



THE VILLAGE CHURCH

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017





REPORT OF INDEPENDENT AUDITOR

The Central Elders Board
The Village Church
Flower Mound, Texas

We have audited the accompanying consolidated financial statements of The Village Church ("the Church"), which consist of the consolidated statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities and cash flows for the years then ended, and the related consolidated statement of functional expenses for the year ended December 31, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Village Church as of December 31, 2018 and 2017, the consolidated changes in its net assets, and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Battis Morrison Wales & Lee, P.A.".

BATTIS MORRISON WALES & LEE, P.A.

Plano, Texas
December 12, 2019

BATTIS MORRISON WALES & LEE, P.A. • CERTIFIED PUBLIC ACCOUNTANTS

THE VILLAGE CHURCH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 16,446,996	\$ 17,862,868
Cash restricted for long-term purposes	—	261,193
Investments	5,239,277	5,338,044
Property and equipment, net	36,799,283	30,857,041
Other assets	949,967	509,777
Total assets	\$ 59,435,523	\$ 54,828,923

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 1,486,160	\$ 983,021
Other liabilities	280,560	55,120
Total liabilities	1,766,720	1,038,141

NET ASSETS

Without donor restrictions		
Undesignated	7,591,733	9,630,414
Designated for property and equipment	36,799,283	30,857,041
Board designated	12,165,070	12,761,193
Total without donor restrictions	56,556,086	53,248,648
With donor restrictions	1,112,717	542,134
Total net assets	57,668,803	53,790,782
Total liabilities and net assets	\$ 59,435,523	\$ 54,828,923

THE VILLAGE CHURCH
CONSOLIDATED STATEMENTS OF ACTIVITIES

	For The Year Ended December 31, 2018			For The Year Ended December 31, 2017
	Without donor restrictions	With donor restrictions	Total	
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS				
Contributions without donor restrictions	\$ 22,372,351	\$ —	\$ 22,372,351	\$ 22,729,349
Contributions with donor restrictions	—	2,555,213	2,555,213	1,085,458
Other revenue, net	1,259,286	—	1,259,286	1,818,771
Net assets released from restrictions	<u>1,984,630</u>	<u>(1,984,630)</u>	<u>—</u>	<u>—</u>
Total public support and revenue and net assets released from restrictions	<u>25,616,267</u>	<u>570,583</u>	<u>26,186,850</u>	<u>25,633,578</u>
EXPENSES				
Program activities	17,750,691	—	17,750,691	16,038,549
Supporting activities	<u>4,848,334</u>	<u>—</u>	<u>4,848,334</u>	<u>4,414,131</u>
Total expenses	<u>22,599,025</u>	<u>—</u>	<u>22,599,025</u>	<u>20,452,680</u>
CHANGE IN NET ASSETS BEFORE GAIN ON SALE OF PROPERTY AND EQUIPMENT	3,017,242	570,583	3,587,825	5,180,898
Gain on sale of property and equipment	<u>290,196</u>	<u>—</u>	<u>290,196</u>	<u>—</u>
Change in net assets without donor restrictions	3,307,438	—	3,307,438	4,900,221
Change in net assets with donor restrictions	<u>—</u>	<u>570,583</u>	<u>570,583</u>	<u>280,677</u>
CHANGE IN NET ASSETS	3,307,438	570,583	3,878,021	5,180,898
NET ASSETS - Beginning of year	<u>53,248,648</u>	<u>542,134</u>	<u>53,790,782</u>	<u>48,609,884</u>
NET ASSETS - End of year	<u>\$ 56,556,086</u>	<u>\$ 1,112,717</u>	<u>\$ 57,668,803</u>	<u>\$ 53,790,782</u>

The Accompanying Notes are an Integral
Part of These Consolidated Financial Statements

THE VILLAGE CHURCH
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Years Ended December 31,	
	2018	2017
OPERATING CASH FLOWS		
Cash received from contributors	\$ 23,676,352	\$ 23,381,040
Other revenue received	1,480,323	1,714,274
Cash paid for operating activities and costs	<u>(20,743,287)</u>	<u>(18,582,439)</u>
Net operating cash flows	<u>4,413,388</u>	<u>6,512,875</u>
INVESTING CASH FLOWS		
Net proceeds from sale of property and equipment	5,054,800	—
Net proceeds from sales (purchases) of investments	262,631	(1,000,423)
Net release of (investment in) cash restricted for long-term purposes	261,193	(251,193)
Net purchases of and improvements to property and equipment	<u>(12,285,560)</u>	<u>(1,149,829)</u>
Net investing cash flows	<u>(6,706,936)</u>	<u>(2,401,445)</u>
FINANCING CASH FLOWS		
Contributions restricted for capital expansion	<u>877,676</u>	<u>273,841</u>
Net financing cash flows	<u>877,676</u>	<u>273,841</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,415,872)	4,385,271
CASH AND CASH EQUIVALENTS - Beginning of year	<u>17,862,868</u>	<u>13,477,597</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 16,446,996</u>	<u>\$ 17,862,868</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS		
Change in net assets	\$ 3,878,021	\$ 5,180,898
Adjustments to reconcile change in net assets to net operating cash flows		
Depreciation	1,578,714	1,474,788
Loss (gain) on investments	209,672	(126,187)
Contributions restricted for capital expansion	(877,676)	(273,841)
Noncash contributions	(373,536)	(159,926)
Gain on sale of property and equipment	(290,196)	—
Change in other assets and liabilities	(214,750)	90,034
Change in accounts payable and accrued expenses	<u>503,139</u>	<u>327,109</u>
Net operating cash flows	<u>\$ 4,413,388</u>	<u>\$ 6,512,875</u>

The Accompanying Notes are an Integral
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THE VILLAGE CHURCH
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2018

	Program activities	Supporting activities	Total expenses
Personnel costs	\$ 9,264,107	\$ 1,979,478	\$ 11,243,585
Ministry events and activities	2,350,198	—	2,350,198
Other	1,426,495	239,973	1,666,468
Facilities management and utilities	1,518,831	130,098	1,648,929
Depreciation	1,454,156	124,558	1,578,714
Donations to third parties and benevolence	1,092,960	—	1,092,960
Office expense and supplies	100,882	985,652	1,086,534
Professional services and fees	181,251	872,136	1,053,387
Non-capitalized project expenditures	63,134	329,620	392,754
Insurance	238,818	20,456	259,274
Rent	59,859	166,363	226,222
	\$ 17,750,691	\$ 4,848,334	\$ 22,599,025

The Accompanying Notes are an Integral
Part of These Consolidated Financial Statements

THE VILLAGE CHURCH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – NATURE OF ACTIVITIES AND BASIS OF CONSOLIDATION

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 five campuses in the Dallas-Fort Worth Metroplex – one each located in Flower Mound, Dallas (until 2019), Fort Worth, Plano (until 2019), and Southlake, Texas.

In conformity with accounting principles generally accepted in the United States of America (“GAAP”), the consolidated financial statements of the Church include the accounts of the following organizations, which are separate legal entities:

- 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 consolidated financial statements. Subsequent to the year ended December 31, 2018, TWV was dissolved and all assets were transferred to the Church.
- The Village Church Consulting, LLC (“TVCC”) is a Texas single-member limited liability company formed in 2018 whose purpose is to support the activities and purposes of the Church. The Church is the sole member of TVCC.

All significant interorganization balances and transactions have been eliminated in consolidation.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Church recognizes cash contributions as revenue when the contributions are received by the Church. Contributions received are recorded as without or with donor restrictions depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated 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.

Cash restricted for long-term purposes

Cash restricted for long-term purposes consists of donor-restricted amounts for capital expansion projects.

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.

Functional allocation of expenses

The consolidated statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Indirect costs that benefit multiple functional areas are allocated among the various functional areas based primarily on employee time and space utilization.

THE VILLAGE CHURCH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets

Net assets without donor restrictions are available for use at the discretion of the Central Elders Board and/or management for general operating purposes. Board designated net assets consist of amounts designated by the Central Elders Board for campus expansion, church planting, and reserve purposes. Net assets with donor restrictions consist of amounts with uses limited by donor-imposed time and/or purpose restrictions.

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.

TVCC, a disregarded entity for income tax purposes, engages in a certain unrelated business activity, the net income from which is subject to federal income tax. Accordingly, an immaterial amount of income tax liability and expense is included in the accompanying consolidated financial statements.

Use of estimates

Management uses estimates and assumptions in preparing the consolidated 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 consolidated 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.

New accounting pronouncement

Financial Accounting Standards Board Accounting Standards Update (“ASU”) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities is effective for the Church’s consolidated financial statements for the year ended December 31, 2018. The ASU requires various changes to the presentation of financial statements of not-for-profit entities, the most significant of which relate to the classifications of net assets, a requirement to report expenses by natural classification as well as by functional classification, and new required disclosures related to an entity’s liquidity and availability of resources. The adoption of the ASU had no effect on the Church’s net assets as of January 1, 2017, or the change in net assets presented for the year ended December 31, 2017. As allowed by applicable guidance, the Church has chosen not to retrospectively apply provisions not required to be applied to the 2017 financial statements.

Reclassifications

Certain amounts included in the 2017 financial statements have been reclassified to conform to classifications adopted during 2018. The reclassifications had no material effect on the accompanying consolidated financial statements.

THE VILLAGE CHURCH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available within one year of the date of the December 31, 2018 consolidated statement of financial position for general expenditure are as follows:

Financial assets available:	
Cash and cash equivalents	\$ 16,446,996
Investments	<u>5,239,277</u>
Total financial assets available within one year	21,686,273
Less:	
Amounts held subject to board designations	<u>(12,165,070)</u>
Net financial assets available within one year	<u>\$ 9,521,203</u>

The Church is primarily supported by contributions. As part of the Church’s liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Central Elders Board has designated certain amounts for campus expansion, church planting, and reserve purposes. Because of the nature of the designations, these amounts may not be available for general expenditure within the next year; however, the Central Elders Board could make them available, if necessary. Donor-restricted net assets are available for general expenditure within one year of December 31, 2018, because the restrictions on net assets are expected to be met by conducting the normal activities of the Church in the coming year. Management believes the Church has sufficient financial assets available for general operations that may be drawn upon in the event of unanticipated financial distress or immediate liquidity need.

NOTE D – 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 E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Category	December 31,	
	2018	2017
Land	\$ 9,343,780	\$ 5,753,445
Buildings and building improvements	32,868,574	29,999,988
Furniture, fixtures, and equipment	5,696,477	4,925,999
Construction in progress	<u>13,344</u>	<u>403,185</u>
Total property and equipment	47,922,175	41,082,617
Less: Accumulated depreciation	<u>(11,122,892)</u>	<u>(10,225,576)</u>
Net property and equipment	<u>\$ 36,799,283</u>	<u>\$ 30,857,041</u>

Depreciation expense amounted to \$1,578,714 and \$1,474,788 in 2018 and 2017, respectively.

THE VILLAGE CHURCH
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – FAIR VALUE MEASUREMENTS

GAAP defines 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 estimated fair value of the Church’s limited partnership interest using Level 3 inputs consists primarily of investments in pooled funds which primarily 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, 2018, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds	\$ 3,136,238	\$ 3,136,238	\$ —	\$ —
Limited partnership interest	2,039,854	—	—	2,039,854
Common and preferred stocks	<u>63,185</u>	<u>63,185</u>	—	—
Total	<u>\$ 5,239,277</u>	<u>\$ 3,199,423</u>	<u>\$ —</u>	<u>\$ 2,039,854</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in estimating fair value during 2018:

Balance, January 1, 2018	\$ 2,059,788
Net loss	<u>(19,934)</u>
Balance, December 31, 2018	<u>\$ 2,039,854</u>

Estimated fair value of assets measured on a recurring basis as of December 31, 2017, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds	\$ 2,919,747	\$ 2,919,747	\$ —	\$ —
Limited partnership interest	2,059,788	—	—	2,059,788
U.S. Government obligations	326,181	326,181	—	—
Common and preferred stocks	<u>32,328</u>	<u>32,328</u>	—	—
Total	<u>\$ 5,338,044</u>	<u>\$ 3,278,256</u>	<u>\$ —</u>	<u>\$ 2,059,788</u>

THE VILLAGE CHURCH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – FAIR VALUE MEASUREMENTS (Continued)

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in estimating fair value during 2017:

Balance, January 1, 2017	\$ 1,954,923
Net gain	<u>104,865</u>
Balance, December 31, 2017	<u>\$ 2,059,788</u>

NOTE G – NET ASSETS WITH DONOR RESTRICTIONS

Activity for net assets with donor restrictions was as follows during 2018:

	<u>Balance</u> <u>January 1</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31</u>
“Multiply” campaign	\$ —	\$ 758,659	\$ —	\$ 758,659
Missions	275,752	918,878	(844,900)	349,730
Scholarships	5,189	—	(861)	4,328
Capital expansion	<u>261,193</u>	<u>877,676</u>	<u>(1,138,869)</u>	<u>—</u>
Total	<u>\$ 542,134</u>	<u>\$ 2,555,213</u>	<u>\$ (1,984,630)</u>	<u>\$ 1,112,717</u>

Activity for net assets with donor restrictions was as follows during 2017:

	<u>Balance</u> <u>January 1</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31</u>
Missions	\$ 244,554	\$ 811,617	\$ (780,419)	\$ 275,752
Capital expansion	10,000	273,841	(22,648)	261,193
Scholarships	<u>6,903</u>	<u>—</u>	<u>(1,714)</u>	<u>5,189</u>
Total	<u>\$ 261,457</u>	<u>\$ 1,085,458</u>	<u>\$ (804,781)</u>	<u>\$ 542,134</u>

NOTE H – 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 \$429,000 and \$377,000 to the Plan in 2018 and 2017, respectively.

NOTE I – COMMITMENT

The Church had available a \$4,000,000 revolving line of credit with a bank which expires during March 2022. Advances may be used only for the acquisition of new properties or to expand, develop, or repair existing properties. Interest on outstanding amounts was payable at a specified rate further described in the loan documents. The line was secured by certain real property. No amounts were outstanding under the line as of December 31, 2018 or 2017.

The Church terminated the line of credit subsequent to December 31, 2018.

THE VILLAGE CHURCH
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE J – SUBSEQUENT EVENTS

The Church previously operated a campus located in Plano, Texas. Subsequent to December 31, 2018, as part of its church multiplication strategy, the Church executed various agreements transferring ownership of certain real property and related improvements and certain personal property with a net book value of approximately \$9,956,000 to Citizens Church (a Texas nonprofit corporation) (“Citizens”). In addition, the Church made cash grants to Citizens of approximately \$518,000 and has agreed to terms to enter into a promissory note agreement (“the Note”) with Citizens in the amount of approximately \$1,195,000 to help sustain Citizens’ activities during the transition period. The Note will require Citizens to pay the Church monthly principal installments of approximately \$20,000 (with no interest due if paid according to the terms of the promissory note) beginning in January 2020 and maturing in December 2024. The Note will be secured by a deed of trust.

The Church also previously operated a campus located in Dallas, Texas. Subsequent to December 31, 2018, as part of its church multiplication strategy, the Church executed various agreements transferring ownership of certain real property and related improvements and certain personal property with a net book value of approximately \$5,470,000 to Northway Church (a Texas nonprofit corporation) (“Northway”). In addition, the Church granted Northway approximately \$278,000 to help sustain Northway’s activities during the transition period.

The above referenced transactions will be recognized by the Church in its 2019 consolidated financial statements.

The Church has evaluated for possible financial reporting and disclosure subsequent events through December 12, 2019, the date as of which the consolidated financial statements were available to be issued.