

PROVIDENCE CHURCH

Frisco, Texas

Financial Statements

Year Ended December 31, 2011

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Finance Team
Providence Church
Frisco, Texas

We have reviewed the accompanying statement of financial position of Providence Church (a not-for-profit organization) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Church's 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 is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

PSK LLP

September 26, 2012

PROVIDENCE CHURCH
Statement of Financial Position
December 31, 2011

ASSETS

Current assets		
Cash	\$	231,236
Receivables		3,495
Prepaid expenses		<u>4,000</u>
Total current assets		<u>238,731</u>
Property and equipment		
Land		2,831,000
Building and improvements		2,781,041
Furniture, fixtures and equipment		192,992
Less: accumulated depreciation		<u>(246,885)</u>
Total property and equipment, net		<u>5,558,148</u>
Total assets	\$	<u><u>5,796,879</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Current portion of note payable	\$	83,936
Non-current liabilities		
Non-current portion of note payable		<u>4,864,273</u>
Total liabilities		<u>4,948,209</u>
Net assets		
Unrestricted		<u>848,670</u>
Total liabilities and net assets	\$	<u><u>5,796,879</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, 2011

Changes in unrestricted net assets:

Revenues	
Tithes and offerings	\$ 1,033,156
Program fees	29,904
Other income	6,438
Interest income	<u>398</u>
Total revenues	<u>1,069,896</u>
Expenses	
Program expenses	
Worship and communication	165,289
Adults	199,697
Children and youth	67,998
Care	39,605
Hospitality	10,723
Missions and benevolence	<u>8,835</u>
Total program expenses	<u>492,147</u>
Supporting services	
Personnel	68,056
Depreciation	123,408
Facilities	106,009
Other	<u>31,473</u>
Total supporting services	<u>328,946</u>
Interest expense	<u>323,158</u>
Total expenses	<u>1,144,251</u>
Change in net assets	(74,355)
Net assets at beginning of the year	<u>923,025</u>
Net assets at end of the year	<u>\$ 848,670</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, 2011

Cash flows from operating activities	
Change in net assets	\$ (74,355)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	123,408
Increase in receivables	(3,495)
Increase in prepaid expenses	(4,000)
Decrease in payables	<u>(8,995)</u>
Net cash provided by operating activities	<u>32,563</u>
Cash flows from investing activities	
Purchase of property and equipment	<u>(15,364)</u>
Cash flows from financing activities	
Principal payments on note payable	<u>(26,791)</u>
Net change in cash	(9,592)
Cash at beginning of the year	<u>240,828</u>
Cash at end of the year	<u><u>\$ 231,236</u></u>
Supplemental disclosure:	
Cash paid for interest	<u><u>\$ 323,158</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 not-for-profit religious organization. The Church's objective 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. The Church received no donor restricted revenues during the year ended December 31, 2011.

Programs - The Church pursues its objective 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 home 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.

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

Hospitality - To provide greeters, ushers, connections' people, and coffee for Sunday morning attendees.

Missions and Benevolence - To engage members in missions and support missions, typically related to church planting locally, nationally, and globally, and to provide financial assistance to members and Frisco residents.

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.

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.

PROVIDENCE CHURCH
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

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, 2011, the Church had no cash equivalents.

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, 2011 amounted to \$123,408.

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.

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 on unrelated business income. As of December 31, 2011, 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.

Subsequent Events - Subsequent events have been evaluated through September 26, 2012, which is the date the financial statements were available to be issued.

3 - Note Payable

In 2009, the Church obtained a loan with 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 note carries an interest rate of 6.50% and required monthly payments of interest only until September 2011, at which time both principal and interest began to be paid monthly based on a rate of 6.50%, amortized over a period of 25 years. The note matures in August 2014, at which time the remaining balance is due. As of December 31, 2011, the balance on the note was \$4,948,209.

PROVIDENCE CHURCH
Notes to Financial Statements

3 - Note Payable (continued)

Future principal payments are scheduled as follows:

For the year ending December 31,

2012	\$ 83,936
2013	89,558
2014	<u>4,774,715</u>
	<u>\$ 4,948,209</u>

4 - Concentration of Credit Risk

The Church maintains its cash with a high credit quality financial institution. The balances, at times, may exceed federally insured amounts. It is the opinion of Church management that the solvency of the financial institution is sufficient to cover any exposure.

5 - Operating Leases

The Church has entered into a non-cancelable operating lease for office equipment. Total rent expense for the year ended December 31, 2011 was \$3,265. The Church is required to make future minimum payments of \$3,265 in 2012.