CENTRAL UNITED METHODIST CHURCH, INC.

December 31, 2015 and 2014

Consolidated Financial Statements – Modified Cash Basis
And
Supplementary Information

With

Independent Auditor's Report

FROST, PLLC
Certified Public Accountants

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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, 2015 and 2014, and the related consolidated statement of revenue, expenses and changes in net assets – modified cash basis for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets – modified cash basis of Central United Methodist Church, Inc. as of December 31, 2015 and 2014, 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
August 12, 2016

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

December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 1,776,528	$ 2,255,806
Certificate of deposit	20,084	20,000
Investments	675,358	701,657
Note receivable	14,000	16,000
Property and equipment, net	24,618,072	23,894,861
Total assets	$ 27,104,042	$ 26,888,324
Liabilities and Net Assets		
Liabilities		
Construction contract payable	$ 242,946	$ 244,338
Payroll taxes withheld	14,998	10,214
Line of credit	-	625,000
Notes payable	5,940,165	6,558,121
Total liabilities	6,198,109	7,437,673
Net assets		
Unrestricted		
Undesignated	19,032,186	17,591,700
Designated	317,757	729,976
Temporarily restricted	1,276,818	815,438
Permanently restricted	279,172	313,537
Total net assets	20,905,933	19,450,651
Total liabilities and net assets	$ 27,104,042	$ 26,888,324

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

CENTRAL UNITED METHODIST CHURCH, INC.

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

For the Years Ended December 31, 2015 and 2014

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue				
Offerings/contributions	$ 4,970,193	$ 2,522,240	$ -	$ 7,492,433
Noncash contribution (Wiggins United Methodist Church property)	-	-	-	-
Central Children's Academy	372,636	-	-	372,636
Realized gain on investments	16,032	15,040	-	31,072
Unrealized gain (loss) on investments	(25,767)	(30,894)	-	(56,661)
Rental income	123,705	-	-	123,705
Interest income	9,691	7,218	-	16,909
Other income	33,042	-	-	33,042
United States Department of Agriculture	8,649	-	-	8,649
	5,508,181	2,513,604	-	8,021,785
Net assets released from restrictions	2,086,589	(2,052,224)	(34,365)	-
Total support and revenue	7,594,770	461,380	(34,365)	8,021,785
Expenses				
Program services	5,150,786	-	-	5,150,786
General and administrative	1,415,717	-	-	1,415,717
Total expenses	6,566,503	-	-	6,566,503
Changes in net assets from operations	1,028,267	461,380	(34,365)	1,455,282
Other changes - consolidation of the net assets of the Wesley Foundation of Fayetteville, Incorporated	-	-	-	-
Changes in net assets	1,028,267	461,380	(34,365)	1,455,282
Net assets - beginning of year	18,321,676	815,438	313,537	19,450,651
Net assets - end of year	$ 19,349,943	$ 1,276,818	$ 279,172	$ 20,905,933

2014			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 4,287,737	$ 2,721,203	$ -	$ 7,008,940
4,000,000	-	-	4,000,000
329,683	-	-	329,683
1,736	6,150	-	7,886
15,192	(4,700)	-	10,492
37,087	-	-	37,087
58,787	8,977	-	67,764
82,033	-	-	82,033
7,062	-	-	7,062
8,819,317	2,731,630	-	11,550,947
2,665,749	(2,665,749)	-	-
11,485,066	65,881	-	11,550,947
4,884,200	-	-	4,884,200
1,369,956	-	-	1,369,956
6,254,156	-	-	6,254,156
5,230,910	65,881	-	5,296,791
1,075,906	-	-	1,075,906
6,306,816	65,881	-	6,372,697
12,014,860	749,557	313,537	13,077,954
$ 18,321,676	$ 815,438	$ 313,537	$ 19,450,651

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2015 and 2014

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.

The Wesley Foundation of Fayetteville, Incorporated (the "Foundation") is a nonprofit corporation. The Foundation was incorporated in October 1984. Effective February 10, 2016, the Foundation changed its name to U of A Wesley College Ministry, Inc. The Foundation 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.

On July 1, 2014, the United Methodist Council shifted control of the Foundation to the Church in which the Church's Board of Trustees holds the deed to the property and the Church has governance authority over the Foundation. The Church also has an economic interest in the Foundation in which the Church provides support through use of staff and facilities. Due to this change, the Church and Foundation are required to consolidate in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-810, "Consolidation." At July 1, 2014, the Foundation had total assets of $1,075,906 which are shown as other changes on the accompanying consolidated statement of revenue, expenses and changes in net assets – modified cash basis. Starting on July 1, 2014, the Foundation's revenue and expenses are included in these consolidated financial statements.

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

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

c. **Financial statement presentation** – The Entities report information regarding their financial position and activities according to three classes of net assets: permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Permanently restricted net assets represent net assets resulting from contributions where use is limited by donor-imposed stipulations that neither expire by passage of time, nor can be fulfilled or otherwise removed by actions of the Entities. Temporarily restricted net assets represent net assets resulting from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Entities. All other net assets are considered to be unrestricted.

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

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

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 Foundation. 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 Foundation.

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, 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.

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

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 $1,000 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. The Entities capitalize interest costs associated with construction in progress.

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.

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

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

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

Donations of property are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Expirations of donor restrictions are recorded when the donated or acquired assets are placed in service as instructed by the donor. Temporarily restricted net assets are reclassified to unrestricted net assets at that time.

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

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 Foundation 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.

n. **Recent account pronouncements** – In February 2016, the FASB issued Accounting Standards Update 2016-02 Topic 842, "Leases." 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. This guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. The Entities are currently evaluating the impact of this accounting standards update on its consolidated financial statements.

o. **Reclassifications** – Certain reclassifications have been made to the 2014 amounts in order for them to conform to the 2015 presentation. These reclassifications did not have a material impact on the consolidated financial statements as a whole.

2. Investments

Investments are comprised of the following:

	Cost	Fair Value	Cumulative Unrealized Gain
December 31, 2015			
Pooled investments held by the United Methodist Foundation of Arkansas	$ 606,020	$ 675,358	$ 69,338
December 31, 2014			
Pooled investments held by the United Methodist Foundation of Arkansas	$ 576,455	$ 701,657	$ 125,202

The Church has invested funds with the United Methodist Foundation of Arkansas ("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.

3. Note Receivable

The Church's note receivable consists of a noninterest-bearing note due from an associate pastor. The note, which originated May 23, 2012, requires annual payments of $2,000, with a final payment due June 2023. Note receivable was $14,000 and $16,000 for the years ended December 31, 2015 and 2014, respectively.

Annual aggregate maturities of the note receivable are as follows:

2016	$ 2,000
2017	2,000
2018	2,000
2019	2,000
2020	2,000
Thereafter	4,000
	$ 14,000

4. Property and Equipment

Property and equipment consist of the following:

	2015	2014
Land	$ 5,197,883	$ 5,197,883
Buildings and improvements	25,661,914	25,625,512
Furniture and equipment	1,819,183	1,754,319
Vehicles	232,636	286,355
Construction in progress	1,515,768	55,615
	34,427,384	32,919,684
Less accumulated depreciation	9,809,312	9,024,823
Net property and equipment	$ 24,618,072	$ 23,894,861

Depreciation expense was $838,209 and $763,570 for the years ended December 31, 2015 and 2014, respectively.

5. Line of Credit

The Church had a secured $1,750,000 line of credit with a local bank with interest at Prime, but not to exceed 5.0%, that matured October 2015 and was not renewed. Subsequent to year-end, the Church secured a new line of credit of $500,000 that matures in January 2017.

6. **Notes Payable**

Notes payable consist of the following:

	2015	2014
Note payable to a bank, interest rate of 2.95%, monthly payments of principal and interest of $15,658 until September 2019, outstanding principal and interest due October 2019, secured by real estate.	$ 3,086,454	$ 3,289,751
Note payable to a bank, interest rate of 2.89%, monthly payments of interest on unpaid balance until August 2016, outstanding principal and interest due September 2016, secured by certain real property.	2,277,425	2,277,425
Note payable to a bank, fixed interest rate of 2.89%, monthly payments of principal and interest of $17,625 until December 2017, outstanding principal and interest due January 2018, secured by certain real property.	576,286	990,945
	$ 5,940,165	$ 6,558,121

Annual aggregate maturities of notes payable are as follows:

2016	$ 2,580,269
2017	304,541
2018	279,186
2019	2,776,169
	$ 5,940,165

Total interest expense paid was $94,437 and $153,845 for the years ended December 31, 2015 and 2014, respectively.

7. **Restricted Net Assets**

Temporarily restricted net assets consist of the following:

	2015	2014
Ministries		
Congregational care	$ 82,891	$ 58,899
Missions - outreach	260,866	159,479
Other	79,725	102,485
Student	29,110	26,931
Education	70,086	73,962
Property and equipment acquisition/maintenance	754,140	393,682
	$ 1,276,818	$ 815,438

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

	2015	2014
Buildings and grounds (landscaping)	$ 15,000	$ 15,000
Education	129,648	129,648
Other	-	34,365
Property maintenance	72,330	72,330
Worship	62,194	62,194
	$ 279,172	$ 313,537

Notes to Consolidated Financial Statements – Modified Cash Basis

December 31, 2015 and 2014

8. Unrestricted – Designated Net Assets

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

	2015	2014
Cash		
Central Children's Academy	$ 31,535	$ 20,501
Wesley Foundation building	35,762	493,610
Total cash	67,297	514,111
Investments		
Worship ministries	12,068	13,125
Property replacement fund	108,732	70,471
Trustee parsonage	129,660	132,269
Total investments	250,460	215,865
	$ 317,757	$ 729,976

9. Employee Benefit Plan

The Church participates in a defined contribution retirement plan managed by the General Board of Pension and Health Benefits of the United Methodist Church. Employees are eligible to participate on the first day of service, providing they have attained age 21. Participants who do not have at least 1,000 hours of service or work less than 20 hours per week, are not eligible to participate in the plan. The Church contributes 6% of participants' compensation. In order to receive the matching 6%, participants must contribute at least 3% of their compensation to the plan and have completed 12 months of service. Matching contributions by the Church were $49,943 and $49,369 for the years ended December 31, 2015 and 2014, respectively.

10. Operating Lease

The Church leases a building and property to an unrelated party under an operating lease that expires July 31, 2021, at which time the leasee has the option to purchase the building and property at fair market value. Total rental income from this lease was $123,705 and $34,706 for the years ended December 31, 2015 and 2014, respectively.

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

2016	$ 123,705
2017	123,705
2018	123,705
2019	123,705
2020	123,705
Thereafter	61,853
	$ 680,378

11. Commitments

The Church had an uncompleted construction project in progress at December 31, 2015. Unfulfilled contract commitments of approximately $540,000 remained open on the construction contract still in progress at December 31, 2015. There were no unfulfilled contract commitments at December 31, 2014.

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.

The Entities use financial institutions in which they maintain cash balances, which at times may exceed federally insured limits. The Entities have not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk related to cash. Throughout the year, the Entities maintained cash in a repurchase agreement account that is 100% collateralized. Cash equivalents included an overnight repurchase agreement of $1,327,149 and $1,336,346 at December 31, 2015 and 2014, respectively. The Entities had no uninsured and uncollateralized cash balances at December 31, 2015 and approximately $470,000 at December 31, 2014.

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.

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

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

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

Endowment net assets and activity is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at December 31, 2013	$ 149,863	$ 158,198	$ 313,537	$ 621,598
Contributions	46,046	5,500	-	51,546
Distributions	-	(1,870)	-	(1,870)
Investment income, net	19,956	10,427	-	30,383
Endowment net assets at December 31, 2014	215,865	172,255	313,537	701,657
Contributions	40,500	-	-	40,500
Distributions	-	(17,893)	(34,365)	(52,258)
Investment income, net	(5,905)	(8,636)	-	(14,541)
Endowment net assets at December 31, 2015	$ 250,460	$ 145,726	$ 279,172	$ 675,358

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, 2015 or 2014.

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 United Methodist Foundation of Arkansas.

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

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

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Investment pool funds held by the UM Foundation	$ -	$ 675,358	$ -	$ 675,358
December 31, 2014				
Investment pool funds held by the UM Foundation	$ -	$ 701,657	$ -	$ 701,657

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 United Methodist Foundation of Arkansas 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.

The Entities' nonfinancial assets consist principally of property that was donated. Donated property fair value was determined based upon third party market data. Third party appraisals are considered Level 2 inputs. Model inputs can be verified and valuation techniques do not involve management judgment.

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

The following table represents information about the Entities' assets and liabilities measured at fair value at December 31, 2014 on a nonrecurring basis and indicate the fair value hierarchy of the valuation techniques utilized by the Entities to determine such value.

	Level 1	Level 2	Level 3	Total
Genesis Church	$ -	$ 4,000,000	$ -	$ 4,000,000

15. **Subsequent Events**

On January 27, 2016, the Entities refinanced two notes in the amount of approximately $2,800,000 with a financial institution. The new debt is payable in monthly installments of principal and interest in the amount of $19,534, has a fixed interest rate at 3.19% and matures in January 2020.

The Entities evaluated the events and transactions subsequent to their December 31, 2015 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 August 12, 2016, which is the date the Entities issued their consolidated financial statements.

FROST, PLLC
Certified Public Accountants

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, 2015 and 2014, and have issued our report thereon dated August 12, 2016, 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
August 12, 2016

CENTRAL UNITED METHODIST CHURCH, INC.

Consolidated Schedule of Functional Expenses – Modified Cash Basis

For the Years Ended December 31, 2015 and 2014

	2015		
	Program Services	General and Administrative	Total
Shared ministries	$ 513,150	$ -	$ 513,150
Central's Activity Center	11	-	11
Central Children's Academy	88,236	-	88,236
Children's ministries	36,597	-	36,597
Congregational care ministries	63,013	-	63,013
Counseling ministries	1,293	-	1,293
Depreciation	737,117	101,092	838,209
Interest expense	83,047	11,390	94,437
Mission - outreach ministries	455,926	-	455,926
Hospitality	18,582	-	18,582
Nurture - witness ministries	8,381	-	8,381
Other	24,263	225,898	250,161
Property maintenance	667,100	-	667,100
Salaries and employee benefits			
Central Children's Academy	288,610	-	288,610
Central United Methodist Church	1,553,269	851,514	2,404,783
Student ministries	67,979	-	67,979
Worship ministries	56,671	-	56,671
Office expense	-	194,411	194,411
Capital campaign	-	-	-
The Wesley Foundation of Fayetteville, Incorporated	91,320	31,412	122,732
Genesis Church	396,221	-	396,221
Total functional expenses	$ 5,150,786	$ 1,415,717	$ 6,566,503

2014		
Program Services	General and Administrative	Total
$ 523,269	$ -	$ 523,269
427	-	427
72,623	-	72,623
37,294	-	37,294
56,091	-	56,091
6,665	-	6,665
669,457	91,813	761,270
135,291	18,554	153,845
525,869	-	525,869
6,241	-	6,241
16,176	-	16,176
6,521	172,152	178,673
634,632	-	634,632
260,710	-	260,710
1,489,996	851,404	2,341,400
136,908	-	136,908
69,997	-	69,997
-	205,270	205,270
-	4,389	4,389
169,581	26,374	195,955
66,452	-	66,452
$ 4,884,200	$ 1,369,956	$ 6,254,156

See independent auditor’s report on supplementary information.

Consolidated Schedule of Investments – Modified Cash Basis

December 31, 2015 and 2014

	2015	2014
Unrestricted - designated		
Music ministry	$ 12,068	$ 13,125
Property replacement fund	108,732	70,471
Trustee parsonage fund	129,660	132,269
Total unrestricted - designated	250,460	215,865
Temporarily restricted		
Landscape	1,783	2,141
Education	70,086	73,962
Rupert Foundation	-	11,754
Property maintenance	48,344	53,040
Ministerial student	16,900	22,240
Music ministry scholarship	8,613	9,118
Total temporarily restricted	145,726	172,255
Permanently restricted		
Central Children's Academy endowment	5,829	5,829
Children's media	4,051	4,051
Children's ministry	107,637	107,637
Landscape endowment	15,000	15,000
Library memorial	2,002	2,002
Ministerial student	47,150	47,150
Music scholarship	15,044	15,044
Property maintenance	72,330	72,330
Rupert Foundation	-	34,365
Youth ministry	10,129	10,129
Total permanently restricted	279,172	313,537
Total investments	$ 675,358	$ 701,657