

PROVIDENCE CHURCH

Frisco, Texas

Financial Statements

Year Ended December 31, 2022

PROVIDENCE CHURCH
Financial Statements
Year Ended December 31, 2022

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PROVIDENCE CHURCH
Statement of Financial Position
December 31, 2022

ASSETS

Cash and cash equivalents	\$ 5,265,654
Prepaid expenses and other assets	34,421
Investments	241,211
Cash restricted for capital expenditures	1,700,630
Property and equipment, net	<u>8,086,834</u>
Total assets	<u>\$ 15,328,750</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 33,667
Construction and retainage payable	56,280
Grant payable, net of unamortized discount	234,001
Note payable	<u>3,467,199</u>
Total liabilities	<u>3,791,147</u>
Net assets	
Without donor restrictions	9,836,973
With donor restrictions	<u>1,700,630</u>
Total net assets	<u>11,537,603</u>
Total liabilities and net assets	<u>\$ 15,328,750</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support			
Tithes and contributions	\$ 4,410,516	\$ 2,201,734	\$ 6,612,250
Program income and fees	93,875	-	93,875
Academy tuition	84,940	-	84,940
Net investment return	(43,920)	-	(43,920)
Other income	19,965	-	19,965
	<u>4,565,376</u>	<u>2,201,734</u>	<u>6,767,110</u>
Net assets released from restrictions	<u>1,442,707</u>	<u>(1,442,707)</u>	<u>-</u>
 Total revenues and support	 <u>6,008,083</u>	 <u>759,027</u>	 <u>6,767,110</u>
Expenses			
Program expenses			
Ministries and worship	1,956,286	-	1,956,286
Missions and outreach	968,218	-	968,218
Academy	241,154	-	241,154
	<u>3,165,658</u>	<u>-</u>	<u>3,165,658</u>
Supporting services	361,065	-	361,065
 Total expenses	 <u>3,526,723</u>	 <u>-</u>	 <u>3,526,723</u>
 Change in net assets	 2,481,360	 759,027	 3,240,387
Net assets at beginning of the year	<u>7,355,613</u>	<u>941,603</u>	<u>8,297,216</u>
Net assets at end of the year	<u>\$ 9,836,973</u>	<u>\$ 1,700,630</u>	<u>\$ 11,537,603</u>

See independent accountants' review report.

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PROVIDENCE CHURCH
Statement of Functional Expenses
Year Ended December 31, 2022

	Program Services				
	Ministries and Worship	Missions and Outreach	Academy	Supporting Services	Total
Personnel expenses	\$ 1,384,749	\$ 170,645	\$ 82,529	\$ 170,645	\$ 1,808,568
Supplies and resources	415,424	40,659	8,864	40,659	505,606
Support for others	-	607,153	-	-	607,153
Facilities	65,262	58,910	58,910	58,910	241,992
Interest	31,927	31,927	31,927	31,927	127,708
Depreciation	58,924	58,924	58,924	58,924	235,696
	<u>\$ 1,956,286</u>	<u>\$ 968,218</u>	<u>\$ 241,154</u>	<u>\$ 361,065</u>	<u>\$ 3,526,723</u>

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

PROVIDENCE CHURCH
Statement of Cash Flows
Year Ended December 31, 2022

Cash flows from operating activities	
Change in net assets	\$ 3,240,387
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	235,696
Unrealized loss on investments	48,424
Donated marketable securities	(4,890)
Contributions restricted for capital expenditures	(1,831,734)
(Increase) decrease in assets:	
Prepaid expenses and other assets	(27,019)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	449
Grant payable	<u>234,001</u>
Net cash provided by operating activities	<u>1,895,314</u>
Cash flows from investing activities	
Purchases of property and equipment	<u>(1,164,606)</u>
Cash flows from financing activities	
Principal payments on note payable	(146,583)
Contributions restricted for capital expenditures	<u>1,831,734</u>
Net cash provided by financing activities	<u>1,685,151</u>
Net change in cash	2,415,859
Cash, cash equivalents, and restricted cash at beginning of the year	<u>4,550,425</u>
Cash, cash equivalents, and restricted cash at end of the year	<u>\$ 6,966,284</u>
Supplemental disclosure:	
Cash paid for interest	<u>\$ 127,708</u>
Noncash investing and financing activities:	
Construction and retainage payable capitalized as construction in progress	<u>\$ 56,280</u>

See independent accountants' review report.

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

PROVIDENCE CHURCH
Notes to Financial Statements

1 - Organization and Nature of Activities

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.

Adoption of New Accounting Standard - In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use asset and a lease liability for most leases on the statement of financial position as well as other qualitative and quantitative disclosures. ASU 2016-02 is to be applied using a modified retrospective method and became effective for the Church on January 1, 2022. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing organizations to recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption, with no restatement of comparative prior periods required. The Church adopted the standard using this optional transition method.

The FASB has provided certain practical expedients in applying the standard. Of the allowed practical expedients within the standard, the Church elected the package of practical expedients which, among other things, allowed for historical lease classification to be carried forward upon adoption of the standard. The Church did not elect the hindsight practical expedient when determining the lease term for existing leases. In addition, the Church did not separate non-lease components from lease components by class of underlying assets where appropriate and the Church did not apply the recognition requirements of the standard to short-term leases with an initial term of 12 months or less, as allowed by the standard. The adoption of the standard had no impact on the Church's financial statements as of January 1, 2022.

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.

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:

Buildings and improvements	15 to 30 years
Furniture, fixtures, and equipment	5 to 7 years

Leases - The Church recognizes a right-of-use asset and a lease liability on the effective date of a lease agreement. Right-of-use assets represent the right to use an underlying asset over the lease term and lease liabilities represent the obligation to make lease payments resulting from the lease agreement. The Church initially records these assets and liabilities based on the present value of lease payments over the lease term calculated using its incremental borrowing rate applicable to the leased asset or the implicit rate within the lease agreement if it is readily determinable. Lease agreements with lease and non-lease components are combined as a single lease component. Right-of-use assets additionally include net prepaid lease expenses. Options to extend or terminate an agreement are included in the lease term when it becomes reasonably certain the option will be exercised. Leases with an initial term of 12 months or less, short-term leases, are not recorded on the statement of financial position for all underlying asset classes. Lease expense for short-term and long-term operating leases is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred. The Church did not have right-of-use assets and lease liabilities as of December 31, 2022.

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 contributions 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.

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.

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.

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, 2022, the Church had 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.

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.

3 - Liquidity and Availability of Resources

The Church operates under a budget for activities supported by unrestricted tithes and contributions. 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	\$ 5,265,654
Investments	<u>241,211</u>
Financial assets available to meet general expenditure needs within one year	<u>\$ 5,506,865</u>

See independent accountants' review report.

PROVIDENCE CHURCH
Notes to Financial Statements

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, 2022:

Cash and cash equivalents	\$ 5,265,654
Cash restricted for capital expenditures	<u>1,700,630</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 6,966,284</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.

6 - Property and Equipment

Property and equipment consists of the following at December 31, 2022:

Land	\$ 2,831,000
Buildings and improvements	5,720,690
Furniture, fixtures, and equipment	451,985
Construction in progress	722,347
Less: accumulated depreciation	<u>(1,639,188)</u>
Property and equipment, net	<u>\$ 8,086,834</u>

PROVIDENCE CHURCH
Notes to Financial Statements

7 - Grant Payable

In March 2022, the Church made an unconditional commitment to provide \$370,000 in support for a Bible translation initiative conducted by a ministry partner. \$123,333 was paid at the time of the commitment, with the balance payable in two additional annual installments of the same amount – one scheduled in 2023, with the final payment due in 2024. The obligation is carried at the present value of the promised cash flows based upon the Church's incremental borrowing rate at year-end, which is considered to be the Prime Rate. Amortization of the discount for the time value of money, computed using the effective interest rate method, is reported as an adjustment to support for others in the accompanying statement of functional expenses.

8 - 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, 2022, the balance on the note was \$3,467,199.

As of December 31, 2022, future maturities of this note payable are due as follows:

Year Ending December 31,	
2023	\$ 157,143
2024	162,650
2025	168,352
2026	2,979,054

9 - Net Assets With Donor Restrictions

The Church is currently administering a capital campaign to provide resources for a construction project and a Bible translation initiative. Net assets released from restriction during the year totaled \$1,442,707, of which \$370,000 was committed to the Bible translation initiative (Note 7); the remainder relates to planned capital expenditures.

The balance of net assets with donor restrictions as of December 31, 2022 relates to a planned construction project.

10 - Commitments

In conjunction with its capital expansion plans, the Church had approximately \$711,000 in remaining commitments for architectural, engineering, and design contracts as of December 31, 2022.

11 - Subsequent Events

Subsequent events have been evaluated through September 26, 2023, which is the date the financial statements were available to be issued.