

PROVIDENCE CHURCH

Frisco, Texas

Financial Statements

Year Ended December 31, 2019

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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, 2019, 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
June 19, 2020

PROVIDENCE CHURCH
Statement of Financial Position
December 31, 2019

ASSETS

Cash	\$ 1,459,042
Accounts receivable	1,020
Prepaid expenses	4,942
Investments	112,967
Property and equipment, net	<u>6,608,911</u>
 Total assets	 <u>\$ 8,186,882</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 27,890
Notes payable	<u>3,865,040</u>
 Total liabilities	 3,892,930
Net assets	
Without donor restrictions	<u>4,293,952</u>
 Total liabilities and net assets	 <u>\$ 8,186,882</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, 2019

Changes in net assets without donor restrictions:

Revenues	
Tithes and contributions	\$ 2,416,287
Academy tuition	85,287
Net investment return	19,089
Other income	<u>1,655</u>
Total revenues	<u>2,522,318</u>
Expenses and losses	
Program expenses	
Ministries and worship	1,253,720
Missions and outreach	333,129
Academy	<u>239,729</u>
Total program expenses	1,826,578
Supporting services	<u>263,437</u>
Total expenses and losses	<u>2,090,015</u>
Change in net assets	432,303
Net assets at beginning of the year	<u>3,861,649</u>
Net assets at end of the year	<u>\$ 4,293,952</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, 2019

	Program Services				
	Ministries and Worship	Missions and Outreach	Academy	Supporting Services	Total
Personnel expenses	\$ 925,472	\$ 89,483	\$ 79,818	\$ 89,483	\$ 1,184,256
Supplies and resources	188,499	34,206	5,600	34,206	262,511
Support for others	-	69,692	-	-	69,692
Occupancy expenses	54,785	54,785	69,347	54,785	233,702
Interest	40,903	40,903	40,903	40,903	163,612
Depreciation	44,061	44,060	44,061	44,060	176,242
	<u>\$ 1,253,720</u>	<u>\$ 333,129</u>	<u>\$ 239,729</u>	<u>\$ 263,437</u>	<u>\$ 2,090,015</u>

*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, 2019

Cash flows from operating activities	
Change in net assets	\$ 432,303
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	176,242
Loss on disposal of property and equipment	64,682
Net investment return	(19,089)
Donated marketable securities	(55,236)
Contributions restricted for capital campaign	(89,752)
(Increase) decrease in assets:	
Accounts receivable	745
Prepaid expenses	(760)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>7,204</u>
Net cash provided by operating activities	<u>516,339</u>
Cash flows from investing activities	
Purchases of property and equipment	<u>(43,777)</u>
Cash flows from financing activities	
Principal payments on notes payable	(222,770)
Contributions restricted for capital campaign	<u>89,752</u>
Net cash used in financing activities	<u>(133,018)</u>
Net change in cash	339,544
Cash at beginning of the year	<u>1,119,498</u>
Cash at end of the year	<u>\$ 1,459,042</u>
Supplemental disclosure:	
Cash paid for interest	<u>\$ 163,612</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.

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. When restrictions on donor-restricted contributions are met in the same year as received, they are reported as activities within net assets without donor restrictions.

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.

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

See independent accountants' review report.

PROVIDENCE CHURCH
Notes to Financial Statements

2 - Summary of Significant Accounting Policies (continued)

Revenues and Support - Revenues and support for the Church are primarily derived from contributions from the Church membership and from fee-based activities. The Church recognizes contributions when cash, securities, or other assets are received. The Church recognizes revenue from fee-based activities in the period the services are provided to members. The performance obligation of delivering services is simultaneously received and consumed by members; therefore, the revenue is recognized in the period to which it relates.

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 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.

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.

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, 2019, 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.

PROVIDENCE CHURCH
Notes to Financial Statements

3 - Liquidity and Availability of Resources

The Church operates under a budget for activities supported by unrestricted tithes and offerings. Its Board of Elders (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.

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	\$ 1,459,042
Accounts receivable	1,020
Investments	<u>112,967</u>
Financial assets available to meet general expenditure needs within one year	<u>\$ 1,573,029</u>

4 - Property and Equipment

Property and equipment consists of the following at December 31, 2019:

Land	\$ 2,831,000
Building and improvements	4,662,085
Furniture, fixtures and equipment	179,942
Less: accumulated depreciation	<u>(1,064,116)</u>
Property and equipment, net	<u>\$ 6,608,911</u>

5 - Fair Value Measurements

Investments measured at fair value on a recurring basis are comprised of marketable equity securities in the amount of \$112,967 at December 31, 2019.

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.

See independent accountants' review report.

PROVIDENCE CHURCH
Notes to Financial Statements

6 - Notes Payable

In March 2016, the Church obtained a \$4,250,000 loan from a financial institution in order to refinance existing debt. The related promissory 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. All unpaid principal and accrued interest will be due at maturity in March 2026. As of December 31, 2019, the balance on the note was \$3,865,040.

In May 2017, the Church obtained financing from a financial institution in the amount of \$375,000, maturing January 2019, at which time it was retired.

As of December 31, 2019, future maturities of notes payable are due as follows:

<u>Year Ending December 31,</u>	
2020	\$ 114,918
2021	119,814
2022	124,920
2023	130,243
2024	135,792
Thereafter	<u>3,239,353</u>
	<u>\$ 3,865,040</u>

7 - Subsequent Events

Subsequent events have been evaluated through June 19, 2020, which is the date the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Church's financial position, ministry activities and cash flows. Possible effects may include, but are not limited to, a decline in contributions and other revenues, absenteeism among the Church's staff and volunteer workers, unavailability of supplies and services used in ministry activities, and a decline in value of assets held by the Church, including investments and property.