	272,688
1,604,351	872,060	-	2,476,411
100,953	-	-	100,953
2,681	-	-	2,681
67,914	-	-	67,914
-	198,043	-	198,043
263,342	36,583	-	299,925
312,711	-	-	312,711
$ 5,683,285	$ 1,329,164	$ 33,095	$ 7,045,544

The accompanying notes are an integral part of these consolidated financial statements – modified cash basis.

1. **Summary of Significant Accounting Policies**

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

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

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

b. **Basis of accounting** – The accompanying consolidated financial statements were prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, revenue is generally recognized when received and expenses are recognized when paid, except for investment, property and equipment and debt activities.

c. **Financial statement presentation** – The Entities report information regarding their financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions. Net assets with donor restrictions represent net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the passage of time or can be fulfilled and removed by the action of the Entities. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds to be maintained in perpetuity. All other net assets are considered to be without donor restrictions.

Revenue is reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Gains and losses on the disposition of assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or laws. Expenses are generally reported as decreases in net assets without donor restrictions. Contributions with donor-imposed restrictions, such as time or purpose restrictions, are recorded as net assets with donor restrictions. When donor-imposed time conditions expire, or a donor-imposed purpose restriction is fulfilled, the net assets with donor restrictions are reclassified to net assets without donor restrictions. This reclassification is reported as net assets released from restrictions.

1. **Summary of Significant Accounting Policies (cont.)**

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

All significant intercompany transactions and balances have been eliminated.

e. **Estimates** – The preparation of consolidated financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated statement of assets, liabilities and net assets – modified cash basis and reported amounts of revenue and expenses in the accompanying statement of revenue, expenses and changes in net assets – modified cash basis. Actual results could differ from those estimates.

f. **Investments** – Marketable equity securities with readily determinable fair values and all debt securities are reported at their fair values in the accompanying consolidated statement of assets, liabilities and net assets – modified cash basis. Unrealized gains and losses are included in the accompanying statement of revenue, expenses and changes in net assets. Investment income includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments net of investment management fees. Realized gains or losses on securities sold are based on the specific identification method. The Church also has invested funds with the United Methodist Foundation of Arkansas ("UM Foundation"), which pools funds from many organizations together in order to maximize the returns on investments. The current fair value of the pooled investments, along with investment income and realized gains and losses, and unrealized gains and losses are allocated to the participants in the pool based on their ownership interest.

g. **Property and equipment** – Buildings, furniture and fixtures and other assets are stated at cost, if purchased, or fair market value at date of donation if contributed. Acquisitions of property and equipment in excess of $2,500 are capitalized. Depreciation of buildings and equipment is provided on the straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 40 years.

h. **Revenue recognition** – The Entities recognize revenue when received. Investment income and other revenue are recorded when received, except for unrealized gains or losses of investments which are recognized based upon changes in the related assets fair value.

1. **<u>Summary of Significant Accounting Policies</u> (cont.)**

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

   Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations regarding how long those long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

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

   Donations of property are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Expirations of donor restrictions are recorded when the donated or acquired assets are placed in service as instructed by the donor. Net assets with donor restrictions are reclassified to net assets without donor restrictions at that time.

   k. **Functional expenses** – The costs of providing the various programs and activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting service benefited based on management's best estimate.

   l. **Income taxes** – The Entities are exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and a similar code section under Arkansas Statutes and exempt from Internal Revenue Service annual information return filing requirements. The Ministry is considered a Church-affiliated organization. Accordingly, no provision for federal or state income taxes has been made.

   m. **Advertising** – Advertising costs are expensed as they are incurred.

1. **Summary of Significant Accounting Policies (cont.)**

n. **Recent account pronouncements** – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 amends the Accounting Standards Codification ("ASC") and creates a new Topic 606, "Revenue from Contracts with Customers." This new topic describes a step by step process to achieve the FASB's core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new topic also adds improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized. The Entities adopted ASU 2014-09 effective January 1, 2019. The adoption of ASU 2014-09 did not have a material effect on the Entities' financial position or results of operations.

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

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

1. **Summary of Significant Accounting Policies (cont.)**

indirect method reconciliation if a not-for-profit chooses to use the direct method of presenting operating cash flows. During 2018, the Entities adopted the application of ASU 2016-14 on their consolidated financial statements. As a result, the Entities changed their presentation of net asset classes and expanded the footnote disclosures as required by ASU 2016-14. The Entities opted not to disclose liquidity and availability for fiscal 2017 as permitted under ASU 2016-14 in the year of adoption.

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

2. **Liquidity and Availability of Resources**

The Entities' financial assets available within one year of the consolidated statement of assets, liabilities and net assets – modified cash basis are as follows:

Financial assets at year-end	
Cash	$ 2,075,744
Investments	705,818
Total financial assets	2,781,562
Less amounts not available to be used for general expenditures within one year	
Donor restricted funds with purpose restrictions	1,744,110
Board designated	254,571
Financial assets available to meet general expenditures within one year	$ 782,881

2. Liquidity and Availability of Resources (cont.)

As part of the Entities' liquidity plan, they have a policy to structure financial assets to be available as general expenditures, liabilities and other obligations come due. The Entities invest cash in excess of daily requirements in overnight investments, such as repurchase agreements in order to maintain liquidity. Should the Entities encounter unanticipated liquidity needs, operating lines of credit of are available to meet short-term obligations.

3. Investments

Investments are comprised of the following:

	Cost	Fair Value	Cumulative Unrealized Gain
December 31, 2018			
Pooled investments held by the UM Foundation	$ 622,541	$ 705,818	$ 83,277
December 31, 2017			
Pooled investments held by the UM Foundation	$ 698,994	$ 852,930	$ 153,936

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

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

4. Note Receivable

The Church's note receivable consists of a noninterest-bearing note due from an associate pastor. The note, which originated May 23, 2012, required annual payments of $2,000 and was fully collected during 2018. Note receivable was $10,000 for the year ended December 31, 2017.

5. Property and Equipment

Property and equipment consist of the following:

	2018	2017
Land	$ 5,147,883	$ 5,197,883
Buildings and improvements	31,100,266	27,877,293
Furniture and equipment	1,585,469	1,599,944
Vehicles	313,167	289,985
Construction in progress	1,317,048	627,829
	39,463,833	35,592,934
Less accumulated depreciation	11,883,916	11,177,665
Property and equipment, net	$ 27,579,917	$ 24,415,269

Depreciation expense was $912,687 and $938,235 for the years ended December 31, 2018 and 2017, respectively.

6. Lines of Credit

The Church has an unsecured $500,000 line of credit with a local bank with a variable interest rate of Prime less 0.25% (5.25% at December 31, 2018), which matured on February 27, 2019. This line of credit was consolidated with other debt subsequent to year-end (see Note 16). As of December 31, 2018, the outstanding balance on this line of credit was $220,000. There was no outstanding balance on the line of credit at December 31, 2017.

In addition, the Church has a $250,000 line of credit with a bank with a fixed interest rate of 3.19%, which matures on March 9, 2020. As of December 31, 2018, the outstanding balance on this line of credit was $198,000. There was no outstanding balance on the line of credit at December 31, 2017.

The Church had an additional $1,300,000 line of credit with a bank with a variable interest rate of Prime less 0.25% (currently 5.25%), which matures in February 2020. As of December 31, 2018, the outstanding balance on this line of credit was $1,100,000. There was no outstanding balance on the line of credit at December 31, 2017.

7. Notes Payable

Notes payable consist of the following:

	2018	2017
Note payable to a bank, interest rate of 2.95%, monthly payments of principal and interest of $15,658 until October 2019 when all remaining principal and interest are due in full, secured by real estate. This note was refinanced subsequent to year-end. See Note 16.	$ 2,698,250	$ 2,803,973
Note payable to a bank, fixed interest rate of 3.19%, monthly payments of principal and interest of $19,534 until January 2020 when all remaining principal and interest are due in full, secured by real property.	1,214,086	1,404,752
Note payable to a bank, interest rate of 7.90%, monthly payments of principal and interest of $3,750 until April 2019 when all remaining principal and interest are due in full, secured by equipment. This note was paid in full subsequent to year-end.	19,755	-
Note payable to a bank, interest rate of 3.19%, monthly payments of interest on unpaid balance until March 2020 when all remaining interest and principal are due in full, secured by certain real property. Note was paid off during 2018.	-	265,000
	$ 3,932,091	$ 4,473,725

Annual aggregate maturities of notes payable are as follows:

2019	$ 2,916,626
2020	1,015,465
	$ 3,932,091

Total interest expense paid was $286,034 and $143,160, which is included in interest expense and U of A Wesley College Ministry, Inc. on the accompanying consolidated statement of functional expenses – modified cash basis for the years ended December 31, 2018 and 2017, respectively.

8. Net Assets With Donor Restrictions

The following net assets are restricted for specific purposes or periods:

	2018	2017
Restricted for specified purpose		
Ministries		
Congregational care	$ 80,229	$ 47,836
Missions - outreach	759,502	581,528
Other	128,864	109,091
Student	51,719	64,312
Education	92,453	104,360
Property and equipment acquisition/maintenance	327,171	1,662,252
Total restricted for specified purpose	1,439,938	2,569,379
Restricted for perpetuity		
Buildings and grounds (landscaping)	15,000	15,000
Education	129,648	129,648
Property maintenance	97,330	97,330
Worship	62,194	62,194
Total restricted for perpetuity	304,172	304,172
Total net assets with donor restrictions	$ 1,744,110	$ 2,873,551

9. Net Assets Without Donor Restrictions - Designated

Net assets without donor restrictions consist of cash and investments set aside by the Board of Trustees, committees of the Entities and childcare operations for specific purposes as identified and approved. Net assets without donor restrictions - designated consist of the following:

	2018	2017
Cash		
Central Children's Academy	$ 29,895	$ 32,127
Wesley Foundation building	28,051	77,052
Total cash	57,946	109,179
Investments		
Worship ministries	13,841	14,433
Property replacement fund	47,508	123,569
Trustee parsonage	135,276	178,426
Total investments	196,625	316,428
Net assets without donor restrictions - designated	$ 254,571	$ 425,607

10. Employee Benefit Plan

The Church participates in a defined contribution retirement plan managed by Wespath Benefits and Investments. Employees are eligible to participate on the first day of service, providing they have attained age 21. Employees are only eligible to receive matching contributions from the Church after one year of service and having worked at least 1,040 hours over the previous 12 months. During 2018, the Church temporarily ceased its matching contribution on the plan. Matching contributions by the Church were $26,662 and $63,561 for the years ended December 31, 2018 and 2017, respectively.

11. Commitments

The Church leases a building and property to an unrelated party under an operating lease that expires July 31, 2021, at which time the leasee has the option to purchase the building and property. Total rental income from this lease was $123,605 and $131,505 for the years ended December 31, 2018 and 2017, respectively.

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

2019	$ 123,705
2020	123,705
2021	72,161
	$ 319,571

12. Concentrations of Credit Risk

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

There were no significant contributions received for the year ended December 31, 2018. For the year ended December 31, 2017, 15% of total contributions received were made by one donor, however, this donor provided less than 10% of funding for the operational budget for the Entities during 2017.

The Entities use financial institutions in which they maintain cash balances, which at times may exceed federally insured limits. The Entities have not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk related to cash. Throughout the year, the Entities maintained cash in a repurchase agreement account that is 100% collateralized. Cash included an overnight repurchase agreement of $2,420,727 and $2,468,070 at December 31, 2018 and 2017, respectively. The Entities had no uninsured and uncollateralized cash balances at December 31, 2018 or 2017.

13. Endowments

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

13. **Endowments (cont.)**

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

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

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

Endowment net assets and activity is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at December 31, 2016	$ 287,699	$ 462,211	$ 749,910
Contributions	2,000	25,000	27,000
Distributions	(6,404)	(3,330)	(9,734)
Investment income, net	33,133	52,621	85,754
Endowment net assets at December 31, 2017	316,428	536,502	852,930
Contributions	10,000	-	10,000
Distributions	(125,000)	(6,859)	(131,859)
Investment income, net	(4,803)	(20,450)	(25,253)
Endowment net assets at December 31, 2018	$ 196,625	$ 509,193	$ 705,818

13. **Endowments (cont.)**

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Church to retain as a fund of perpetual duration. There were no deficiencies reported as of December 31, 2018 or 2017.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

14. Fair Value Measurements

The carrying amounts of cash and certain other liabilities approximates fair value due to the short-term maturities of these assets and liabilities.

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

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

- **Level 1** – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

- **Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain corporate debt securities and derivative contracts.

- **Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes long-term derivative contracts and real estate.

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

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Pooled investments held by the UM Foundation	$ -	$ 705,818	$ -	$ 705,818

14. **Fair Value Measurements (cont.)**

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Pooled investments held by the UM Foundation	$ -	$ 852,930	$ -	$ 852,930

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

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

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

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

15. **Contingencies**

In September 2014, the Church purchased real estate that provided the current tenant with the option to purchase the property at the end of the lease term, which is currently July 2021. Subsequent to the 2014 purchase, the Church became aware that the purchase option provided the tenant the right to purchase the property for $1.2 million, not fair market value as understood at the time of the purchase. If this purchase option is exercised, it could potentially subject the Church to a loss on the sale of the real estate. The Church initiated litigation to mitigate the situation in 2018, however, the court dismissed the Church's claims in 2019. The Church is carrying a note payable on the property with a principal balance of approximately $2.7 million at December 31, 2018. The tenant must notify the Church by July 31, 2020 if they wish to purchase the property for the fixed price of $1.2 million. If the option to purchase is exercised by the tenant, the Church could potentially recognize a loss of approximately $1.9 million at the date the option is exercised, which would be in July 2020.

16. **Subsequent Events**

On February 14, 2019, the Church secured a multi-advance promissory note from a financial institution in the amount of $5.3 million. The note matures on February 1, 2024, has a fixed interest rate of 5.25% and is secured by Church property. The purpose of the note payable is to consolidate all of the Church's other note payable liabilities, except notes payable related to the Ministry, into one note payable by January 2020. The note payable carries a provision that the monthly payment may be adjusted if principal reduction payments of $100,000 or more are made.

The Entities evaluated the events and transactions subsequent to their December 31, 2018 consolidated statement of assets, liabilities and net assets – modified cash basis date and determined there were no additional significant events, other than noted above, to report through November 12, 2019, which is the date the Entities issued their consolidated financial statements.

Independent Auditor's Report on Supplementary Information

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

We have audited the consolidated financial statements of Central United Methodist Church, Inc. as of and for the years ended December 31, 2018 and 2017, and have issued our report thereon dated November 12, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

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

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 12, 2019

Consolidated Schedule of Investments – Modified Cash Basis

December 31, 2018 and 2017

	2018	2017
Without donor restrictions		
Music ministry	$ 13,841	$ 14,433
Property replacement fund	47,508	123,569
Trustee parsonage fund	135,276	178,426
Total without donor restrictions	196,625	316,428
With donor restrictions		
Education	222,101	234,008
Landscape endowment	19,248	20,072
Ministerial student	70,515	73,412
Music scholarship	41,668	43,353
Property maintenance	155,661	165,657
Total with donor restrictions	509,193	536,502
Total investments	$ 705,818	$ 852,930

See independent auditor’s report on supplementary information.