

PROVIDENCE CHURCH

Frisco, Texas

Financial Statements

Year Ended December 31, 2021

PROVIDENCE CHURCH
Financial Statements
Year Ended December 31, 2021

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PROVIDENCE CHURCH
Statement of Financial Position
December 31, 2021

ASSETS

Cash and cash equivalents	\$ 3,608,822
Accounts receivable	1,320
Prepaid expenses	6,082
Investments	284,745
Cash restricted for capital expenditures	941,603
Property and equipment, net	<u>7,151,144</u>
 Total assets	 <u>\$ 11,993,716</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 33,218
Construction retainage payable	49,500
Note payable	<u>3,613,782</u>
 Total liabilities	 <u>3,696,500</u>
 Net assets	
Without donor restrictions	7,355,613
With donor restrictions	<u>941,603</u>
 Total net assets	 <u>8,297,216</u>
 Total liabilities and net assets	 <u>\$ 11,993,716</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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Tithes and contributions	\$ 3,766,808	1,515,356	\$ 5,282,164
Academy tuition	75,081	-	75,081
Net investment return	29,875	-	29,875
Other income	13,048	-	13,048
Net assets released from restrictions	<u>573,753</u>	<u>(573,753)</u>	<u>-</u>
Total revenues and support	<u>4,458,565</u>	<u>941,603</u>	<u>5,400,168</u>
Expenses and losses			
Program expenses			
Ministries and worship	1,659,576	-	1,659,576
Missions and outreach	363,785	-	363,785
Academy	<u>210,386</u>	<u>-</u>	<u>210,386</u>
	2,233,747	-	2,233,747
Supporting services	<u>264,394</u>	<u>-</u>	<u>264,394</u>
Total expenses and losses	<u>2,498,141</u>	<u>-</u>	<u>2,498,141</u>
Change in net assets	1,960,424	941,603	2,902,027
Net assets at beginning of the year	<u>5,395,189</u>	<u>-</u>	<u>5,395,189</u>
Net assets at end of the year	<u>\$ 7,355,613</u>	<u>\$ 941,603</u>	<u>\$ 8,297,216</u>

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

PROVIDENCE CHURCH
Statement of Functional Expenses
Year Ended December 31, 2021

	<u>Program Services</u>				
	<u>Ministries and Worship</u>	<u>Missions and Outreach</u>	<u>Academy</u>	<u>Supporting Services</u>	<u>Total</u>
Personnel expenses	\$ 1,270,989	\$ 83,437	\$ 65,570	\$ 83,435	\$ 1,503,431
Supplies and resources	249,696	42,485	6,341	42,485	341,007
Support for others	-	99,388	-	-	99,388
Occupancy expenses	50,841	50,425	50,425	50,425	202,116
Interest	34,022	34,022	34,022	34,021	136,087
Depreciation	<u>54,028</u>	<u>54,028</u>	<u>54,028</u>	<u>54,028</u>	<u>216,112</u>
	<u>\$ 1,659,576</u>	<u>\$ 363,785</u>	<u>\$ 210,386</u>	<u>\$ 264,394</u>	<u>\$ 2,498,141</u>

See independent accountants' review report.

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

PROVIDENCE CHURCHStatement of Cash Flows
Year Ended December 31, 2021

Cash flows from operating activities	
Change in net assets	\$ 2,902,027
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	216,112
Net investment return	(29,875)
Donated marketable securities	(103,572)
Contributions restricted for capital expenditures	(1,515,356)
(Increase) decrease in assets:	
Accounts receivable	1,910
Prepaid expenses	2,458
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	<u>30,197</u>
Net cash provided by operating activities	<u>1,503,901</u>
Cash flows from investing activities	
Purchases of property and equipment	<u>(654,467)</u>
Cash flows from financing activities	
Principal payments on note payable	(138,205)
Contributions restricted for capital expenditures	<u>1,515,356</u>
Net cash provided by financing activities	<u>1,377,151</u>
Net change in cash	2,226,585
Cash, cash equivalents and restricted cash at beginning of the year	<u>2,323,840</u>
Cash, cash equivalents and restricted cash at end of the year	<u>\$ 4,550,425</u>
Supplemental disclosure:	
Cash paid for interest	<u>\$ 136,087</u>
Noncash investing and financing activities:	
Construction retainage payable capitalized as construction in progress	<u>\$ 49,500</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

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, 2021, 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 and cash equivalents	\$ 3,608,822
Accounts receivable	1,320
Investments	<u>284,745</u>
Financial assets available to meet general expenditure needs within one year	<u>\$ 3,894,887</u>

4 - Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows as of December 31, 2021:

Cash and cash equivalents	\$ 3,608,822
Cash restricted for capital expenditures	<u>941,603</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 4,550,425</u>

5 - 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. 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.

Investments measured at fair value on a recurring basis are all comprised of marketable equity securities and mutual funds traded on nationally recognized exchanges so they are classified in the hierarchy as Level I assets.

PROVIDENCE CHURCH
Notes to Financial Statements

6 - Property and Equipment

Property and equipment consists of the following at December 31, 2021:

Land	\$ 2,831,000
Building and improvements	4,720,788
Furniture, fixtures and equipment	390,490
Construction in progress	623,252
Less: accumulated depreciation	<u>(1,414,386)</u>
Property and equipment, net	<u>\$ 7,151,144</u>

7 - Note 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. In March 2021, the Church exercised an option to reduce the interest rate on the loan from 4.18% to 3.45%. This rate will remain in effect until the loan matures in March 2026, at which time all unpaid principal and accrued interest will be due. As of December 31, 2021, the balance on the note was \$3,613,782.

As of December 31, 2021, future maturities of this note payable are due as follows:

Year Ending December 31,	
2022	\$ 152,005
2023	157,332
2024	162,847
2025	168,555
2026	2,973,043

8 - Net Assets With Donor Restrictions

The Church began a capital campaign in January 2021 which limited contributions towards this initiative to capital expenditures related to a construction project. \$573,753 in construction costs were incurred during 2021 and released from restriction; however, total donor-restricted contributions during the year amounted to \$1,515,356, so net assets restricted by donors for capital expenditures was \$941,603 as of December 31, 2021.

9 - Subsequent Events

Subsequent events have been evaluated through September 13, 2022, which is the date the financial statements were available to be issued.

In conjunction with its capital expansion plans, subsequent to year end, the Church executed two contracts for consultation, design and planning services totaling approximately \$835,000.