

Beavercreek Church of the Nazarene
Consolidated Financial Statements
May 31, 2018 and 2017



Beavercreek Church of the Nazarene

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May 31, 2018 and 2017

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Certified Public Accountants | Business Advisors

Independent Auditor's Report

To the Board of Trustees
Beavercreek Church of the Nazarene

We have audited the accompanying consolidated financial statements of Beavercreek Church of the Nazarene (the Organization), which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, and the related consolidated statements of activities and cash flows 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 accounting principles generally accepted in the United States of America; this includes 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 consolidated 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 Organization's 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 Organization's 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 that 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 financial position of Beavercreek Church of the Nazarene as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information on pages 16 and 17 is presented for 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 the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Fligel Huber Fligel".

Certified Public Accountants

Dayton, Ohio

September 18, 2018

Beavercreek Church of the Nazarene
Consolidated Statement of Financial Position
May 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Assets			
Current Assets			
Cash	\$ 248,039	\$ 75,182	\$ 323,221
Accounts receivable	32,391	0	32,391
Prepaid rent and expenses	2,095	0	2,095
Total Current Assets	<u>282,525</u>	<u>75,182</u>	<u>357,707</u>
Property and Equipment, Net	<u>4,781,191</u>	<u>0</u>	<u>4,781,191</u>
Other Assets			
Deposits	<u>1,850</u>	<u>0</u>	<u>1,850</u>
	<u>\$ 5,065,566</u>	<u>\$ 75,182</u>	<u>\$ 5,140,748</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 257,843	\$ 0	\$ 257,843
Daycare deposits	74,995	0	74,995
Accrued expenses	40,926	0	40,926
Deferred revenue	15,031	0	15,031
Current maturities of long-term debt	173,279	0	173,279
Total Current Liabilities	<u>562,074</u>	<u>0</u>	<u>562,074</u>
Long-Term Liabilities			
Interest rate swap liability	15,907	0	15,907
Long-term debt	580,685	0	580,685
Less unamortized debt issuance costs	(4,117)	0	(4,117)
	<u>592,475</u>	<u>0</u>	<u>592,475</u>
Net Assets			
Undesignated	3,911,017	0	3,911,017
Temporarily restricted	0	75,182	75,182
	<u>3,911,017</u>	<u>75,182</u>	<u>3,986,199</u>
	<u>\$ 5,065,566</u>	<u>\$ 75,182</u>	<u>\$ 5,140,748</u>

Beavercreek Church of the Nazarene
Consolidated Statement of Financial Position
May 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Assets			
Current Assets			
Cash	\$ 328,396	\$ 74,746	\$ 403,142
Accounts receivable	41,740	0	41,740
Prepaid rent and expenses	2,558	0	2,558
Total Current Assets	<u>372,694</u>	<u>74,746</u>	<u>447,440</u>
Property and Equipment, Net	<u>4,415,797</u>	<u>0</u>	<u>4,415,797</u>
Other Assets			
Deposits	1,850	0	1,850
	<u>\$ 4,790,341</u>	<u>\$ 74,746</u>	<u>\$ 4,865,087</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 30,987	\$ 0	\$ 30,987
Daycare deposits	73,248	0	73,248
Accrued expenses	66,695	0	66,695
Deferred revenue	12,130	0	12,130
Current maturities of long-term debt	149,339	0	149,339
Total Current Liabilities	<u>332,399</u>	<u>0</u>	<u>332,399</u>
Long-Term Liabilities			
Interest rate swap liability	6,552	0	6,552
Long-term debt	642,948	0	642,948
Less unamortized debt issuance costs	(2,319)	0	(2,319)
	<u>647,181</u>	<u>0</u>	<u>647,181</u>
Net Assets			
Undesignated	3,810,761	0	3,810,761
Temporarily restricted	0	74,746	74,746
	<u>3,810,761</u>	<u>74,746</u>	<u>3,885,507</u>
	<u>\$ 4,790,341</u>	<u>\$ 74,746</u>	<u>\$ 4,865,087</u>

Beavercreek Church of the Nazarene
Consolidated Statement of Activities
For the Year Ended May 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Support, Gains and Losses			
General offerings	\$ 1,380,366	\$ 0	\$ 1,380,366
Daycare revenue	1,625,500	0	1,625,500
First Step campaign	0	251,062	251,062
Church program revenue/offerings	0	150,814	150,814
Building fund offerings	0	7,729	7,729
Missions offerings	0	84,296	84,296
Bridge café - sales and contributions	73,390	0	73,390
Change in fair value of interest rate swap agreements	(9,355)	0	(9,355)
Interest income	198	0	198
Loss on disposal of property and equipment	(2,661)	0	(2,661)
Net assets released from restrictions	493,465	(493,465)	0
Total Revenues, Support, Gains and Losses	<u>3,560,903</u>	<u>436</u>	<u>3,561,339</u>
Expenses			
Compensation and benefits	1,807,840	0	1,807,840
Payroll taxes	113,573	0	113,573
Utilities	121,883	0	121,883
District and general budgets	117,167	0	117,167
Supplies	77,032	0	77,032
Building, grounds and maintenance	78,084	0	78,084
Transportation	27,192	0	27,192
Church programs	285,579	0	285,579
Insurance	26,604	0	26,604
Real estate taxes	6,900	0	6,900
Professional allowances	24,132	0	24,132
General and operating expenses	220,919	0	220,919
School activities	34,988	0	34,988
Advertising	6,579	0	6,579
Administrative	29,639	0	29,639
Depreciation	259,095	0	259,095
Interest expense	29,163	0	29,163
Mission expenses	102,822	0	102,822
Bridge café expenses	91,456	0	91,456
Total Expenses	<u>3,460,647</u>	<u>0</u>	<u>3,460,647</u>
Change in Net Assets	100,256	436	100,692
Net Assets - Beginning of Year	<u>3,810,761</u>	<u>74,746</u>	<u>3,885,507</u>
Net Assets - End of Year	<u>\$ 3,911,017</u>	<u>\$ 75,182</u>	<u>\$ 3,986,199</u>

Beavercreek Church of the Nazarene
Consolidated Statement of Activities
For the Year Ended May 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, Support, Gains and Losses			
General offerings	\$ 1,313,930	\$ 0	\$ 1,313,930
Daycare revenue	1,743,076	0	1,743,076
Church program revenue/offerings	0	162,998	162,998
Building fund offerings	0	26,798	26,798
Missions offerings	0	125,312	125,312
Bridge café - sales and contributions	46,981	0	46,981
Change in fair value of interest rate swap agreements	5,296	0	5,296
Interest income	100	0	100
Net assets released from restrictions	388,269	(388,269)	0
Total Revenues, Support, Gains and Losses	<u>3,497,652</u>	<u>(73,161)</u>	<u>3,424,491</u>
Expenses			
Compensation and benefits	1,726,731	0	1,726,731
Payroll taxes	112,780	0	112,780
Utilities	131,463	0	131,463
District and general budgets	113,171	0	113,171
Supplies	72,674	0	72,674
Building, grounds and maintenance	109,676	0	109,676
Transportation	32,181	0	32,181
Church programs	267,689	0	267,689
Insurance	28,556	0	28,556
Real estate taxes	10,707	0	10,707
Professional allowances	46,052	0	46,052
General and operating expenses	212,777	0	212,777
School activities	29,013	0	29,013
Advertising	6,679	0	6,679
Administrative	29,775	0	29,775
Depreciation	244,226	0	244,226
Interest expense	47,586	0	47,586
Mission expenses	125,645	0	125,645
Bridge café expenses	68,858	0	68,858
Total Expenses	<u>3,416,239</u>	<u>0</u>	<u>3,416,239</u>
Change in Net Assets	81,413	(73,161)	8,252
Net Assets - Beginning of Year	<u>3,729,348</u>	<u>147,907</u>	<u>3,877,255</u>
Net Assets - End of Year	<u>\$ 3,810,761</u>	<u>\$ 74,746</u>	<u>\$ 3,885,507</u>

Beavercreek Church of the Nazarene
Consolidated Statements of Cash Flows
For the Years Ended May 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 100,692	\$ 8,252
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	259,095	244,226
Interest expense	506	5,140
Loss on disposal of property and equipment	2,661	0
Change in fair value of interest rate swap agreement	9,355	(5,296)
Changes in assets and liabilities:		
Accounts receivable	9,349	(1,928)
Deposits and prepaid expenses	463	451
Accounts payable	226,856	(3,655)
Daycare deposits	1,747	(3,691)
Accrued expenses	(25,769)	8,460
Deferred revenue	2,901	5,079
Net Cash Provided by Operating Activities	<u>587,856</u>	<u>257,038</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(627,150)</u>	<u>(160,818)</u>
Cash Flows from Financing Activities:		
Acquisition of debt issuance costs	(2,304)	(2,530)
Proceeds from long-term debt	112,016	0
Principal payments on long-term debt	<u>(150,339)</u>	<u>(295,927)</u>
Net Cash Used in Financing Activities	<u>(40,627)</u>	<u>(298,457)</u>
Change in Cash	(79,921)	(202,237)
Cash - Beginning of Year	<u>403,142</u>	<u>605,379</u>
Cash - End of Year	<u><u>\$ 323,221</u></u>	<u><u>\$ 403,142</u></u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 28,657	\$ 42,446
Schedule of Noncash Investing and Financing Activities		
Property and equipment acquired with capital lease	\$ 0	\$ 4,988

Beavercreek Church of the Nazarene
Notes to Consolidated Financial Statements
May 31, 2018 and 2017

1. Nature of Activities

Beavercreek Church of the Nazarene (the “Church”) was organized on December 30, 1955, and is a constituent of the International Church of the Nazarene. The Church is a nonprofit organization and is dedicated to spreading the Gospel through establishing, developing, and promoting all aspects of church ministry and providing complete childcare services to working families within Beavercreek, Ohio, and the surrounding communities. The Church is supported primarily through contributions from the congregation and the collection of daycare fees from families in the community.

Beavercreek Christian Learning Center (the “Center”), provides complete childcare services to working families, emphasizing a quality education and nutrition program for children ages two and one half through ten. The majority of the Center’s children are from the local community and revenue is dependent primarily on the collection of daycare fees from families in the community, which would be affected by economic conditions in the surrounding area.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Beavercreek Church of the Nazarene and Beavercreek Christian Learning Center (the “Organization”), after elimination of significant intercompany accounts and transactions.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets as of May 31, 2018 and 2017.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash

For purposes of the consolidated statements of cash flows, cash is defined as money in checking and savings accounts and any short-term investments with an original maturity of twelve months or less when purchased.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

Accounts receivable represent amounts due from customers for child care services provided by the Center. Substantially all amounts are expected to be collected within one year. An allowance for bad debts has not been established because it is not considered material.

Beavercreek Church of the Nazarene
Notes to Consolidated Financial Statements
May 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation computed on a straight-line method over the useful lives of the assets. Donated property is recorded at fair market value at the time of donation. Gains and losses on disposal of property and equipment are reflected in the consolidated statements of activities. Maintenance and repairs are charged to expense at the time the expenditure is incurred. Replacements and betterments, which significantly lengthen useful lives, are capitalized.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended May 31, 2018 and 2017.

Debt Issuance Costs

Debt issuance costs are reported as a reduction to the carrying value of the outstanding loan balance. These costs are amortized over the life of the loan using the straight-line method. Amortization of debt issuance costs is included in interest expense in the accompanying combined financial statements.

Daycare Deposits

Daycare deposits represent amounts collected from customers for child care services upon enrollment in the Center. When a child is no longer enrolled at the Center, the amount is refunded or applied to an open account balance.

Deferred Revenue

Deferred revenue consists primarily of prepaid tuition, payments received from customers in advance of services provided at the Center, and unused gift cards sold by the Bridge Café. Revenue is recognized once the services are provided or the gift cards are used. In the event services are not provided at the Center, amounts will be refunded or recognized as revenue, as applicable.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the notes to the consolidated financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended May 31, 2018 and 2017 was \$6,579 and \$6,679, respectively.

Beavercreek Church of the Nazarene
Notes to Consolidated Financial Statements
May 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Derivative Financial Instruments and Market Risk

The Organization uses fixed interest rate swap agreements to hedge against the effects of variable interest rates on its long-term debt. The Organization documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge. The Organization's risk management strategy is to offset changes in interest charges due to changes in the market rate of interest.

Contributed Services

Donated services are recognized as contributions only if the services create or enhance nonfinancial assets or require specialized skills and would otherwise be purchased by the Organization. The Organization receives a substantial amount of services donated by its members in carrying out the Organization's ministry. No amounts have been reflected in the consolidated financial statements for those services since they do not meet the criteria for recognition.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and Ohio Revised Code Section 1716.03. As a qualified religious organization, the Organization is also exempt from the annual tax filing of IRS Form 990.

3. Property and Equipment

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>	<u>Estimated Life in Years</u>
At Cost:			
Land	\$ 101,412	\$ 101,412	N/A
Building and improvements	8,099,965	7,543,041	7 - 40
Furniture and equipment	1,152,061	1,220,548	3 - 15
Transportation equipment	352,618	357,403	5
	<u>9,706,056</u>	<u>9,222,404</u>	
Less: accumulated depreciation	<u>(4,924,865)</u>	<u>(4,806,607)</u>	
Net Book Value	<u>\$ 4,781,191</u>	<u>\$ 4,415,797</u>	

At May 31, 2018, building and improvements includes \$585,346 of construction in progress related to renovations of the Organization's existing property. The renovations will be placed in service once completed. Depreciation expense was \$259,095 and \$244,226 for 2018 and 2017, respectively. For 2018 and 2017, \$2,408 and \$3,876, respectively, of depreciation expense is for the Bridge Café's property and equipment.

4. Line of Credit

The Church has a \$50,000 revolving line of credit with PNC Bank. Advances on the line of credit are payable on demand and carry an interest rate at prime (4.75% and 4.00% at May 31, 2018 and 2017, respectively). The line of credit is secured by a second mortgage on the real property and substantially all other assets of the Church. As of May 31, 2018 and 2017, the outstanding balance on the line of credit was \$0.

Beavercreek Church of the Nazarene
Notes to Consolidated Financial Statements
May 31, 2018 and 2017

5. Long-Term Debt

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
Note payable, PNC Bank, variable rate note, interest fixed at 3.96% using an interest rate swap agreement, secured by real property, payable in varying monthly installments of principal and interest, due January 2022.	\$ 638,361	\$ 787,345
Convertible draw note, PNC Bank, variable rate note, interest fixed upon conversion at 5.71% using an interest rate swap agreement, secured by real property, payments of principal and interest due monthly based on 10-year amortization period, due November 2023. See below.	112,016	0
Capital lease, Modern Office Methods, Inc., interest at 22.09%, payable in monthly installments of \$192.91 including principal and interest, collateralized by equipment, due April 2020. See Note 8.	<u>3,587</u>	<u>4,942</u>
Total long-term debt	753,964	792,287
Less current portion	<u>(173,279)</u>	<u>(149,339)</u>
	<u>\$ 580,685</u>	<u>\$ 642,948</u>

In May 2018, the Organization opened a \$700,000 convertible draw note with PNC Bank to be used for certain renovations of the Organization's property. The draw note will be converted to a term loan in November 2018. Prior to conversion, the note bears interest at daily LIBOR plus 2.00% (which results in a rate of 3.91% at May 31, 2018) interest only payments due monthly. Upon conversion, principal and interest payments will be due monthly based on a 10-year amortization period. In addition, the Organization entered into an interest rate swap agreement with PNC Bank, effective upon conversion, to essentially fix its interest rate at approximately 5.71% on this debt. As of May 31, 2018, the outstanding balance on this note was \$112,016. This balance is included in long-term debt on the statement of financial position.

Maturities of long-term debt for each of the four years succeeding May 31, 2018, and in the aggregate, are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 173,279
2020	193,280
2021	199,652
2022	<u>187,753</u>
	<u>\$ 753,964</u>

Beavercreek Church of the Nazarene
Notes to Consolidated Financial Statements
May 31, 2018 and 2017

6. Leases

Operating Leases

The Organization has operating leases for equipment and commercial space which expire at various dates through 2023. Rental expense totaled approximately \$34,500 and \$33,000 for the years ended May 31, 2018 and 2017, respectively. The lease for commercial space was renewed subsequent to year end, and the minimum future rental payments required through the renewed date are included below.

Minimum future rental payments under non-cancelable operating leases as of May 31, 2018, for the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 36,703
2020	15,391
2021	11,062
2022	10,728
2023	6,810
	<u>\$ 80,694</u>

Capital Lease

The Organization began leasing equipment under a capital lease in 2017 which expires in 2020. The asset and liability under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset.

Following is a summary of property held under the capital lease:

	<u>2018</u>	<u>2017</u>
Capitalized cost of equipment	\$ 4,988	\$ 4,988
Less: Accumulated depreciation	<u>(1,164)</u>	<u>(166)</u>
Total	<u>\$ 3,824</u>	<u>\$ 4,822</u>

Depreciation expense related to property held under this capital lease for the years ended May 31, 2018 and 2017 was \$998 and \$166, respectively.

The interest rate on the capitalized lease is 22.09% and is imputed based on the lessor's implicit rate of return.

Minimum future lease payments under the capital lease as of May 31, 2018 are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 2,315
2020	2,122
Total	4,437
Less: Amount representing interest	<u>(850)</u>
Present value of minimum lease payments	3,587
Current portion	<u>(1,687)</u>
Long-term capital lease obligation	<u>\$ 1,900</u>

Beavercreek Church of the Nazarene
Notes to Consolidated Financial Statements
May 31, 2018 and 2017

7. Interest Rate Swap Agreements

Effective February 1, 2017, the Organization entered into an interest rate swap agreement (the contract) with a bank on the long-term debt with PNC Bank. The contract effectively fixes the interest rate on the debt at 3.96%. The variable rate on the contract at May 31, 2018 and 2017 was 3.91% and 3.00%, respectively. The notional amount of the contract at May 31, 2018 and 2017 was \$638,361 and \$787,345, respectively. The contract terminates on January 31, 2022.

In May 2018, the Organization entered into another interest rate swap agreement (the contract) with a bank on the convertible draw note with PNC Bank. The effective date of this agreement is November 1, 2018. The contract will effectively fix the interest rate on the debt at 5.71%. The variable rate on the contract is LIBOR plus 2.00% (3.69% at May 31, 2018). The notional amount of the contract at May 31, 2018 was \$700,000. The contract terminates on November 1, 2028. However, the Organization has the option to terminate the contract without penalty on November 1, 2023.

The Organization's purpose in entering into these interest rate swap agreements (the contracts) was to hedge against the risk of interest rate increases on the related variable rate debt. The contracts were issued at market terms so they had no fair value at inception. The carrying amount of the contracts has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of LIBOR, resulted in reporting a liability for the fair value of the potential future net payments under the contracts. The liability is classified as noncurrent on the consolidated statements of financial position since management does not intend to settle the contracts within the next year. Since the critical terms of the contracts and the related notes are the same, the contracts are assumed to be completely effective as hedges. The change in fair value is recorded as a gain or loss on the consolidated statements of activities.

8. Restrictions on Net Assets

Temporarily restricted net assets are restricted for the following purposes as of May 31:

	<u>2018</u>	<u>2017</u>
Children's Department	\$ 4,480	\$ 6,710
Single's Department	285	267
Christian Education	1,167	937
Men's Ministries	40	40
Women's Ministries	2,132	2,274
Adult & Outreach Ministries	7,572	9,787
Teen Ministries	23,248	4,924
Memorial/Benevolence Fund	5,843	5,848
Alpha Property	16,615	556
Special Events and Other	5,654	16,731
Missions	8,146	26,672
	<u>\$ 75,182</u>	<u>\$ 74,746</u>

Beavercreek Church of the Nazarene
Notes to Consolidated Financial Statements
May 31, 2018 and 2017

9. Fair Value Measurements

The Organization applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. GAAP establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Observable inputs such as quoted prices in active markets;
- Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following is a description of the valuation methodologies the Organization used for liabilities measured on a recurring basis at fair value. There have been no changes from the prior year in the methodologies used at May 31, 2018. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers in 2018 and 2017.

Interest rate derivative liability: The fair value of these over-the-counter derivatives was determined using a discounted cash flow model based on the terms of the contracts. The most significant input to this model is implied forward LIBOR rates.

Fair value of liabilities measured on a recurring basis at May 31, 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Fair Value</u>
Liabilities:			
Interest rate derivative	<u>\$ 0</u>	<u>\$ 15,907</u>	<u>\$ 15,907</u>

Fair value of liabilities measured on a recurring basis at May 31, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Fair Value</u>
Liabilities:			
Interest rate derivative	<u>\$ 0</u>	<u>\$ 6,552</u>	<u>\$ 6,552</u>

Beavercreek Church of the Nazarene
Notes to Consolidated Financial Statements
May 31, 2018 and 2017

10. Functional Expenses

Functional expenses for the years ended May 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Program services	\$ 2,745,739	\$ 2,731,277
Management and general	714,908	684,962
Fundraising	<u>0</u>	<u>0</u>
Total	<u>\$ 3,460,647</u>	<u>\$ 3,416,239</u>

11. Retirement Plan

The Church's senior pastor, associate pastors and staff are eligible to participate in the Nazarene 403(b) Retirement Savings Plan administered by Fidelity Investments. These eligible employees can voluntarily elect how much of their compensation is deferred into the Plan, in accordance with the Internal Revenue Code regulations, and can choose their investment options. The Organization bears no expense as a result of this Plan.

12. Subsequent Events

As of September 18, 2018, the Organization has drawn an additional \$577,373 on the convertible draw note (see Note 5).

On August 30, 2018, the Organization renewed the operating lease for the Bridge Cafe for a twelve-month term ending August 31, 2019 (see Note 8).

Management evaluated the activity of the Organization through September 18, 2018 (the date the consolidated financial statements were available to be issued) and concluded that no other subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.

Supplementary Information

Beavercreek Church of the Nazarene
Consolidating Schedule of Activities
For the Year Ended May 31, 2018

	Beavercreek Church of the Nazarene	Beavercreek Christian Learning Center	Consolidated Total
Revenues, Support, Gains and Losses			
General offerings	\$ 1,380,366	\$ 0	\$ 1,380,366
Daycare revenue	0	1,625,500	1,625,500
First Step campaign	251,062	0	251,062
Church program revenue/offerings	150,814	0	150,814
Building fund offerings	7,729	0	7,729
Missions offerings	84,296	0	84,296
Bridge café - sales and contributions	73,390	0	73,390
Change in fair value of interest rate swap agreements	(9,355)	0	(9,355)
Interest income	115	83	198
Loss on disposal of property and equipment	(906)	(1,755)	(2,661)
Total Revenues, Support, Gains and Losses	1,937,511	1,623,828	3,561,339
Expenses			
Compensation and benefits	836,378	971,462	1,807,840
Payroll taxes	39,930	73,643	113,573
Utilities	9,828	112,055	121,883
District and general budgets	117,167	0	117,167
Supplies	7,822	69,210	77,032
Building, grounds and maintenance	23,504	54,580	78,084
Transportation	2,912	24,280	27,192
Church programs	285,579	0	285,579
Insurance	17,933	8,671	26,604
Real estate taxes	6,900	0	6,900
Professional allowances	24,132	0	24,132
General and operating expenses	45,630	175,289	220,919
School activities	0	34,988	34,988
Advertising	1,631	4,948	6,579
Administrative	25,708	3,931	29,639
Depreciation	185,121	73,974	259,095
Interest expense	22,767	6,396	29,163
Mission expenses	102,822	0	102,822
Bridge café expenses	91,456	0	91,456
Total Expenses	1,847,220	1,613,427	3,460,647
Change in Net Assets	\$ 90,291	\$ 10,401	\$ 100,692

Beavercreek Church of the Nazarene
Consolidating Schedule of Activities
For the Year Ended May 31, 2017

	Beavercreek Church of the Nazarene	Beavercreek Christian Learning Center	Consolidated Total
Revenues, Support, Gains and Losses			
General offerings	\$ 1,313,930	\$ 0	\$ 1,313,930
Daycare revenue	0	1,743,076	1,743,076
Church program revenue/offerings	162,998	0	162,998
Building fund offerings	26,798	0	26,798
Missions offerings	125,312	0	125,312
Bridge café - sales and contributions	46,981	0	46,981
Change in fair value of interest rate swap agreements	5,296	0	5,296
Interest income	55	45	100
Total Revenues, Support, Gains and Losses	1,681,370	1,743,121	3,424,491
Expenses			
Compensation and benefits	717,210	1,009,521	1,726,731
Payroll taxes	37,153	75,627	112,780
Utilities	23,377	108,086	131,463
District and general budgets	113,171	0	113,171
Supplies	7,619	65,055	72,674
Building, grounds and maintenance	40,263	69,413	109,676
Transportation	3,479	28,702	32,181
Church programs	267,689	0	267,689
Insurance	11,222	17,334	28,556
Real estate taxes	10,707	0	10,707
Professional allowances	46,052	0	46,052
General and operating expenses	32,186	180,591	212,777
School activities	0	29,013	29,013
Advertising	2,443	4,236	6,679
Administrative	21,678	8,097	29,775
Depreciation	182,405	61,821	244,226
Interest expense	37,402	10,184	47,586
Mission expenses	125,645	0	125,645
Bridge café expenses	68,858	0	68,858
Total Expenses	1,748,559	1,667,680	3,416,239
Change in Net Assets	\$ (67,189)	\$ 75,441	\$ 8,252



In this ever-changing business environment, Flagel Huber Flagel goes beyond numbers and deadlines, returning the trust and confidence our clients place in us, with a caring partner relationship. We are committed to a collaborative search for ideas and solutions that help business organizations thrive and families build and preserve wealth. Our commitment is simple; financial and operational *insight*, service *integrity*, and problem solving *innovation*.

www.fhf-cpa.com

3400 South Dixie Drive, Dayton, OH 45439 | 937.299.3400
9135 Governors Way, Cincinnati, OH 45249 | 513.774.0300