



THE VILLAGE CHURCH

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014





REPORT OF INDEPENDENT AUDITOR

The Central Elders Board
The Village Church
Flower Mound, Texas

We have audited the accompanying financial statements of The Village Church (“the Church”), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Church's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Church's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Village Church as of December 31, 2015 and 2014, the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
November 28, 2016

THE VILLAGE CHURCH
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 10,303,337	\$ 12,041,341
Investments	4,941,178	329,834
Property and equipment, net	27,395,539	32,065,760
Other assets	857,517	156,509
Total assets	\$ 43,497,571	\$ 44,593,444

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 861,687	\$ 1,294,128
Total liabilities	861,687	1,294,128
NET ASSETS		
Unrestricted	42,423,154	43,132,559
Temporarily restricted	212,730	166,757
Total net assets	42,635,884	43,299,316
Total liabilities and net assets	\$ 43,497,571	\$ 44,593,444

THE VILLAGE CHURCH
STATEMENTS OF ACTIVITIES

	For The Year Ended December 31, 2015			For The Year Ended December 31, 2014
	Unrestricted	Temporarily Restricted	Total	
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS				
Unrestricted contributions	\$ 22,025,771	\$ —	\$ 22,025,771	\$ 20,567,678
Temporarily restricted contributions	—	679,000	679,000	784,519
Other revenue	570,165	—	570,165	570,737
Net assets released from restrictions	<u>633,027</u>	<u>(633,027)</u>	<u>—</u>	<u>—</u>
Total public support and revenue and net assets released from restrictions	<u>23,228,963</u>	<u>45,973</u>	<u>23,274,936</u>	<u>21,922,934</u>
EXPENSES				
Program activities	20,417,485	—	20,417,485	14,487,616
Supporting activities	<u>3,520,883</u>	<u>—</u>	<u>3,520,883</u>	<u>3,276,409</u>
Total expenses	<u>23,938,368</u>	<u>—</u>	<u>23,938,368</u>	<u>17,764,025</u>
Change in unrestricted net assets	(709,405)	—	(709,405)	4,171,492
Change in temporarily restricted net assets	<u>—</u>	<u>45,973</u>	<u>45,973</u>	<u>(12,583)</u>
CHANGE IN NET ASSETS	(709,405)	45,973	(663,432)	4,158,909
NET ASSETS - Beginning of year	<u>43,132,559</u>	<u>166,757</u>	<u>43,299,316</u>	<u>39,140,407</u>
NET ASSETS - End of year	<u><u>\$ 42,423,154</u></u>	<u><u>\$ 212,730</u></u>	<u><u>\$ 42,635,884</u></u>	<u><u>\$ 43,299,316</u></u>

The Accompanying Notes are an Integral
Part of These Financial Statements

THE VILLAGE CHURCH
STATEMENTS OF CASH FLOWS

	For The Years Ended December 31,	
	2015	2014
OPERATING CASH FLOWS		
Cash received from contributors	\$ 22,245,862	\$ 21,015,925
Other revenue received	777,049	570,737
Cash paid for operating activities and costs	(19,294,053)	(15,425,003)
Net operating cash flows	3,728,858	6,161,659
INVESTING CASH FLOWS		
Net (purchases of) proceeds from sales of investments	(4,393,839)	1,337,403
Net purchases of and improvements to property and equipment	(1,107,543)	(4,799,753)
Net investing cash flows	(5,501,382)	(3,462,350)
FINANCING CASH FLOWS		
Contributions restricted for capital expansion	34,520	141,441
Net financing cash flows	34,520	141,441
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,738,004)	2,840,750
CASH AND CASH EQUIVALENTS - Beginning of year	12,041,341	9,200,591
CASH AND CASH EQUIVALENTS - End of year	\$ 10,303,337	\$ 12,041,341
RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS		
Change in net assets	\$ (663,432)	\$ 4,158,909
Adjustments to reconcile change in net assets to net operating cash flows		
Depreciation	1,477,915	1,545,135
Loss on investments	206,884	17,625
Noncash grant of Denton Campus	4,299,849	—
Contributions restricted for capital expansion	(34,520)	(141,441)
Noncash contributions	(424,389)	(194,831)
Change in other assets	(701,008)	162
Change in accounts payable and accrued expenses	(432,441)	776,100
Net operating cash flows	\$ 3,728,858	\$ 6,161,659

The Accompanying Notes are an Integral
Part of These Financial Statements

THE VILLAGE CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES

The Village Church (“the Church”) is a not-for-profit Texas corporation which exists to bring glory to God by making disciples through gospel-centered worship, gospel-centered community, gospel-centered service, and gospel-centered multiplication. The Church operates four campuses in the Dallas-Fort Worth Metroplex – one each located in Flower Mound, Dallas, Fort Worth, and Plano, Texas. During 2015, the Church granted the property and equipment comprising its former Denton campus to another church (see Note D).

The World Village (“TWV”) is a not-for-profit Texas corporation affiliated with the Church through common management, purpose, and vision. TWV’s financial activity, which is minimal and not material, is included in the accompanying financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support

Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as “net assets released from restrictions.”

Cash and cash equivalents

The Church considers investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

Investments

Investments are carried at estimated fair value.

Property and equipment

Property and equipment are stated at cost, if purchased, or estimated fair value on the date of donation, if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Income taxes

The Church is exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to Texas law. The Church is further classified as a public charity and not a private foundation for federal tax purposes. The Church has not incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying financial statements. The Church has not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America.

Use of estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements relate to the estimated fair value of investments and determining the useful lives of property and equipment. Actual results could differ from the estimates.

Reclassifications

Certain amounts included in the 2014 financial statements have been reclassified to conform to classifications adopted during 2015. The reclassifications had no material effect on the accompanying financial statements.

THE VILLAGE CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE C – CONCENTRATION OF CREDIT RISK

The Church maintains its cash and cash equivalents in deposit accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Church has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Category	December 31,	
	2015	2014
Land	\$ 4,261,945	\$ 4,576,945
Buildings and building improvements	26,859,092	31,152,638
Furniture, fixtures, and equipment	3,825,069	3,863,713
Total property and equipment	34,946,106	39,593,296
Less: Accumulated depreciation	(7,550,567)	(7,527,536)
Net property and equipment	\$ 27,395,539	\$ 32,065,760

Depreciation expense amounted to \$1,477,915 and \$1,545,135 in 2015 and 2014, respectively.

The Church previously operated a campus located in Denton, Texas. During 2015, as part of its church multiplication strategy, the Church executed various agreements transferring ownership of certain real property and related improvements with a net book value of approximately \$4,300,000 to The Village Church Denton (a Texas nonprofit corporation) ("Denton"). In addition, the Church made cash grants totaling \$500,000 to Denton to help sustain Denton during the transition period. Accordingly, "program activities expense" in the accompanying statements of activities includes approximately \$4,800,000 in connection with this transaction. Denton now operates as a separate, autonomous church.

NOTE E – FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States ("GAAP") define fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of "inputs" an organization may use in determining or estimating fair value. The inputs are categorized into "levels" that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Following is a description of each of the three levels of input within the fair value hierarchy:

Level 1 – unadjusted quoted market prices in active markets for identical items

Level 2 – other significant observable inputs (such as quoted prices for similar items)

Level 3 – significant unobservable inputs

THE VILLAGE CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE E – FAIR VALUE MEASUREMENTS (Continued)

The estimated fair value of the Church’s investments using Level 1 inputs is based on unadjusted quoted prices within active markets.

The estimated fair value of the Church’s limited partnership interest using Level 3 inputs consists primarily of investments in pooled funds which invest in privately-held enterprises. These investments can generally be liquidated at an amount approximating carrying value in the near-term with proper notice.

Estimated fair value of assets measured on a recurring basis as of December 31, 2015, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds	\$ 2,086,536	\$ 2,086,536	\$ —	\$ —
Limited partnership interest	1,916,260	—	—	1,916,260
U.S. government obligations	878,199	878,199	—	—
Common and preferred stocks	<u>60,183</u>	<u>60,183</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 4,941,178</u>	<u>\$ 3,024,918</u>	<u>\$ —</u>	<u>\$ 1,916,260</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in estimating fair value:

Balance, December 31, 2014	\$ —
Purchases	2,000,000
Net loss	<u>(83,740)</u>
Balance, December 31, 2015	<u>\$ 1,916,260</u>

Estimated fair value of assets measured on a recurring basis as of December 31, 2014, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common and preferred stocks	\$ 249,670	\$ 249,670	\$ —	\$ —
Mutual funds	<u>80,164</u>	<u>80,164</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 329,834</u>	<u>\$ 329,834</u>	<u>\$ —</u>	<u>\$ —</u>

NOTE F – RESTRICTIONS ON NET ASSETS

Net assets were temporarily restricted for the following purposes during 2015:

	<u>Balance January 1</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance December 31</u>
Missions	\$ 154,050	\$ 644,480	\$ (594,694)	\$ 203,836
Scholarships	12,707	—	(3,813)	8,894
Capital expansion	<u>—</u>	<u>34,520</u>	<u>(34,520)</u>	<u>—</u>
Total	<u>\$ 166,757</u>	<u>\$ 679,000</u>	<u>\$ (633,027)</u>	<u>\$ 212,730</u>

THE VILLAGE CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE F – RESTRICTIONS ON NET ASSETS (Continued)

Net assets were temporarily restricted for the following purposes during 2014:

	<u>Balance</u> <u>January 1</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31</u>
Missions	\$ 163,053	\$ 643,078	\$ (652,081)	\$ 154,050
Scholarships	16,287	—	(3,580)	12,707
Capital expansion	—	141,441	(141,441)	—
Total	<u>\$ 179,340</u>	<u>\$ 784,519</u>	<u>\$ (797,102)</u>	<u>\$ 166,757</u>

NOTE G – RETIREMENT PLAN

The Church maintains a defined contribution retirement plan for eligible employees offered by GuideStone Financial Resources of the Southern Baptist Convention (“the Plan”). Eligible employees may make elective deferrals to the Plan up to the maximum amount allowed by the Internal Revenue Code. The Church makes an annual discretionary matching contribution to employee accounts based on years of service. The Church contributed approximately \$317,000 and \$276,000 to the Plan in 2015 and 2014, respectively.

NOTE H – COMMITMENT

The Church has available a \$4 million revolving line of credit with a bank which expires during June 2017. Advances may be used only for the acquisition of new properties or to expand, develop, or repair existing properties. Interest on outstanding amounts is payable at a variable rate as described in the loan documents. The line is secured by certain real property. No amounts were outstanding under the line as of December 31, 2015 or 2014.

NOTE I – SUBSEQUENT EVENTS

Subsequent to December 31, 2015, Carroll Baptist Church (a Texas nonprofit corporation) executed various agreements transferring ownership of certain real property and related improvements with an estimated fair value of approximately \$2,915,000 to the Church. The property will serve as the Church's Southlake Campus. In addition, the Church made cash grants totaling \$315,000 to the other church to help sustain the other church's activities during the transition period.

The Church has evaluated for possible financial reporting and disclosure subsequent events through November 28, 2016, the date as of which the financial statements were available to be issued.