



THE VILLAGE CHURCH

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015





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, 2016 and 2015, 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, 2016 and 2015, 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
September 6, 2017

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THE VILLAGE CHURCH
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 13,477,597	\$ 10,303,337
Investments	4,051,508	4,941,178
Property and equipment, net	31,182,000	27,395,539
Other assets	588,121	857,517
Total assets	\$ 49,299,226	\$ 43,497,571

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	\$ 689,342	\$ 861,687
Total liabilities	689,342	861,687
NET ASSETS		
Unrestricted	48,348,427	42,423,154
Temporarily restricted	261,457	212,730
Total net assets	48,609,884	42,635,884
Total liabilities and net assets	\$ 49,299,226	\$ 43,497,571

THE VILLAGE CHURCH
STATEMENTS OF ACTIVITIES

	For The Year Ended December 31, 2016			For The Year Ended December 31, 2015
	Unrestricted	Temporarily Restricted	Total	
PUBLIC SUPPORT AND REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS				
Unrestricted contributions	\$ 21,368,094	\$ —	\$ 21,368,094	\$ 22,025,771
Contribution of Southlake property	3,006,484	—	3,006,484	—
Temporarily restricted contributions	—	836,470	836,470	679,000
Other revenue, net	958,224	—	958,224	570,165
Net assets released from restrictions	<u>787,743</u>	<u>(787,743)</u>	<u>—</u>	<u>—</u>
Total public support and revenue and net assets released from restrictions	<u>26,120,545</u>	<u>48,727</u>	<u>26,169,272</u>	<u>23,274,936</u>
EXPENSES				
Program activities	16,125,954	—	16,125,954	20,417,485
Supporting activities	<u>4,069,318</u>	<u>—</u>	<u>4,069,318</u>	<u>3,520,883</u>
Total expenses	<u>20,195,272</u>	<u>—</u>	<u>20,195,272</u>	<u>23,938,368</u>
Change in unrestricted net assets	5,925,273	—	5,925,273	(709,405)
Change in temporarily restricted net assets	<u>—</u>	<u>48,727</u>	<u>48,727</u>	<u>45,973</u>
CHANGE IN NET ASSETS	5,925,273	48,727	5,974,000	(663,432)
NET ASSETS - Beginning of year	<u>42,423,154</u>	<u>212,730</u>	<u>42,635,884</u>	<u>43,299,316</u>
NET ASSETS - End of year	<u>\$ 48,348,427</u>	<u>\$ 261,457</u>	<u>\$ 48,609,884</u>	<u>\$ 42,635,884</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,	
	2016	2015
OPERATING CASH FLOWS		
Cash received from contributors	\$ 21,991,420	\$ 22,245,862
Other revenue received	870,181	777,049
Cash paid for operating activities and costs	(18,410,097)	(19,294,053)
Net operating cash flows	4,451,504	3,728,858
INVESTING CASH FLOWS		
Net proceeds from sales (purchases) of investments	1,180,857	(4,393,839)
Net purchases of and improvements to property and equipment	(2,468,101)	(1,107,543)
Net investing cash flows	(1,287,244)	(5,501,382)
FINANCING CASH FLOWS		
Contributions restricted for capital expansion	10,000	34,520
Net financing cash flows	10,000	34,520
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,174,260	(1,738,004)
CASH AND CASH EQUIVALENTS - Beginning of year	10,303,337	12,041,341
CASH AND CASH EQUIVALENTS - End of year	\$ 13,477,597	\$ 10,303,337
RECONCILIATION OF CHANGE IN NET ASSETS TO NET OPERATING CASH FLOWS		
Change in net assets	\$ 5,974,000	\$ (663,432)
Adjustments to reconcile change in net assets to net operating cash flows		
Depreciation	1,451,211	1,477,915
(Gain) loss on investments	(88,043)	206,884
Noncash grant expense - Denton campus	—	4,299,849
Contributions restricted for capital expansion	(10,000)	(34,520)
Noncash contribution revenue - Southlake property	(3,006,484)	—
Other noncash contributions	(203,144)	(424,389)
Loss on disposal of property and equipment	236,913	—
Change in other assets	269,396	(701,008)
Change in accounts payable and accrued expenses	(172,345)	(432,441)
Net operating cash flows	\$ 4,451,504	\$ 3,728,858

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 five campuses in the Dallas-Fort Worth Metroplex – one each located in Flower Mound, Dallas, Fort Worth, Plano, and Southlake, Texas. During 2016, the Church was a recipient of granted property which was used to establish the Southlake campus (see Note D). During 2015, the Church granted the property and equipment comprising its former Denton campus to another church (see Note D) as part of its church multiplication strategy.

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, determining the useful lives of property and equipment, and the estimated fair value of certain contributed property. Actual results could differ from the estimates.

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,	
	2016	2015
Land	\$ 5,753,445	\$ 4,261,945
Buildings and building improvements	29,585,037	26,859,092
Furniture, fixtures, and equipment	4,626,397	3,825,069
Total property and equipment	39,964,879	34,946,106
Less: Accumulated depreciation	(8,782,879)	(7,550,567)
Net property and equipment	\$ 31,182,000	\$ 27,395,539

Depreciation expense amounted to \$1,451,211 and \$1,477,915 in 2016 and 2015, respectively.

During 2016, Carroll Baptist Church (a Texas nonprofit corporation) executed various agreements transferring ownership of certain real property, related improvements, and personal property with an estimated fair value of \$3,006,484 to the Church, which is included in the accompanying statement of activities as “contribution of Southlake property.” The property will serve as the Church’s Southlake Campus.

The Church previously operated a campus located in Denton, Texas. During 2015, 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 statement 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.

THE VILLAGE CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE E – FAIR VALUE MEASUREMENTS (Continued)

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, 2016, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds	\$ 2,061,334	\$ 2,061,334	\$ —	\$ —
Limited partnership interest	1,954,923	—	—	1,954,923
Common and preferred stocks	<u>35,251</u>	<u>35,251</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 4,051,508</u>	<u>\$ 2,096,585</u>	<u>\$ —</u>	<u>\$ 1,954,923</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in estimating fair value during 2016:

Balance, January 1, 2016	\$ 1,916,260
Net gain	<u>38,663</u>
Balance, December 31, 2016	<u>\$ 1,954,923</u>

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 during 2015:

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

THE VILLAGE CHURCH
NOTES TO FINANCIAL STATEMENTS

NOTE F – RESTRICTIONS ON NET ASSETS

Net assets were temporarily restricted for the following purposes during 2016:

	<u>Balance</u> <u>January 1</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31</u>
Missions	\$ 203,836	\$ 826,470	\$ (785,752)	\$ 244,554
Capital campaign	—	10,000	—	10,000
Scholarships	<u>8,894</u>	<u>—</u>	<u>(1,991)</u>	<u>6,903</u>
Total	<u>\$ 212,730</u>	<u>\$ 836,470</u>	<u>\$ (787,743)</u>	<u>\$ 261,457</u>

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

	<u>Balance</u> <u>January 1</u>	<u>Contributions</u>	<u>Releases</u>	<u>Balance</u> <u>December 31</u>
Missions	\$ 154,050	\$ 644,480	\$ (594,694)	\$ 203,836
Scholarships	12,707	—	(3,813)	8,894
Capital campaign	<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>

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 \$348,000 and \$317,000 to the Plan in 2016 and 2015, respectively.

NOTE H – COMMITMENT

The Church has available a \$4 million 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 is payable at a specified rate further described in the loan documents. The line is secured by certain real property. No amounts were outstanding under the line as of December 31, 2016 or 2015.

NOTE I – SUBSEQUENT EVENTS

The Church has evaluated for possible financial reporting and disclosure subsequent events through September 6, 2017, the date as of which the financial statements were available to be issued.