

**WESTWOOD COMMUNITY CHURCH**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JULY 31, 2008 AND 2007**

**WESTWOOD COMMUNITY CHURCH  
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## INDEPENDENT AUDITORS' REPORT

Leadership Board  
Westwood Community Church  
Chanhassen, Minnesota

We have audited the accompanying statements of financial position of Westwood Community Church as of July 31, 2008 and 2007, and the related statements of activity and cash flows for the years then ended. These financial statements are the responsibility of the Church's management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westwood Community Church as of July 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

  
LarsonAllen LLP

Minneapolis, Minnesota  
November 5, 2008

**WESTWOOD COMMUNITY CHURCH  
STATEMENTS OF FINANCIAL POSITIONS  
JULY 31, 2008 AND 2007**

	2008	2007
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,034,340	\$ 823,491
Accounts Receivable	22,033	1,064
Prepaid Expenses	73,194	91,656
Total Current Assets	2,129,567	916,211
<b>PROPERTY AND EQUIPMENT, NET</b>	18,052,813	18,560,460
<b>OTHER ASSETS</b>		
Cash and Cash Equivalents - Restricted	-	551,428
Investments	12,428	-
Loan Closing Costs - Net of Accumulated Amortization of \$99,816 and \$83,594 in 2008 and 2007, Respectively	79,876	81,098
Total Other Assets	92,304	632,526
Total Assets	\$ 20,274,684	\$ 20,109,197
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	\$ 414,628	\$ 562,581
Current Portion of Capital Lease	26,846	24,789
Accounts Payable	155,468	132,691
Accrued Payroll and Benefits	180,212	155,945
Deferred Revenue	73,049	60,249
Total Current Liabilities	850,203	936,255
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt	8,298,502	8,714,180
Long-Term Capital Lease	57,840	84,686
Total Long-Term Liabilities	8,356,342	8,798,866
Total Liabilities	9,206,545	9,735,121
<b>NET ASSETS</b>		
Unrestricted Net Assets	10,566,406	10,350,413
Restricted Net Assets	501,733	23,663
Total Net Assets	11,068,139	10,374,076
Total Liabilities and Net Assets	\$ 20,274,684	\$ 20,109,197

See accompanying Notes to Financial Statements.



**WESTWOOD COMMUNITY CHURCH  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JULY 31, 2008 AND 2007**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 694,063	\$ 1,122,023
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities:		
Depreciation and Amortization	774,608	777,953
(Gain) Loss on Sale of Property and Equipment	(50,722)	12,270
Contributions Restricted for Land and Building	(1,789,934)	(2,259,553)
(Increase) Decrease in Current Assets:		
Accounts Receivable	(20,969)	(264)
Prepaid Expenses	18,462	13,115
Cash and Cash Equivalents - Restricted	-	(45)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	22,777	2,585
Accrued Payroll and Benefits	24,267	35,483
Deferred Revenue	12,800	8,183
Net Cash Used by Operating Activities	(314,648)	(288,250)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(207,095)	(91,780)
Proceeds on Sale of Property and Equipment	63,300	19,000
Donated Securities Received	(12,428)	-
Net Cash Used by Investing Activities	(156,223)	(72,780)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt	(619,853)	(1,413,187)
Payments on Capital Lease	(24,789)	(22,889)
Release of Cash and Cash Equivalents from Restriction	551,428	-
Proceeds from Contributions Restricted for Land and Building	1,789,934	2,259,553
Loan Modification Costs	(15,000)	-
Net Cash Provided by Financing Activities	1,681,720	823,477
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,210,849	462,447
Cash and Cash Equivalents - Beginning of Year	823,491	361,044
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 2,034,340	\$ 823,491
<b>SUPPLEMENTAL INFORMATION</b>		
Cash Paid for Interest	\$ 649,605	\$ 793,416
Long-Term Debt incurred as Land Assessment Payable	\$ 56,222	\$ -

See accompanying Notes to Financial Statements.

**WESTWOOD COMMUNITY CHURCH  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2008 AND 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Westwood Community Church began in January 1995 as a church plant of Wooddale Church in Eden Prairie. The Westwood church plant was part of a bold city-wide church planting strategy designed to attract unchurched people.

Joel Johnson, who was the Outreach Pastor at Wooddale at the time, was asked to start a church in Chanhassen, an area underserved by churches. A core group of 90 met with the Johnsons in February and March for worship and training in ministry to prepare for the church launch. The group stepped out in faith and opened the doors to Westwood Community Church on Easter Sunday, 1995. Two worship services were offered in the intimate Fireside Theatre at the Chanhassen Dinner Theatres, but the church grew so quickly that just five months later, a move was made to the main Dinner Theatre, seating 450 at round tables. The tables, first seen as a detriment, facilitated wonderful interaction as church members began to get to know one another. Hundreds of new families came as news about Westwood's informal atmosphere, wonderful worship and caring biblically-based messages began to spread. They experienced a boom in growth when it held its first public service on Easter Sunday April 16, 1995.

Westwood faced another challenge in the fall of 1997. The children's ministry had grown so large that the current facilities could no longer accommodate their needs. By this time the new District 112 High School was built in Chaska, eight miles southwest of the Chanhassen Dinner Theatre. It was the only facility in the immediate region that could accommodate Westwood's growing needs, though moving there raised costs significantly. After careful consideration, the decision was made and in December of 1997, Westwood relocated to the new high school. Rapid growth continued and a third service was soon added.

In January 1999 a Purchase Agreement was signed for 57 acres of land on the northwest corner of Highway 5 and State Highway 41. A member of the congregation identified this parcel of land which was owned by a friend, but not for sale. The land had been earmarked for construction of 80 luxury homes, but the landowner agreed to sell the land to Westwood as long as a church was constructed on the site. In August 1999, the architectural firm of Hammel Green and Abrahamson, Inc. (H.G.A.) of Minneapolis was selected to design and develop Westwood's future facility. Witcher Construction was selected as the general contractor. The groundbreaking service for the 69,000 square foot Phase I was held on April 21, 2002. The facility, which includes worship space for 1,000, parking for 500 cars, 15 classrooms, kitchen, conference room and office space, was completed on schedule and under budget. The first services were held on July 13, 2003, with four services throughout the day. In the year following the move, attendance increased nearly 40%. Late in 2004, a second access road was added, providing a south access off of Highway 41 and increased visibility for Westwood with the additional of a beautiful monument sign at the intersection of Highway 41 and W. 78th Street. 135 parking spaces were also added at this time. The second access road was a condition of the city for any additional campus development.

**WESTWOOD COMMUNITY CHURCH  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2008 AND 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

On Easter Sunday 2005, we celebrated our 10th anniversary as a church. To commemorate 10 year's of God's blessing, Westwood stepped out in faith and planted our first daughter church, Emmaus Road Church, which began services on Easter Sunday at the Hopkins Fine Arts Center. Westwood leadership had anticipated that planning and fund raising for a student center, the second building in our master plan, would also begin in 2005. The Lord directed differently, however, and the focus of the "Ground Work" capital campaign, which concluded successfully in the spring of 2005, was on reducing our short and long-term debt in order to strengthen our financial foundation.

Having a campus has been a great blessing, which has facilitated the expansion of ministry, broadened our reach into additional communities and increased the age diversity of our congregation.

In February of 2008, a special business meeting was held where the Westwood congregation approved, pending approval of a funding plan, to construct a Phase 2 facility (to the east of the current building) with additional space for children, students and adults. The congregation also approved spending funds for architectural and other planning costs as well as to conduct a capital campaign. The "Nothing Less Than Extraordinary" campaign was held in the spring of 2008 with the goals of building Phase 2, expanding local ministry and expanding our work in Malawi Africa (5% of funds raised will go to the Malawi work, up to \$500,000). Funds from the campaign will also be applied to Phase 1 and 2 mortgage principal and interest and be used to help with additional operating costs for the new facility. Westwood leadership is currently determining the scope and finance plan for Phase 2 which will then be brought before the congregation.

**Organization and Tax Exempt Status**

The Church was incorporated under the laws of the State of Minnesota as a nonprofit corporation and is exempt from Federal and Minnesota income taxes under Section 501(c)(3) of the Internal Revenue Code and under Section 209.05, Subdivision 1(i) of the Minnesota Statutes. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and contributions to the Church qualify as a charitable tax deduction by the contributor.

The Church is organized to promote spiritual, educational and other interests of its members. The Church's programs are as follows:

Church – Promotes spiritual, educational and other interests of its members

Ministry Groups – Ministers to youth, men, women and other identifiable groups within the Church

Preschool – Serves a total of approximately 160 preschool students and their families with 2-day, 3-day and 4-day options throughout the normal school year

Open Hands Foundation – Enhances community involvement in support opportunities

**WESTWOOD COMMUNITY CHURCH  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2008 AND 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation**

Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Church and changes therein are classified and reported as follows:

Unrestricted – Resources over which the Leadership Board has discretionary control. Designated amounts represent those revenues which the Board has set aside for a particular purpose. All furniture and equipment are considered unrestricted.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Church or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Church.

At July 31, 2008 and 2007, the Church had temporarily restricted net assets of \$501,773 and \$23,663, respectively, relating to building fund contributions not spent during the year. The Church has no permanently restricted net assets.

**Cash and Cash Equivalents**

The Church places its cash deposits with one financial institution. At times, the balance in this account may be in excess of Federal Deposit Insurance Corporation insurance limits.

For the purposes of the statement of cash flows, cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less.

**Property and Equipment**

Property and equipment purchases are stated at cost. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as unrestricted. The Church uses the straight-line method of depreciation over the estimated useful lives of the asset. Depreciation expense was \$758,386 and \$762,981 for the years ended July 31, 2008 and 2007, respectively.

**Investments**

Investments are stated at fair value, which is determined by quoted market prices. The net changes in fair value on held investments and the realized gains and losses on investments sold are reflected in the statement of activities as a component of investment income. It is the Church's policy to sell donated securities as soon as possible after they are received. Investments at July 31, 2008 consist of donated equity securities that are in the process of being sold at year-end. Investments also include donated equity securities that have restrictions that temporarily prohibit their sale and are being held until the restriction expires.

**WESTWOOD COMMUNITY CHURCH  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2008 AND 2007**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Loan Closing Costs**

Loan closing costs included loan origination fees and loan modification fees that may be incurred during the life of the loan. Fees are recorded at cost and are amortized using the straight-line method over the remaining term of the loan. Amortization was \$16,222 and \$14,972 for the years ended July 31, 2008 and 2007, respectively.

**Deferred Revenue**

The deferred revenue at July 31, 2008 and 2007 consists primarily of preschool tuition and registrations. Also included is deferred revenue related to a children's camp retreat and weddings.

**Functional Allocation of Expense**

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses that are not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

**Reclassifications**

Certain reclassifications have been made to the July 31, 2007 financial statements in order to present them in conformity with the July 31, 2008 financial statements. These reclassifications have had no effect on net assets as previously reported.

**NOTE 2 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of July 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Land and Land Improvements	\$ 4,494,062	\$ 4,447,345
Furniture and Equipment	1,939,452	1,874,959
Building and Building Improvements	15,260,709	15,205,900
Construction in Process	48,538	-
	<u>21,742,761</u>	<u>21,528,204</u>
Less: Accumulated Depreciation	(3,689,948)	(2,967,744)
Property and Equipment, Net	<u>\$ 18,052,813</u>	<u>\$ 18,560,460</u>

**WESTWOOD COMMUNITY CHURCH  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2008 AND 2007**

**NOTE 2 PROPERTY AND EQUIPMENT (CONTINUED)**

Included in property and equipment is a road the Church constructed and put in service during 2005 to provide additional access to its property. Legal title to the road was transferred to the City of Chanhassen in 2006. Because the Church will continue to derive significant value from the road in future years, the road costs are included in property and equipment and are depreciated over 20 years, the expected economic useful life of the road.

Construction in progress at July 31, 2008 consists of architectural and other upfront costs related to construction of a Commons Area addition to the Church building. The project is estimated to range in cost from approximately \$8,500,000 to \$12,000,000. The Church intends to fund construction through a combination of capital campaign contributions and long-term debt. As of July 31, 2008, the Church has commitments for architectural and construction management services which are estimated to range from approximately \$600,000 to \$790,000 depending on the actual size of the project.

**NOTE 3 CAPITAL LEASE**

The Church leases certain copiers under a long-term lease agreement that is classified as a capital lease. The assets are included in equipment as follows at July 31:

	<u>2008</u>
Copier	\$ 134,190
Accumulated Depreciation	(55,913)
Total	<u>\$ 78,277</u>

Future minimum lease payments under the lease are as follows:

<u>Year Ending July 31,</u>	<u>Amount</u>
2009	\$ 32,651
2010	32,651
2011	<u>29,929</u>
Total Minimum Lease Payments	95,231
Less: Interest, Imputed at 8%	<u>(10,545)</u>
Total Principal	84,686
Less: Current Portion	<u>(26,846)</u>
Long-Term Capital Lease	<u>\$ 57,840</u>

**WESTWOOD COMMUNITY CHURCH  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2008 AND 2007**

**NOTE 4 OPERATING LEASES**

The Church entered into various operating lease agreements, as a lessee for a vehicle and office equipment. During the years ended July 31, 2008 and 2007, rent expense amounted to \$39,514 and \$34,189, respectively. Future minimum lease payments under those agreements are as follows:

<u>Year Ending July 31,</u>	<u>Amount</u>
2009	\$ 31,858
2010	31,858
2011	28,872
2012	1,764
2013	1,764
Thereafter	294
Total	<u>\$ 96,410</u>

**NOTE 5 RETIREMENT PLAN**

The Church participates in a Section 403(b) retirement investment plan which covers substantially all employees who meet eligibility requirements. Employees may elect to defer a portion of their salary under the 403(b) portion of the plan. The plan provides that eligible employees receive Church contributions up to a maximum 5% of their annual compensation. Church contributions for the years ended July 31, 2008 and 2007 were \$60,645 and \$59,038, respectively.

**WESTWOOD COMMUNITY CHURCH  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2008 AND 2007**

**NOTE 6 LONG-TERM DEBT**

Long-term debt consists of the following at July 31, 2008 and 2007:

<u>Description</u>	<u>2008</u>	<u>2007</u>
Note payable with monthly payments of principal and interest of \$72,272 at a fixed rate of 5.9% effective April 1, 2008 through December 1, 2013 at which time the note is payable in full. Prior to April 1, 2008 the note had a variable interest rate of prime plus 1%, which was 7.5% at July 31, 2007.	\$ 8,658,939	\$ 9,011,404
Note payable with monthly payments of interest at a variable interest rate of prime plus 1%, which was 7.5% at July 31, 2007. The note was due in full at December 1, 2007.	-	265,357
Land assessment payable due in equal biannual installments over 10 years and bears interest of 6%.	54,191	-
Total Long-Term Debt	8,713,130	9,276,761
Current Portion of Long-Term Debt	(414,628)	(562,581)
Net Long-Term Debt	<u>\$ 8,298,502</u>	<u>\$ 8,714,180</u>

The above notes payable notes are secured by the assets of the Church and are subject to various covenants. As of July 31, 2008 and 2007, the Church was not in compliance with certain debt covenants for which waivers were received from the bank.

During fiscal 2008, the Church was assessed \$56,222 for property improvements completed by the City of Chanhassen. The amount is to be paid in equal installments over 10 years and bears interest of 6%.

The Church was required to retain cash in a restricted account, which amounted to \$551,428 at July 31, 2007. The Note payable was renegotiated during 2008 and this amount was released from this bank restriction.

Estimated maturities of long-term debt as of July 31, 2008 are as follows:

<u>Year Ending July 31,</u>	<u>Amount</u>
2009	\$ 414,628
2010	396,176
2011	420,036
2012	445,338
2013	472,169
Thereafter	6,564,783
Total Debt	8,713,130
Less: Current Portion	414,628
Long-Term Debt	<u>\$ 8,298,502</u>

**WESTWOOD COMMUNITY CHURCH  
NOTES TO FINANCIAL STATEMENTS  
JULY 31, 2008 AND 2007**

**NOTE 7 LINE OF CREDIT**

The Church has a \$250,000 line of credit with a maturity of December 31, 2008. There are no amounts outstanding on the line of credit as of July 31, 2008 or 2007.