

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008

**FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH**

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Independent Auditors' Report

First Baptist Church of Highland Village
Highland Village, Texas

We have audited the accompanying statement of financial position of First Baptist Church of Highland Village dba The Village Church (a nonprofit organization) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Church's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Baptist Church of Highland Village dba The Village Church as of December 31, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

May 19, 2010

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FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 2,619,334	\$ 4,806,608
Short-term investments	1,132,922	192,805
Inventory	5,139	4,927
Other receivables	10,023	117,511
Prepaid expenses	205,383	112,123
Total Current Assets	3,972,801	5,233,974
Land, building and equipment (net)	27,169,830	11,262,427
TOTAL ASSETS	\$ 31,142,631	\$ 16,496,401
 LIABILITIES AND NET ASSETS:		
Liabilities:		
Current Liabilities:		
Accounts payable	\$ 201,517	\$ 163,340
Payroll deduction payable	17,075	21,800
Accrued expenses	75,697	88,971
Accrued construction costs	1,163,973	-
Current maturity of long-term debt	68,867	-
Total Current Liabilities	1,527,129	274,111
Long-Term Liabilities:		
Note payable less current maturity	4,489,827	-
Total Liabilities	6,016,956	274,111
Net Assets:		
Unrestricted:		
Undesignated	2,484,107	2,670,510
Fixed assets	22,611,136	11,262,427
Total Unrestricted	25,095,243	13,932,937
Temporarily restricted	30,432	2,289,353
Permanently restricted	-	-
Total Net Assets	25,125,675	16,222,290
TOTAL LIABILITIES AND NET ASSETS	\$ 31,142,631	\$ 16,496,401

See Accompanying Notes to Financial Statements

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Total</u>
Revenue and Other Support:				
Undesignated contributions	\$ 8,535,548	\$ -	\$ -	\$ 8,535,548
Program revenue	252,599	-	-	252,599
In-kind contributions	6,500,000	13,310	-	6,513,310
Contributions for specific purposes:				
Missions	-	163,393	-	163,393
Ministry	-	-	-	-
Capital campaign	-	1,701,636	-	1,701,636
Building rentals	16,765	-	-	16,765
Interest and dividend income	33,435	8,957	-	42,392
Net assets released from restrictions	<u>4,146,217</u>	<u>(4,146,217)</u>	-	-
Total Revenue and Other Support	<u>19,484,564</u>	<u>(2,258,921)</u>	-	<u>17,225,643</u>
Expenses and losses				
General Budget:				
Salaries and wages	3,599,609	-	-	3,599,609
Payroll taxes and benefits	1,006,940	-	-	1,006,940
Missions	685,586	-	-	685,586
Ministries	527,702	-	-	527,702
Office expense	264,916	-	-	264,916
Utilities and telephone	304,074	-	-	304,074
Janitorial	58,729	-	-	58,729
Repairs and maintenance	198,569	-	-	198,569
Insurance	105,633	-	-	105,633
Contract services	134,489	-	-	134,489
Minister expense accounts	95,609	-	-	95,609
Professional expense	64,406	-	-	64,406
Small equipment, furniture	204,579	-	-	204,579
Rental fees	122,538	-	-	122,538
Capital campaign	-	-	-	-
Interest expense	55,257	-	-	55,257
Depreciation	448,369	-	-	448,369
Disbursed for specific purposes	<u>487,169</u>	-	-	<u>487,169</u>
Total Expenses	<u>8,364,174</u>	-	-	<u>8,364,174</u>
Realized (gains)/losses	(8,322)	-	-	(8,322)
Unrealized (gain) loss on investments	<u>(33,594)</u>	-	-	<u>(33,594)</u>
Total Expenses and Losses	<u>8,322,258</u>	-	-	<u>8,322,258</u>
Change in Net Assets	11,162,306	(2,258,921)	-	8,903,385
Net Assets, Beginning of Year	<u>13,932,937</u>	<u>2,289,353</u>	-	<u>16,222,290</u>
Net Assets, End of Year	<u>\$ 25,095,243</u>	<u>\$ 30,432</u>	<u>\$ -</u>	<u>\$ 25,125,675</u>

See Accompanying Notes to Financial Statements

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>
\$ 7,024,888	\$ -	\$ -	\$ 7,024,888
138,976	-	-	138,976
-	175,996	-	175,996
-	194,119	-	194,119
-	-	-	-
-	2,603,553	-	2,603,553
19,557	-	-	19,557
91,140	1,555	-	92,695
745,190	(745,190)	-	-
<u>8,019,751</u>	<u>2,230,033</u>	<u>-</u>	<u>10,249,784</u>
3,180,373	-	-	3,180,373
981,576	-	-	981,576
641,867	-	-	641,867
405,925	-	-	405,925
207,667	-	-	207,667
194,866	-	-	194,866
38,394	-	-	38,394
117,664	-	-	117,664
73,770	-	-	73,770
63,696	-	-	63,696
82,564	-	-	82,564
65,216	-	-	65,216
121,605	-	-	121,605
127,372	-	-	127,372
4,563	-	-	4,563
-	-	-	-
332,558	-	-	332,558
225,843	-	-	225,843
<u>6,865,519</u>	<u>-</u>	<u>-</u>	<u>6,865,519</u>
4,896	-	-	4,896
42,966	-	-	42,966
<u>6,913,381</u>	<u>-</u>	<u>-</u>	<u>6,913,381</u>
1,106,370	2,230,033	-	3,336,403
12,826,567	59,320	-	12,885,887
<u>\$ 13,932,937</u>	<u>\$ 2,289,353</u>	<u>\$ -</u>	<u>\$ 16,222,290</u>

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities:		
Change in net assets	\$ 8,903,385	\$ 3,336,403
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	448,369	332,558
Gain from sale of short-term investments	(8,322)	-
Unrealized (gain) loss on investments	(33,594)	42,966
(Increase) Decrease in short-term investments	(1,031,050)	(189,093)
(Increase) Decrease in inventory	(212)	7,946
(Increase) Decrease in other receivables	107,488	51,128
(Increase) Decrease in prepaid expenses	(93,260)	(40,844)
Increase (Decrease) in accounts payable	38,177	27,102
Increase (Decrease) in payroll deductions payable	(4,725)	14,200
Increase (Decrease) in accrued expenses	(13,274)	(106,431)
Increase (Decrease) in accrued construction costs	1,163,973	-
Net Cash Provided by Operating Activities	9,476,955	3,475,935
Cash Flows from Investing Activities:		
Sale of short-term investments	132,849	16,131
Purchase of fixed assets	(16,355,772)	(800,668)
Net Cash Provided (Used) by Investing Activities	(16,222,923)	(784,537)
Cash Flows from Financing Activities:		
Advances on construction line of credit	4,558,694	-
Net Cash Provided by Financing Activities	4,558,694	-
Net Increase (Decrease) in Cash and Cash Equivalents	(2,187,274)	2,691,398
Cash and Cash Equivalents at Beginning of Year	4,806,608	2,115,210
Cash and Cash Equivalents at End of Year	\$ 2,619,334	\$ 4,806,608
Supplemental disclosure:		
Interest paid	\$ 36,694	\$ -
Noncash investing activities:		
Gifts in kind	\$ 6,513,310	\$ 175,996

See Accompanying Notes to Financial Statements

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

First Baptist Church of Highland Village dba The Village Church (the "Church") is a nonprofit corporation established under the laws of the State of Texas and operating under its own constitution and bylaws as an autonomous Southern Baptist Church affiliated with the Baptist General Convention of Texas and the Southern Baptist Convention. The Church is dedicated to spreading the Gospel through establishing, developing and promoting all aspects of ministry within Highland Village and the surrounding communities. The Church is supported primarily through contributions from the congregation. The Church's programs consist of its worship and ministry programs, mission involvement in the community and around the world, and children, youth and adult educational programs.

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Church and changes therein are classified and reported as follows:

Unrestricted Net Assets – not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Elders or the Church.

Temporarily Restricted Net Assets – subject to donor-imposed stipulations that may be fulfilled by actions of the Church to meet the stipulations or that become unrestricted at the date specified by the donor.

Permanently Restricted Net Assets – subject to donor-imposed stipulations that they be retained and invested permanently by the Church to use all or part of the investment return on these net assets for specified or unspecified purposes. The Church has no permanently restricted net assets.

Contributions

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Under SFAS No. 116, contributions that are required to be reported as temporarily restricted support are then reclassified to unrestricted net assets upon expiration of time restrictions or satisfaction of donor restrictions.

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Contributed Services and Materials

In addition to receiving cash contributions, the Church occasionally receives in-kind contributions from various donors. It is the policy of the Church to record the estimated fair market value of certain in-kind donations as an asset or expense in its financial statements, and similarly increase donations by a like amount.

A substantial number of volunteers have donated significant amounts of time to the Church's programs and supporting services. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. For the years ended December 31, 2009 and 2008, there were no amounts recorded for contributed services and materials.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosure. Accordingly, actual results could differ from these estimates.

Income Taxes

The Church is a nonprofit corporation statutorily exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. However, certain income generated from activities unrelated to the Church's exempt purpose is subject to tax under Section 511. The Church has been classified as a supporting organization under Section 509(a)(3) and as such is not a private foundation.

The Church negotiated a Leasing Agreement ("Agreement") with the University of North Texas ("UNT") allowing them use of parking spaces located at the Denton campus. This Agreement calls for tri-annual payments equal to a percentage of UNT's prevailing annual rate for a parking pass with which the Denton campus lot is primarily associated multiplied by the number of spaces leased to UNT under the terms of the Agreement for the respective period. As a result of this Agreement, the Church recorded \$13,040 in unrelated business income for the year ended December 31, 2009 and \$14,732 for the year ended December 31, 2008. This income is not taxable under the Internal Revenue Code because the Church has no outstanding debt on the property.

Cash Equivalents

For purposes of the statement of cash flows, the Church considers all unrestricted cash, money market savings accounts and certificates of deposit with original maturities of less than three months to be cash equivalents.

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

Inventory

The Church carries inventory for supplies, postage and ministry resources. These inventories are carried at cost and expensed to the department as consumed.

Investments

In accordance with SFAS No. 124 *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the Church records certain investment securities at estimated fair value. The unrealized gain or loss on investments is reflected in the Statement of Activities. Investment income and gains that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year the investment return is received.

Budget

The Church prepares an annual cash-basis budget for the disbursement of its non-designated receipts. Budgetary comparisons are not included in these financial statements. The budget is adopted at a meeting of the Church called for the purpose of adopting such budget. If a change in the approved budget is required due to unforeseen circumstances, the Executive Director of Finance and the Board of Elders may approve amendments to the budget during the year, according to the respective approval levels.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, or improvements that significantly prolong the useful lives of the assets are capitalized. Purchases of property and equipment are recorded at cost, except that the cost of assets purchased or constructed prior to January 1, 2000 were not available and are recorded at their estimated costs. Donations of property and equipment are recorded as support at their estimated fair value at date of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Church reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Church reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful life of assets. The class lives of the more significant items within each property classification are as follows.

Vehicles	5 to 7 years
Equipment	3 to 7 years
Furniture and fixtures	10 years
Buildings	40 years

Depreciation expense was \$448,369 and \$332,558 for the years ended December 31, 2009 and 2008, respectively.

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 2 – LAND BUILDING AND EQUIPMENT

Land, building and equipment consists of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 3,542,483	\$ 540,000
Construction in Progress	436,744	4,602,271
Buildings and improvements	21,646,446	6,235,724
Leasehold improvements	36,738	36,738
Furniture, fixtures, equipment	<u>3,223,394</u>	<u>1,115,299</u>
	\$28,885,805	\$12,530,032
Less accumulated depreciation	<u>(1,715,975)</u>	<u>(1,267,605)</u>
	<u>\$27,169,830</u>	<u>\$11,262,427</u>

Land and construction in progress are not depreciated.

NOTE 3 – SHORT-TERM INVESTMENTS

Investments are stated at fair value and are summarized as follows as of December 31, 2009 and 2008:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain(Loss)</u>
Vanguard Financial Investments (certificates of deposit and GNMA fund shares):			
December 31, 2009	<u>\$1,089,402</u>	<u>\$1,089,734</u>	<u>\$ 332</u>
December 31, 2008	<u>\$ 27,402</u>	<u>\$ 27,717</u>	<u>\$ 315</u>
Princor Financial Investments (common stocks):			
December 31, 2009	<u>\$ 54,508</u>	<u>\$ 43,187</u>	<u>\$(11,321)</u>
December 31, 2008	<u>\$ 213,537</u>	<u>\$ 165,088</u>	<u>\$(48,449)</u>

Investment return for the years ended December 31, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 42,392	\$ 92,695
Realized gain (loss) on investments	8,322	(4,896)
Unrealized gain (loss) on investments	<u>33,594</u>	<u>(42,966)</u>
Total Investment Return	<u>\$ 84,308</u>	<u>\$ 44,833</u>

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 4 – NOTE PAYABLE

On November 19, 2008, the Church entered into a Gradually Disbursed Project Term Loan Agreement with Bank of the West (“Bank”) in an amount not exceeding \$7,000,000, with an annual interest rate of 4.96%, interest only payable monthly, maturing on December 1, 2009 and secured by a Deed of Trust. The Bank and Church mutually extended the maturity to June 1, 2010 and on April 1, 2010 the outstanding credit facility of \$5,022,629 was converted to a term loan with a twenty-five (25) year amortization period, payable in monthly principal and interest installments of \$29,245 until December 1, 2013. On that date, the interest rate will be adjusted to an index equal to the 5-year Interest Rate Swap rate, as published daily by the Federal Reserve Bank, plus 1.5%. The remaining principal balance will be amortized monthly over the remaining period of the initial twenty-five (25) year amortization period until December 1, 2018, when the remaining balance will be due. As of December 31, 2009, the balance of the note payable was \$4,558,694.

Future maturities of long-term debt, assuming no change in the current interest rate, consist of the following:

Year ending December 31,	
2010	\$ 68,867
2011	107,657
2012	113,120
2013	118,860
2014	124,892
Thereafter	4,489,233

Interest expense incurred on the line of credit for 2009 was \$55,257.

NOTE 5 – RETIREMENT PLAN

Several employees of the Church participate in a defined contribution retirement plan with “Guidestone” Financial Resources. Total employee contributions amounted to \$191,178 and \$160,086 in 2009 and 2008, respectively. The Church makes employer matching contributions for an employee who contributes elective deferrals to their respective retirement account at Guidestone. The Church’s contribution is a percentage based upon the employee’s annual salary. For the years 2008 and 2009, the Church’s matching contribution percentage was no greater than five percent (5%) of the participating employee’s annual salary. Total employer contributions amounted to \$148,262 for 2009 and \$117,033 for 2008.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Church's financial instruments, none of which are held for trading purposes, include cash, money market, GNMA funds, equities and receivables. The Church estimates that the fair value of all financial instruments at December 31, 2009 and 2008 does not differ materially from the aggregate carrying values recorded in the accompanying statement of financial position. The estimated fair value amounts have been determined by the Church using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop estimates of fair value, and accordingly, the estimates are not necessarily indicative of amounts that the Church could realize in a current market exchange.

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Church is supported by contributions from the public. During the years ended December 31, 2009 and 2008, there were no major contributors who provided a significant amount of contributions. It is always considered reasonably possible that benefactors, grantors or contributors might be lost in the near term. The Church's market is concentrated in the Dallas, Texas metroplex area.

The Church maintains cash balances in banks. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. At December 31, 2009, the uninsured and uncollateralized portion of this balance was \$417,733.

NOTE 8 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2009</u>	<u>2008</u>
Missions	\$ 160,422	\$ 135,352
Ministry	4,140	-
Capital campaign	3,980,670	591,183
Benevolence	985	18,449
Other	-	206
Total	<u>\$4,146,217</u>	<u>\$ 745,190</u>

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at year-end are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Missions	\$ -	\$ 300
Benevolence	2,286	-
Capital campaign	-	2,258,050
Carl Welch scholarship fund	28,146	31,003
Total	<u>\$ 30,432</u>	<u>\$2,289,353</u>

NOTE 10 – SUBSEQUENT EVENTS

Management has reviewed events subsequent to December 31, 2009 through May 19, 2010, which is the date the financial statements were available to be issued. No subsequent events were identified that were required to be recorded. The only subsequent event identified for disclosure is the bank term loan provisions disclosed in Note 4.

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

NOTE 11 – FUNCTIONAL ALLOCATION OF EXPENSES

Expenses have been allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities.

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Year Ended December 31, 2009:			
General budget	\$5,406,965	\$2,021,671	\$7,428,636
Depreciation	421,467	26,902	448,369
Disbursed for specific purposes	487,169	-	487,169
Total	<u>\$6,315,601</u>	<u>\$2,048,573</u>	<u>\$8,364,174</u>
Year Ended December 31, 2008:			
General budget	\$5,657,201	\$ 649,917	\$6,307,118
Depreciation	312,605	19,953	332,558
Disbursed for specific purposes	225,843	-	225,843
Total	<u>\$6,195,649</u>	<u>\$ 669,870</u>	<u>\$6,865,519</u>

NOTE 12 – OPERATING LEASES

Due to space limitations, the Church moved its office to a rented facility in August 2005. The lease expired on November 30, 2009.

In May 2007, the Church rented premises for ministry purposes. A 3-year operating lease was signed that called for graduated monthly payments. Future minimum lease payments under the above lease are as follows:

<u>Year</u>	
2010	\$ 27,686

Rental expense for 2009 and 2008 was \$110,340 and \$103,086, respectively.

NOTE 13 – SIGNIFICANT MATTER

In June 2007, a local church in Denton, Texas voted to legally disband their corporate entity. On December 7, 2007, the Denton church transferred its real property located at 1106 West Oak Street and 318 Ponder Street, Denton, Denton County, Texas to the Church. No remuneration was transmitted with respect to this transfer. The transaction was recorded as a donation-in-kind at the current appraised value of \$4,250,000 in 2007. As of December 31, 2008, all assets had been donated accordingly.

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 and 2008

NOTE 14 – SIGNIFICANT MATTER

On December 20, 2007, the Church closed on the purchase of a 61,308 square foot building and land located at 2101 F.M. 407, Flower Mound, Denton County, Texas. The purchase price of this real property was \$4,000,000 paid for in cash.

The Church engaged an architect to draft plans to retrofit the existing structure to include a 1,438 seat worship center, preschool space, children's ministry space, and office space. The approved budget for this project was \$10,000,000. On December 19, 2008, the Church executed a Standard Form of Agreement between Owner and Contractor with MEDCO Construction, L.L.C. wherein MEDCO would serve as the general contractor for a guaranteed maximum price of \$7,133,671. In order to fund the project, the membership of the Church approved third party financing up to \$7,000,000. On November 19, 2008, the Church executed a Loan Agreement with Bank of the West (see Note 4) wherein they would provide financing up to \$7,000,000 for this construction project. The balance of the project cost is to be paid through a combination of funds received from a capital campaign and unreserved available cash.

In March 2008, the Church launched a capital campaign to raise funds to cover the expenses related to the retrofit. As of December 31, 2009, the Church had received \$2,259,903 in one-time cash donations and \$189,306 of donations-in-kind. In addition, the Church has received faith promises in the amount of \$5,128,465 with cash received toward these faith promises equal to \$1,992,505. These faith promises are not considered unconditional promises to give; and therefore, are not recorded as a receivable in the accompanying financial statements.

As of December 31, 2009, incurred construction and other costs relating to the retrofit project totaled \$9,025,059, of which \$4,390,501 in costs were paid from temporarily restricted funds collected for the project, \$4,558,694 in costs were paid from loan proceeds and the remaining \$75,864 in costs were paid from unrestricted net assets. Estimated additional costs to complete the project in 2010 total \$529,856. On November 6, 2009, the facility was occupied by church staff with the first worship services being held on December 6, 2009.

NOTE 15 – SIGNIFICANT MATTER

On May 17, 2009, a local church in Dallas, Texas voted to legally disband their corporate entity effective June 1, 2009. Part of their vote included a decision to transfer their assets, including real property, to the Church. On December 8, 2009, the real property valued at \$6,500,000 and located at 3877 Walnut Hill Lane, Dallas, Texas was transferred to the Church with no remuneration transmitted with respect to the transfer. The transfer was recorded as a donation-in-kind at the appraised value.

In connection with the transfer of the property, the Church ("Optionor") granted to The Dallas Baptist Association ("Optionee") an exclusive right and option to purchase said property. The option may only be exercised by Optionee if, for a period of thirty consecutive days or more, no part of the property is used for "Church Purposes" as defined in the agreement. The purchase price equals the "Reimbursable Cost of Improvements and Repairs" expended by the Optionor, as defined in the agreement. If not exercised prior to June 1, 2014, the option will expire.