

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

**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, 2011 and 2010, 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, 2011 and 2010, 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 15, 2012

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FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|----------------------|----------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,120,454 | \$ 3,418,572 |
| Short-term investments | 1,965,868 | 348,094 |
| Inventory | 1,877 | 3,959 |
| Other receivables | 46,826 | 52,866 |
| Prepaid expenses | 198,358 | 169,562 |
| Total Current Assets | 5,333,383 | 3,993,053 |
| Land, building and equipment (net) | 27,026,536 | 27,718,154 |
| TOTAL ASSETS | \$ 32,359,919 | \$ 31,711,207 |
| LIABILITIES AND NET ASSETS: | | |
| Liabilities: | | |
| Current Liabilities: | | |
| Accounts payable | \$ 168,733 | \$ 193,130 |
| Payroll and deductions payable | 15,663 | 13,523 |
| Accrued expenses | 72,658 | 137,049 |
| Current maturity of long-term debt | - | 178,715 |
| Total Current Liabilities | 257,054 | 522,417 |
| Long-Term Liabilities: | | |
| Note payable less current maturity | - | 3,351,137 |
| Total Liabilities | 257,054 | 3,873,554 |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 5,037,583 | 3,616,591 |
| Fixed assets | 27,026,536 | 24,188,302 |
| Total Unrestricted | 32,064,119 | 27,804,893 |
| Temporarily restricted | 38,746 | 32,760 |
| Permanently restricted | - | - |
| Total Net Assets | 32,102,865 | 27,837,653 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 32,359,919 | \$ 31,711,207 |

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, 2011 AND 2010

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2011 Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Revenue and Other Support: | | | | |
| Undesignated contributions | \$ 13,718,076 | \$ - | \$ - | \$ 13,718,076 |
| Program and other revenue | 334,833 | - | - | 334,833 |
| In-kind contributions | 182,413 | - | - | 182,413 |
| Contributions for specific purposes: | | | | |
| Missions | - | 394,819 | - | 394,819 |
| Capital campaign | - | 1,511,778 | - | 1,511,778 |
| Property rentals | 116,169 | - | - | 116,169 |
| Interest and dividend income | 9,291 | 153 | - | 9,444 |
| Net assets released from restrictions | 1,900,764 | (1,900,764) | - | - |
| Total Revenue and Other Support | 16,261,546 | 5,986 | - | 16,267,532 |
| Expenses and losses: | | | | |
| General operations: | | | | |
| Salaries and wages | 4,790,147 | - | - | 4,790,147 |
| Payroll taxes and benefits | 1,278,487 | - | - | 1,278,487 |
| Missions | 1,100,198 | - | - | 1,100,198 |
| Ministries | 672,624 | - | - | 672,624 |
| Office expense | 429,885 | - | - | 429,885 |
| Utilities and telephone | 542,773 | - | - | 542,773 |
| Janitorial | 159,988 | - | - | 159,988 |
| Repairs and maintenance | 432,083 | - | - | 432,083 |
| Insurance | 108,015 | - | - | 108,015 |
| Contract services | 271,464 | - | - | 271,464 |
| Minister expense accounts | 121,587 | - | - | 121,587 |
| Professional expense | 100,893 | - | - | 100,893 |
| Small equipment, furniture | 270,513 | - | - | 270,513 |
| Rental fees | 17,877 | - | - | 17,877 |
| Interest expense | 80,684 | - | - | 80,684 |
| Depreciation | 1,148,610 | - | - | 1,148,610 |
| Disbursed for specific purposes | 476,706 | - | - | 476,706 |
| Total Expenses | 12,002,534 | - | - | 12,002,534 |
| Loss on disposition of assets | 5,285 | - | - | 5,285 |
| Realized (gains) on investments | (6,351) | - | - | (6,351) |
| Unrealized (gain) loss on investments | 852 | - | - | 852 |
| Total Expenses and Losses | 12,002,320 | - | - | 12,002,320 |
| Change in Net Assets | 4,259,226 | 5,986 | - | 4,265,212 |
| Net Assets, Beginning of Period | 27,804,893 | 32,760 | - | 27,837,653 |
| Net Assets, End of Period | \$ 32,064,119 | \$ 38,746 | \$ - | \$ 32,102,865 |

See Accompanying Notes to Financial Statements

| Unrestricted | Temporarily Restricted | Permanently Restricted | 2010 Total |
|----------------------|------------------------|------------------------|----------------------|
| \$ 11,288,909 | \$ - | \$ - | \$ 11,288,909 |
| 329,884 | - | - | 329,884 |
| 147,310 | - | - | 147,310 |
| - | 329,902 | - | 329,902 |
| - | 1,001,803 | - | 1,001,803 |
| 115,623 | - | - | 115,623 |
| 12,166 | 1,650 | - | 13,816 |
| 1,331,027 | (1,331,027) | - | - |
| <u>13,224,919</u> | <u>2,328</u> | <u>-</u> | <u>13,227,247</u> |
| 4,134,645 | - | - | 4,134,645 |
| 1,094,523 | - | - | 1,094,523 |
| 901,694 | - | - | 901,694 |
| 577,618 | - | - | 577,618 |
| 378,169 | - | - | 378,169 |
| 475,736 | - | - | 475,736 |
| 143,141 | - | - | 143,141 |
| 249,015 | - | - | 249,015 |
| 112,982 | - | - | 112,982 |
| 255,000 | - | - | 255,000 |
| 105,894 | - | - | 105,894 |
| 65,059 | - | - | 65,059 |
| 283,712 | - | - | 283,712 |
| 49,546 | - | - | 49,546 |
| 231,807 | - | - | 231,807 |
| 1,075,501 | - | - | 1,075,501 |
| 369,503 | - | - | 369,503 |
| <u>10,503,545</u> | <u>-</u> | <u>-</u> | <u>10,503,545</u> |
| 37,087 | - | - | 37,087 |
| (17,764) | - | - | (17,764) |
| (7,599) | - | - | (7,599) |
| <u>10,515,269</u> | <u>-</u> | <u>-</u> | <u>10,515,269</u> |
| 2,709,650 | 2,328 | - | 2,711,978 |
| 25,095,243 | 30,432 | - | 25,125,675 |
| <u>\$ 27,804,893</u> | <u>\$ 32,760</u> | <u>\$ -</u> | <u>\$ 27,837,653</u> |

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 4,265,212 | \$ 2,711,978 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,148,610 | 1,075,501 |
| (Gain) from sale of investments | (6,351) | (17,764) |
| Unrealized (gains) losses on investments | 852 | (7,599) |
| Loss on disposition of assets | 5,285 | 37,087 |
| (Increase) Decrease in short-term investments | (2,478,007) | (190,181) |
| (Increase) Decrease in inventory | 2,082 | 1,180 |
| (Increase) Decrease in other receivables | 6,040 | (42,843) |
| (Increase) Decrease in prepaid expenses | (28,795) | 35,821 |
| Increase (Decrease) in accounts payable | (24,397) | (8,388) |
| Increase (Decrease) in payroll and deductions payable | 2,140 | (3,551) |
| Increase (Decrease) in accrued expenses | (64,391) | 61,352 |
| Increase (Decrease) in accrued construction costs | - | (1,163,973) |
| Net Cash Provided (Used) by Operating Activities | 2,828,280 | 2,488,620 |
| Cash Flows from Investing Activities: | | |
| Sale of short-term investments | 865,732 | 1,000,372 |
| Sale of fixed assets | 780 | 8,050 |
| Purchase of fixed assets | (463,058) | (1,668,962) |
| Net Cash Provided (Used) by Investing Activities | 403,454 | (660,540) |
| Cash Flows from Financing Activities: | | |
| Advances on construction line of credit | - | 1,171,666 |
| Retirement of debt | (3,529,852) | (2,200,508) |
| Net Cash Provided (Used) by Financing Activities | (3,529,852) | (1,028,842) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (298,118) | 799,238 |
| Cash and Cash Equivalents at Beginning of Period | 3,418,572 | 2,619,334 |
| Cash and Cash Equivalents at End of Period | \$ 3,120,454 | \$ 3,418,572 |
| Supplemental disclosure: | | |
| Interest paid | \$ 97,456 | \$ 233,599 |
| Noncash investing activities: | | |
| Gifts in kind | \$ 182,413 | \$ 147,310 |

See Accompanying Notes to Financial Statements

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
dba THE VILLAGE CHURCH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 operates 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 gospel-centered ministry in the Dallas/Fort Worth, Texas metroplex. 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 Statement of Financial Accounting Standards ("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.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 year ended December 31, 2011, \$3,227 was recorded for contributed services and materials and for the year ended December 31, 2010, 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, Texas 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 \$14,600 and \$13,800 in unrelated business income for each of the years ended December 31, 2011 and 2010, respectively. This income is potentially taxable under the Internal Revenue Code but not taxable to the Church because the Church has no outstanding debt on the property.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Property transferred to the Church by Northway Baptist Church ("Northway") (See Note 12) was subject to a lease agreement dated April 18, 2007, between Northway and The Cambridge School of Dallas ("Cambridge"), a private religious college preparatory school. The lease base term provisions included monthly rents of \$4,000 for June and July, and rents of \$8,000 for all other months. After the base term, which ended July 31, 2009, Cambridge exercised their option to renew the lease for four one year Lease Years, beginning on August 1. For option years, rent shall increase annually effective August 1 by six percent per annum multiplied by the monthly rent of the previous year. The Church recorded \$101,569 and \$68,358 in unrelated business income for the years ended December 31, 2011 and 2010, respectively. This income is also not taxable to the Church 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.

Inventory

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

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. All non cash contributions are recorded at fair value at the date of receipt. Stock is recorded at the average of the high and low selling price on the date received. Investments sold are recorded at amount received on the trade date.

Investment income and realized gains and losses are reported as increases in unrestricted net assets unless the donor placed a restriction on the use of the income. Changes in unrealized appreciation or depreciation of the investments along with realized gains or losses are reflected in the statement of activities in the year of the change.

Investments other than certificates of deposit are held in an investment brokerage account in the name of the Church. No single investment exceeds five percent of the Church's net assets.

Budget

The Church prepares an annual accrual-basis budget for the disbursement of its non-designated receipts. Budgetary comparisons are not included in these financial statements. The budget is presented at a meeting of the Church called for the purpose of presenting the budget and later adopted during a regularly-scheduled worship service of the Church. 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.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Subsequent Events

Management has reviewed events subsequent to December 31, 2011 through May 15, 2012, which is the date the financial statements were available to be issued. No subsequent events were identified that were required to be recorded or disclosed, other than the subsequent event disclosed in Note 13.

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 the 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 \$1,148,610 and \$1,075,501 for the years ended December 31, 2011 and 2010, respectively.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 – LAND, BUILDINGS AND EQUIPMENT

Land, building and equipment consists of the following at December 31, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--------------------------------|---------------------|---------------------|
| Land | \$ 3,542,483 | \$ 3,542,483 |
| Construction in Progress | 4,050 | - |
| Buildings and improvements | 24,272,706 | 24,028,604 |
| Leasehold improvements | - | - |
| Furniture, fixtures, equipment | <u>2,992,008</u> | <u>2,784,632</u> |
| | 30,811,247 | 30,355,719 |
| Less accumulated depreciation | <u>(3,784,711)</u> | <u>(2,637,565)</u> |
| | <u>\$27,026,536</u> | <u>\$27,718,154</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, 2011 and 2010:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain(Loss)</u> |
|-------------------------|--------------------|--------------------|------------------------------|
| December 31, 2011: | | | |
| Certificates of deposit | \$1,955,443 | \$1,956,483 | \$ 1,040 |
| Corporate stocks | <u>15,500</u> | <u>9,385</u> | <u>(6,115)</u> |
| Total December 31, 2011 | <u>\$1,970,943</u> | <u>\$1,965,868</u> | <u>\$ (5,075)</u> |
| December 31, 2010: | | | |
| Certificates of deposit | \$ 281,673 | \$ 283,038 | \$ 1,365 |
| GNMA bond fund | 27,402 | 28,136 | 734 |
| Corporate stocks | <u>42,410</u> | <u>36,920</u> | <u>(5,490)</u> |
| Total December 31, 2010 | <u>\$ 351,485</u> | <u>\$ 348,094</u> | <u>\$ (3,391)</u> |

Investment return for the years ended December 31, 2011 and 2010 is summarized as follows:

| | <u>2011</u> | <u>2010</u> |
|---------------------------------------|------------------|------------------|
| Interest and dividend income | \$ 9,444 | \$ 13,816 |
| Realized gains on investments | 6,351 | 17,764 |
| Unrealized gain (loss) on investments | <u>(852)</u> | <u>7,599</u> |
| Total Investment Return | <u>\$ 14,943</u> | <u>\$ 39,179</u> |

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

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 year amortization period, payable in monthly principal and interest installments of \$29,147 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 year amortization period until December 1, 2018. As of December 31, 2011, the Term Loan was paid in full.

Interest expense incurred on the term loan for 2011 was \$80,684 and on the term loan and line of credit for 2010 was \$231,807.

NOTE 5 – RETIREMENT PLAN

Several employees of the Church participate in a defined contribution retirement plan with Guidestone Financial Resources (“Guidestone”). Total employee contributions amounted to \$276,360 and \$210,739 in 2011 and 2010, 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 2011 and 2010, the Church’s matching contribution percentage was no greater than ten percent (10%) of the participating employee’s annual salary. Total employer contributions amounted to \$203,824 for 2011 and \$169,823 for 2010.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Church's financial instruments, none of which are held for trading purposes, include cash, certificates of deposit, securities and receivables. The Church has estimated fair value of financial instruments in accordance with requirements of SFAS No. 157 as amended by FASB ASC 820-10. The estimated fair value amounts have been determined by the Church, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Church could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material effect on the estimated fair value amounts. The carrying amount of cash and cash equivalents, and receivables approximate fair market value at December 31, 2011 because of their relatively short maturity and market terms. The fair value of long term investments at December 31, 2011 is determined based on quoted market values for U.S. government securities, and equity securities.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

Financial instruments are considered Level 1 when their values are determined using quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset either directly or indirectly, such as quoted prices for similar assets in active or inactive markets, inputs other than quoted prices that are observable for the asset, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs are unobservable inputs for the asset. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. At December 31, 2011, the Church had no financial instruments that require a Level 3 measurement.

In accordance with these definitions, the following table represents the Church's fair value hierarchy for its investments measured at fair value:

| December 31, 2011: | Quoted Prices for Active Markets for Identical Assets <u>(Level 1)</u> | Significant Other Observable Inputs <u>(Level 2)</u> | <u>Total</u> |
|-------------------------|---|--|--------------------|
| Corporate stocks | \$ 9,385 | \$ - | \$ 9,385 |
| Certificates of deposit | <u>-</u> | <u>1,956,483</u> | <u>1,956,483</u> |
| Total | <u>\$ 9,385</u> | <u>\$1,956,483</u> | <u>\$1,965,868</u> |

| December 31, 2010: | Quoted Prices for Active Markets for Identical Assets <u>(Level 1)</u> | Significant Other Observable Inputs <u>(Level 2)</u> | <u>Total</u> |
|-------------------------|---|--|-------------------|
| Corporate stocks | \$ 36,920 | \$ - | \$ 36,920 |
| GNMA bond fund | 28,136 | - | 28,136 |
| Certificates of deposit | <u>-</u> | <u>283,038</u> | <u>283,038</u> |
| Total | <u>\$ 65,056</u> | <u>\$ 283,038</u> | <u>\$ 348,094</u> |

FIRST BAPTIST CHURCH OF HIGHLAND VILLAGE
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Church is supported by contributions from the public. During the years ended December 31, 2011 and 2010, 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/Fort Worth, Texas metroplex area.

The Church maintains cash balances in banks and brokerage institutions. For banks, these balances are insured by the Federal Deposit Insurance Corporation with unlimited coverage for noninterest-bearing accounts through December 31, 2012, and up to \$250,000 per bank, per account category for interest-bearing accounts. For certain brokerage institutions, cash balances are insured by the Securities Investor Protection Corporation up to \$500,000 per customer, including a maximum of \$250,000 for cash claims. At December 31, 2011, the uninsured and uncollateralized portion of this balance was \$30,280.

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>2011</u> | <u>2010</u> |
|------------------|--------------------|--------------------|
| Capital campaign | \$1,505,948 | \$1,001,803 |
| Missions | 391,146 | 328,012 |
| Ministry | <u>3,670</u> | <u>1,212</u> |
| Total | <u>\$1,900,764</u> | <u>\$1,331,027</u> |

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

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

| | <u>2011</u> | <u>2010</u> |
|-----------------------------|------------------|------------------|
| Carl Welch scholarship fund | \$ 25,067 | \$ 28,584 |
| Missions | 5,563 | 1,890 |
| Benevolence | 2,286 | 2,286 |
| Capital Campaign | <u>5,830</u> | <u>-</u> |
| Total | <u>\$ 38,746</u> | <u>\$ 32,760</u> |

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NOTE 10 – 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, 2011: | | | |
| General budget | \$7,549,730 | \$2,827,488 | \$10,377,218 |
| Depreciation | 1,079,693 | 68,917 | 1,148,610 |
| Disbursed for specific purposes | 394,816 | 81,890 | 476,706 |
| Total | <u>\$9,024,239</u> | <u>\$2,978,295</u> | <u>\$12,002,534</u> |
| Year Ended December 31, 2010: | | | |
| General budget | \$6,704,580 | \$2,353,961 | \$ 9,058,541 |
| Depreciation | 1,010,971 | 64,530 | 1,075,501 |
| Disbursed for specific purposes | 329,224 | 40,279 | 369,503 |
| Total | <u>\$8,044,775</u> | <u>\$2,458,770</u> | <u>\$10,503,545</u> |

NOTE 11 – COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for copier equipment provide for minimum future rental payments as of December 31, 2011 as follows:

| | |
|-----------------------|-----------------|
| 2012 | \$25,301 |
| 2013 | 22,989 |
| 2014 | 19,751 |
| 2015 | 19,751 |
| 2016 | <u>8,229</u> |
| Total Minimum Rentals | <u>\$96,021</u> |

Rental expense for 2011 and 2010 was \$17,877 and \$27,427 respectively.

NOTE 12 – 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.

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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.

NOTE 13 – SUBSEQUENT EVENT

On April 9, 2012, the Church contracted to purchase a 32,932 square foot church building and 16.87 acres of land located at 2100 Morrison Drive, Fort Worth, Tarrant County, Texas. The purchase price of this real property is \$1,817,000, to be paid in cash.

Costs to renovate the property and adapt it to the purposes of the Church as an additional campus have been estimated to be between \$1,500,000 and \$1,700,000. The Church plans to finance the renovation costs.