

PROVIDENCE CHURCH

Frisco, Texas

Financial Statements

Year Ended December 31, 2018

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Financial Statements
Year Ended December 31, 2018

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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"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, 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
May 24, 2019

PROVIDENCE CHURCH
Statement of Financial Position
December 31, 2018

ASSETS

Cash	\$ 1,119,498
Accounts receivable	1,765
Prepaid expenses	4,182
Investments	<u>38,642</u>
Property and equipment	
Land	2,831,000
Building and improvements	4,745,743
Furniture, fixtures and equipment	249,856
Less: Accumulated depreciation	<u>(1,020,541)</u>
Total property and equipment, net	<u>6,806,058</u>
Total assets	<u>\$ 7,970,145</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 20,686
Notes payable	<u>4,087,810</u>
Total liabilities	4,108,496
Net assets	
Without donor restrictions	<u>3,861,649</u>
Total liabilities and net assets	<u>\$ 7,970,145</u>

*See independent accountants' review report.
The accompanying notes are an integral part of these financial statements.*

PROVIDENCE CHURCH
Statement of Activities
Year Ended December 31, 2018

Changes in net assets without donor restrictions:

Revenues	
Tithes and contributions	\$ 2,319,657
Academy tuition	77,941
Program fees	25,117
Net investment return	(2,799)
Interest income	460
Other income	2,214
Net assets released from restriction	<u>422,850</u>
 Total revenues	 <u>2,845,440</u>
Expenses	
Program expenses	
Ministries and worship	1,108,019
Missions and outreach	379,132
Academy	<u>188,313</u>
 Total program expenses	 1,675,464
 Supporting services	 <u>226,862</u>
 Total expenses	 <u>1,902,326</u>
 Change in net assets without donor restrictions	 <u>943,114</u>
Changes in net assets with donor restrictions:	
Capital campaign contributions	422,850
Net assets released from restriction	<u>(422,850)</u>
 Change in net assets with donor restrictions	 <u>-</u>
 Change in net assets	 943,114
 Net assets at beginning of the year	 <u>2,918,535</u>
 Net assets at end of the year	 <u><u>\$ 3,861,649</u></u>

See independent accountants' review report.

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

PROVIDENCE CHURCH
Statement of Functional Expenses
Year Ended December 31, 2018

	Program Services				
	Ministries and Worship	Missions and Outreach	Academy	Supporting Services	Total
Personnel expenses	\$ 799,768	\$ 68,785	\$ 73,885	\$ 68,785	\$ 1,011,223
Supplies & resources	210,897	60,724	6,049	60,724	338,394
Support for others	-	152,269	-	-	152,269
Occupancy expenses	23,865	23,865	34,890	23,865	106,485
Interest	45,961	45,961	45,961	45,960	183,843
Depreciation	27,528	27,528	27,528	27,528	110,112
	\$ 1,108,019	\$ 379,132	\$ 188,313	\$ 226,862	\$ 1,902,326

See independent accountants' review report.

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

PROVIDENCE CHURCH
Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities	
Change in net assets	\$ 943,114
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	110,112
Unrealized loss on investments	2,799
Contributions received for capital campaign	(422,850)
Decrease in accounts receivable	1,365
Increase in prepaid expenses	(1,284)
Decrease in accounts payable and accrued expenses	<u>(10,531)</u>
Net cash provided by operating activities	<u>622,725</u>
Cash flows from investing activities	
Purchases of improvements and equipment	<u>(242,966)</u>
Cash flows from financing activities	
Principal payments on notes payable	(366,141)
Contributions received for capital campaign	<u>422,850</u>
Net cash provided by financing activities	<u>56,709</u>
Net change in cash	436,468
Cash at beginning of the year	<u>683,030</u>
Cash at end of the year	<u>\$ 1,119,498</u>
Supplemental disclosure:	
Cash paid for interest	<u>\$ 183,843</u>

*See independent 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.

Adoption of New Accounting Standards - In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-14: *Presentation of Financial Statements for Not-for-Profit Entities* (“ASU 2016-14”), which is an amendment to the FASB Accounting Standards Codification (“FASB ASC”) Topic 958. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Adopting ASU 2016-14 has had the following impact on the Church’s financial statements:

- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called *net assets with donor restrictions*.
- The unrestricted net asset class has been renamed *net assets without donor restrictions*.
- The notes to financial statements include a new disclosure about liquidity and availability of resources (Note 3).
- Investment return is now simply reported in the aggregate, net of investment expenses.

Basis of Presentation - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

PROVIDENCE CHURCH
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

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

Ministries and worship - Ministry of community groups, ministries to men and women, educational classes and resources for families, outreach events, and deacon care. Weekly and special worship services of the Church, including teaching, music, communion, and baptism.

Missions and outreach - 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.

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.

Cash and Cash Equivalents - For purposes of reporting cash flows, the Church considers all bank deposits and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital needs, such as building projects and debt retirement or other long-term purposes are excluded from this definition.

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, 2018 amounted to \$110,112.

Revenues and Support - Revenues and support for the Church are primarily derived from contributions from the Church membership.

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.

PROVIDENCE CHURCH
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses - The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses allocated on an estimated usage include depreciation, interest, utilities and other facilities-related expenses, while salaries and wages, benefits, payroll taxes, outside services, office expenses, information technology, insurance, and other, are allocated on the basis of estimates of time and effort.

Income Taxes - The Church follows the Income Taxes topic of the FASB ASC, which prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. 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, 2018, 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 - Financial instruments, which potentially subject the Church to concentrations of credit risk, consist of bank accounts. The Church maintains its cash in highly reputable financial institutions. Occasionally, the Church's accounts may maintain balances in excess of FDIC insurance protection. It is the opinion of management that the solvency of the financial institutions is sufficient to cover any exposure.

Subsequent Events - Subsequent events have been evaluated through May 24, 2019, which is the date the financial statements were available to be issued.

3 - Liquidity and Availability of Resources

The Church operates under a balanced budget for activities supported by unrestricted tithes and offerings. Its Finance Committee (the "Elders") is responsible for monitoring the liquidity necessary to meet the Church's operating needs, and meets periodically throughout the year to evaluate the actual results of financial operations versus the budget. Church management, in accordance with Church policy and/or in collaboration with the Elders, also appropriates resources from donor-restricted accounts as needed.

Additionally, the Church maintains several donor-restricted ministry funds purposed for various other activities consistent with the mission of the Church, including operating reserves (See Note 6).

PROVIDENCE CHURCH
Notes to Financial Statements

3 - Liquidity and Availability of Resources (continued)

Financial assets available for general expenditure, that is, without donor restrictions limiting their use or without requiring specific action of the Elders, within one year of the date of the statement of financial position are comprised of the following:

Cash	\$ 1,119,498
Investments	<u>38,642</u>
Financial assets available to meet general expenditure needs within one year	<u>\$ 1,158,140</u>

4 - Fair Value Measurements

Investments measured at fair value on a recurring basis are comprised of marketable equity securities in the amount of \$38,642 at December 31, 2018.

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.

5 - Notes 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, 2018, the balance on the note was \$3,975,534.

In May 2017, the Church obtained financing from a financial institution in the amount of \$375,000, maturing January 2019. The note, which is secured by real estate, is payable in monthly installments of interest with the principal due upon maturity. The note bears interest at a variable rate equal to the Prime Rate plus 0.50% (6.00% at December 31, 2018). As of December 31, 2018, the balance on the note was \$112,276.

See independent accountants' review report.

PROVIDENCE CHURCH
Notes to Financial Statements

5 - Notes Payable (continued)

As of December 31, 2018, future maturities of long-term debt are due as follows:

<u>Year Ending December 31,</u>	
2019	\$ 222,486
2020	114,906
2021	119,802
2022	124,907
2023	130,229
Thereafter	<u>3,375,480</u>
	<u>\$ 4,087,810</u>

6 - Net Assets With Donor Restrictions

The balance of temporarily restricted net assets as of December 31, 2018 relates to certain contributions for which the donors 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, 2018, temporarily restricted net assets in the amount of \$422,850 had been expended in accordance with donor restrictions and have been reclassified to unrestricted net assets.