

PROVIDENCE CHURCH

Frisco, Texas

Financial Statements

Year Ended December 31, 2015

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Elders and Finance Team
Providence Church
Frisco, Texas

We have reviewed the accompanying financial statements of Providence Church (the "Church"), a Texas nonprofit organization, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Church management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

PSK LLP

Arlington, Texas
March 23, 2016

PROVIDENCE CHURCH
Statement of Financial Position
December 31, 2015

ASSETS

Cash	\$ 560,138
Accounts receivable	900
Prepaid expenses	100
Investments	21,836
Cash restricted for capital campaign	<u>342,649</u>
	925,623
Property and equipment	
Land	2,831,000
Building and improvements	2,811,789
Furniture, fixtures and equipment	164,068
Less: Accumulated depreciation	<u>(691,073)</u>
Total property and equipment, net	<u>5,115,784</u>
 Total assets	 <u>\$ 6,041,407</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 1,173
Note payable	<u>4,577,295</u>
Total liabilities	<u>4,578,468</u>
Net assets	
Unrestricted	1,120,290
Temporarily restricted	<u>342,649</u>
Total net assets	<u>1,462,939</u>
 Total liabilities and net assets	 <u>\$ 6,041,407</u>

See accountants' review report.

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

PROVIDENCE CHURCH
Statement of Activities
Year Ended December 31, 2015

Changes in unrestricted net assets:

Revenues	
Tithes and contributions	\$ 1,539,684
Academy tuition	35,183
Program fees	20,342
Interest income	<u>159</u>
Total revenues	<u>1,595,368</u>
Expenses	
Program expenses	
Adults	256,790
Children and youth	159,903
Worship and communication	138,215
Missions and benevolence	36,550
Academy	30,299
Care	19,849
Hospitality	<u>849</u>
Total program expenses	<u>642,455</u>
Supporting services	
Administrative personnel	139,936
Depreciation	108,991
Facilities	108,239
Other	<u>113,814</u>
Total supporting services	<u>470,980</u>
Interest expense	<u>301,235</u>
Total expenses	<u>1,414,670</u>
Change in unrestricted net assets	180,698
Change in temporarily restricted net assets:	
Capital campaign contributions	<u>342,649</u>
Change in net assets	523,347
Net assets at beginning of the year	<u>939,592</u>
Net assets at end of the year	<u>\$ 1,462,939</u>

See accountants' review report.

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

PROVIDENCE CHURCH
Statement of Cash Flows
Year Ended December 31, 2015

Cash flows from operating activities	
Change in net assets	\$ 523,347
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	108,991
Receipts of donated investments	(21,836)
Contributions received from capital campaign	(342,649)
Increase in accounts receivable	(900)
Increase in prepaid expenses	(100)
Decrease in accounts payable and accrued expenses	<u>(594)</u>
Net cash provided by operating activities	<u>266,259</u>
Cash flows from investing activities	
Change in cash restricted for capital campaign	(342,649)
Purchases of improvements and equipment	<u>(14,598)</u>
Net cash used in investing activities	<u>(357,247)</u>
Cash flows from financing activities	
Principal payments on note payable	(101,864)
Contributions received for capital campaign	<u>342,649</u>
Net cash provided by financing activities	<u>240,785</u>
Net change in cash	149,797
Cash at beginning of the year	<u>410,341</u>
Cash at end of the year	<u><u>\$ 560,138</u></u>
Supplemental disclosure:	
Cash paid for interest	<u><u>\$ 301,235</u></u>

See accountants' review report.

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

PROVIDENCE CHURCH
Notes to Financial Statements

1 - Background

Providence Church (the “Church”), formerly known as Providence Village Church, is incorporated in the state of Texas as a nonprofit religious organization. The Church's mission is to provide pastoral, educational and other ministries to the Frisco, Texas area. The Church is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as other than a private foundation.

2 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of the Church have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other liabilities. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation - As required by the Not-for-Profit Entities Classification of Net Assets topic of the Financial Accounting Standards Board *Accounting Standards Codification* (“FASB ASC”), the Church reports 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. Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and / or nature of any donor restrictions. Donor restrictions require advance approval of the Church’s Elders.

Programs - The Church pursues its mission through the execution of the following major programs:

Worship and communication - Weekly and special worship services of the Church, including teaching, music, communion, and baptism.

Adults - Ministry of community groups, ministries to men and women, educational classes and resources for families, outreach events, and deacon care.

Children and youth - Partnership with parents to help children and youth know and follow Christ by means of Sunday classes, take-home curriculum for parents, and other events.

Missions and benevolence - Support of missions and to engage members in missions related to church planting locally, nationally, and globally, and to provide financial benevolence to members and Frisco residents.

Care - Individual care for members through Redemption groups, Biblical counseling classes and outsourced counseling.

Academy - Two-day/week preschool to encourage the mental, physical, spiritual, social, and emotional development of children ages 2-5. The Academy is open to the community.

Hospitality - Ministry of welcoming Sunday morning attendees, which includes greeters, ushers, connections, people and coffee.

Supporting Services - The Church incurs certain costs not directly related to any single program but rather to support the Church’s ministry efforts in general. These supporting services include facility costs and administrative personnel.

PROVIDENCE CHURCH
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Use of Estimates - Management makes estimates in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates affect the reported amount 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.

Cash and Cash Equivalents - The Church considers all short term investments with an original maturity of three months or less to be cash equivalents. At December 31, 2015, the Church had no cash equivalents.

Investments - As required by the Not-for-Profit Entities Investments of Debt and Equity Securities topic of the FASB ASC, investments in marketable equity securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Realized and unrealized gains and losses are included in the change in net assets.

Property and Equipment - Property and equipment are recorded at cost. Donated assets are recorded at fair market value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives as follows:

Building and improvements	30 years
Furniture, fixtures and equipment	5 to 7 years

Depreciation expense for the year ended December 31, 2015 amounted to \$108,991.

Revenues - Revenues are derived from contributions from Church membership and fees collected for ministry activities.

Donated Assets - Donated marketable securities and other noncash donations are recorded as tithes and offerings at their estimated fair values at the date of donation.

Donated Services - No amounts have been reflected in the financial statements for donated services. The Church pays for most services requiring specific expertise. A large number of people have contributed significant amounts of time to the activities of the Church without compensation. The financial statements do not reflect the value of those contributed services.

Functional Allocation of Expenses - The costs of providing the various program services and supporting activities of the Church have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities.

Income Taxes - The Church follows the Income Tax topic of the FASB ASC. The Church is not aware of any activities that would jeopardize its tax-exempt status and is not aware of any activities that are subject to tax. As of December 31, 2015, the Church has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements and does not expect this to change in the next twelve months.

Compensated Absences - All employees of the Church are entitled to paid vacation depending upon length of service and other factors. The Church cannot reasonably estimate the amount of compensation for future absences; accordingly, no liability has been recorded in the accompanying financial statements. The Church's policy is to recognize the cost of compensated absences when paid to employees.

Concentrations of Credit Risk - The Church currently maintains cash accounts with highly reputable financial institutions, and from time to time account balances may exceed the federally insured limit. It is the opinion of management that the solvency of these financial institutions is of no particular concern at this time.

See accountants' review report.

PROVIDENCE CHURCH
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Subsequent Events - Subsequent events have been evaluated through March 23, 2016, which is the date the financial statements were available to be issued.

3 - Investments

Investments are comprised of the following at December 31, 2015:

	<u>Fair Value</u>
Common Stock	\$ 21,836

The Church follows the Fair Value Measurements topic of the FASB ASC for all financial assets and liabilities measured at fair value on a recurring basis. The topic establishes a framework for measuring fair value and enhances disclosure requirements for fair value measurements. The Fair Value Measurements topic of the FASB ASC defines fair value as 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. The topic establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The topic establishes a hierarchy for grouping these assets and liabilities based on the significance level of the following inputs:

Level I – Quoted prices in active markets for identical assets or liabilities.

Level II – Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant drivers are observable.

Level III – Significant inputs to the valuation model are unobservable.

The Church's investments include common stock that is traded in an active market, it is classified within the hierarchy as a Level I asset.

4 - Note Payable

In 2009, the Church obtained a loan from Savta Venture, LTD for \$4,975,000 to purchase land and a building located on Preston Road. This remains the current meeting place of the Church. The loan bears interest at a rate of 6.50% and requires monthly payments of principal and interest, amortized over a period of 25 years, with a maturity of August 2014, at which time the remaining balance was due. In June 2014, the Church extended the maturity to August 2017 with no other changes to the terms of the loan. As of December 31, 2015, the balance on the loan was \$4,577,295.

As of December 31, 2015, future maturities of long-term debt are due as follows:

<u>Year Ending December 31,</u>	
2016	108,783
2017	4,468,512
	\$ 4,577,295

See accountants' review report.

PROVIDENCE CHURCH
Notes to Financial Statements

5 - Temporarily Restricted Net Assets

The balance of temporarily restricted net assets as of December 31, 2015 relates to certain contributions for which the donor has imposed restrictions. These restrictions require the Church to use such funds for expenses directly related to purposes described in the capital campaign, which relate to refinancing the existing debt and renovating the existing building. There were no temporarily restricted net assets expended during the year ended December 31, 2015.

6 - Subsequent Events

In March 2016, the Church paid cash and obtained a new loan in the amount of \$4,250,000 in order to refinance its existing loan discussed in Note 4. The new loan bears interest at a rate of 4.18% and requires monthly payments of principal and interest, amortized over a period of 25 years. The new loan matures in March 2026, at which time the remaining balance is due.