

PROVIDENCE CHURCH

Frisco, Texas

Financial Statements

Year Ended December 31, 2016

PROVIDENCE CHURCH
Financial Statements
Year Ended December 31, 2016

TABLE OF CONTENTS

	<u>Page</u>
Accountants' Review Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 8



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"), which comprise the statement of financial position as of December 31, 2016, 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 1, 2017

PROVIDENCE CHURCH
Statement of Financial Position
December 31, 2016

ASSETS

Cash	\$ 1,047,890
Accounts receivable	5,027
Prepaid expenses	530
Investments	28,576
Cash restricted for capital campaign	<u>151,533</u>
	<u>1,233,556</u>
Property and equipment	
Land	2,831,000
Building and improvements	2,818,588
Furniture, fixtures and equipment	184,439
Construction in progress	77,743
Less: Accumulated depreciation	<u>(801,446)</u>
Total property and equipment, net	<u>5,110,324</u>
Total assets	<u><u>\$ 6,343,880</u></u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 46,441
Note payable	<u>4,171,417</u>
Total liabilities	<u>4,217,858</u>
Net assets	
Unrestricted	1,974,489
Temporarily restricted	<u>151,533</u>
Total net assets	<u>2,126,022</u>
Total liabilities and net assets	<u><u>\$ 6,343,880</u></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, 2016

Changes in unrestricted net assets:

Revenues

Tithes and contributions	\$ 1,727,610
Academy tuition	61,798
Program fees	11,480
Unrealized gain on investments	6,740
Interest income	260
Other income	1,424
Net assets released from restriction	<u>583,786</u>

Total revenues 2,393,098

Expenses

Program expenses	
Adults	223,047
Worship and communication	213,841
Children and youth	149,922
Missions and benevolence	71,238
Academy	51,026
Care	16,158
Hospitality	<u>1,245</u>

Total program expenses 726,477

Supporting services

Administrative personnel	169,270
Depreciation	110,373
Facilities	130,105
Advance initiative	100,165
Other	<u>125,834</u>

Total supporting services 635,747

Interest expense 176,675

Total expenses 1,538,899

Change in unrestricted net assets 854,199

Changes in temporarily restricted net assets:

Capital campaign contributions	392,670
Net assets released from restriction	<u>(583,786)</u>

Change in temporarily restricted net assets (191,116)

Change in net assets 663,083

Net assets at beginning of the year 1,462,939

Net assets at end of the year \$ 2,126,022

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, 2016

Cash flows from operating activities	
Change in net assets	\$ 663,083
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	110,373
Unrealized gain on investments	(6,740)
Contributions received for capital campaign	(392,670)
Increase in accounts receivable	(4,127)
Increase in prepaid expenses	(430)
Increase in accounts payable and accrued expenses	<u>45,268</u>
Net cash provided by operating activities	<u>414,757</u>
Cash flows from investing activities	
Change in cash restricted for capital campaign	191,116
Purchases of improvements and equipment	<u>(104,913)</u>
Net cash provided by investing activities	<u>86,203</u>
Cash flows from financing activities	
Principal payments on note payable	(405,878)
Contributions received for capital campaign	<u>392,670</u>
Net cash used in financing activities	<u>(13,208)</u>
Net change in cash	487,752
Cash at beginning of the year	<u>560,138</u>
Cash at end of the year	<u><u>\$ 1,047,890</u></u>
Supplemental disclosure:	
Cash paid for interest	<u><u>\$ 176,675</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 recognized when earned and expenses are recognized 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:

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.

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

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.

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.

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

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, 2016, 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	15 to 30 years
Furniture, fixtures and equipment	5 to 7 years

Depreciation expense for the year ended December 31, 2016 amounted to \$110,373.

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, 2016, 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 1, 2017, which is the date the financial statements were available to be issued.

3 - Investments

Investments measured at fair value on a recurring basis are comprised of marketable equity securities in the amount of \$28,576 at December 31, 2016.

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. This guidance establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. This standard also 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 are all publicly traded securities on a nationally recognized exchange so they are classified in the hierarchy as Level I assets.

4 - Note Payable

In March 2016, the Church obtained financing from a financial institution in the amount of \$4,250,000, maturing March 2026. The Church utilized the \$4,250,000 to retire existing debt. The note, which is secured by real estate, is payable in monthly installments of principal and interest in the amount of \$22,858. The note bears interest at 4.18% and is subject to adjustment at the Church's option in March 2021. As of December 31, 2016, the balance on the note was \$4,171,417.

As of December 31, 2016, future maturities of long-term debt are due as follows:

<u>Year Ending December 31,</u>	
2017	\$ 116,464
2018	106,826
2019	111,377
2020	116,123
2021	121,071
Thereafter	<u>3,599,556</u>
	<u>\$ 4,171,417</u>

See accountants' review report.

PROVIDENCE CHURCH
Notes to Financial Statements

5 - Commitments

At December 31, 2016, the Church was a party to construction contracts with an architect and a general contractor for the renovation of Church facilities. Requests for payment on the contracts are submitted as construction progresses. Construction costs to date, which have been capitalized as construction in progress, are \$58,619 as of December 31, 2016. Additional costs required to complete the project are undetermined at this time.

6 - Operating Leases

The Church has entered into an operating lease for modular buildings. Minimum future rental payments under the operating lease as of December 31, 2016 are as follows:

<u>Year Ending December 31,</u>		
2017	\$	14,940
2018		<u>8,715</u>
	\$	<u>23,655</u>

Rent expense for the year ended December 31, 2016 totaled approximately \$6,250.

7 - Temporarily Restricted Net Assets

The balance of temporarily restricted net assets as of December 31, 2016 relates to certain contributions for which the donors have imposed restrictions. These restrictions require the Church to expend such funds for expenses directly related to purposes described in the capital campaign, which relate to renovating the existing building and debt reduction. During the year ended December 31, 2016, temporarily restricted net assets in the amount of \$583,786 had been expended in accordance with donor restrictions and have been reclassified to unrestricted net assets.