

Financial Statements

Christian Education, Inc.
(Operating as Ezell-Harding Christian School)

June 30, 2012

CHRISTIAN EDUCATION, INC.
(Operating as Ezell-Harding Christian School)

Financial Statements

June 30, 2012

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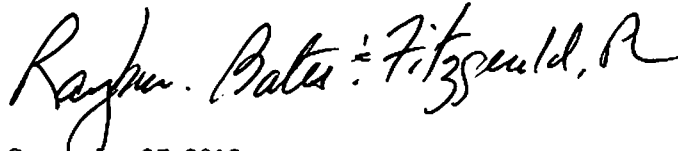
Independent Auditors' Report

The Board of Directors
Christian Education, Inc. (operating as Ezell-Harding Christian School)
Antioch, Tennessee

We have audited the accompanying statement of financial position of Christian Education, Inc. (operating as Ezell-Harding Christian School) (the Corporation) as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's June 30, 2011 financial statements and, in our report dated October 21, 2011, we expressed an unqualified opinion on those financial statements.

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 Christian Education, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



September 27, 2012

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Statement of Financial Position

June 30, 2012 (With Comparative Totals for 2011)

	2012				2011
	Unrestricted		Temporarily	Permanently	
	Operating	Plant	Restricted	Restricted	Total
Assets:					
Cash and cash equivalents (note 2)	\$ 226,607	-	7,029	-	233,636
Accounts receivable, net of allowance for doubtful accounts of \$23,019 at June 30, 2012 and \$25,000 at June 30, 2011	29,004	-	-	-	29,004
Due from permanently restricted net assets	30,421	-	-	-	30,421
Investments (note 4)	1,593	-	-	110,745	112,338
Textbooks	98,539	-	-	-	98,539
Other assets	500	3,370	-	-	3,870
Real estate held for sale	7,400	-	-	-	7,400
Property and equipment, net (note 5)	-	3,083,203	-	-	3,083,203
Total assets	\$ 394,064	3,086,573	7,029	110,745	3,598,411
Liabilities:					
Unearned tuition	\$ 174,354	-	-	-	174,354
Accounts payable, salaries payable and accrued expenses	324,773	-	-	-	324,773
Due to unrestricted net assets	-	-	-	30,421	30,421
Notes payable (note 6)	275,000	55,041	-	-	330,041
Total liabilities	774,127	55,041	-	30,421	859,589
Net assets:					
Unrestricted	(380,063)	3,031,532	-	-	2,651,469
Temporarily restricted (note 9)	-	-	7,029	-	7,029
Permanently restricted (note 10)	-	-	-	80,324	80,324
Total net assets	(380,063)	3,031,532	7,029	80,324	2,738,822
Total liabilities and net assets	\$ 394,064	3,086,573	7,029	110,745	3,598,411

See accompanying notes to financial statements.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Statement of Activities

For the Year Ended June 30, 2012 (With Comparative Totals for 2011)

	2012		Temporarily Restricted	Permanently Restricted	Total	2011
	Unrestricted Operating	Plant				Total
Support and revenue:						
Tuition and fees	\$ 4,346,519	-	-	-	4,346,519	4,487,934
Contributions	155,454	-	132,451	-	287,905	118,067
Sales and services of auxiliary enterprises	180,686	-	-	-	180,686	205,802
Investment income	171	-	2,310	-	2,481	3,073
Net unrealized gain (loss) on investment (note 4)	1,229	-	(729)	-	500	46,795
Other sources	129,676	-	-	-	129,676	137,811
Net assets released from restrictions (note 8)	132,032	-	(132,032)	-	-	-
Total support and revenue	4,945,767	-	2,000	-	4,947,767	4,999,482
Expenses:						
Program services:						
Instruction	2,743,913	-	-	-	2,743,913	2,563,780
Auxiliary enterprises	351,443	-	-	-	351,443	411,466
Total program services	3,095,356	-	-	-	3,095,356	2,975,246
Supporting services:						
Institutional support	1,218,508	-	-	-	1,218,508	1,280,666
Fund raising	8,392	-	-	-	8,392	4,141
Operation and maintenance of plant	716,043	-	-	-	716,043	696,770
Depreciation and amortization	-	443,124	-	-	443,124	435,027
Interest	1,329	4,082	-	-	5,411	5,883
Total supporting services	1,944,272	447,206	-	-	2,391,478	2,422,487
Total expenses	5,039,628	447,206	-	-	5,486,834	5,397,733
Transfers within unrestricted net assets:						
Debt service	(33,452)	33,452	-	-	-	-
Acquisitions of plant assets	(383,550)	383,550	-	-	-	-
Changes in net assets	(510,863)	(30,204)	2,000	-	(539,067)	(398,251)
Net assets at beginning of year	130,800	3,061,736	5,029	80,324	3,277,889	3,676,140
Net assets at end of year	\$ (380,063)	3,031,532	7,029	80,324	2,738,822	3,277,889

See accompanying notes to financial statements.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Statement of Cash Flows

For the Year Ended June 30, 2012 (With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (539,067)	(398,251)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Reinvested dividends	(2,310)	(2,789)
Depreciation and amortization	443,123	435,027
Bad debt expense	24,905	25,875
Net unrealized loss (gain) on investments	(500)	(46,795)
Net gain on investments	-	(1,607)
Increase in accounts receivable	(45,742)	(22,587)
Decrease in textbooks	6,314	7,302
(Increase) decrease in other assets	10,708	(1,231)
Increase (decrease) in unearned tuition	38,538	(11,417)
Increase (decrease) in accounts payable, salaries payable and accrued expenses	<u>32,607</u>	<u>(46,803)</u>
Net cash used by operating activities	<u>(31,424)</u>	<u>(63,276)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(383,549)	(279,499)
Proceeds from sales of investments	<u>61,711</u>	<u>-</u>
Net cash used by investing activities	<u>(321,838)</u>	<u>(279,499)</u>
Cash flows from financing activities:		
Payments on notes payable	(29,370)	(30,671)
Proceeds from note payable	<u>275,000</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>245,630</u>	<u>(30,671)</u>
Net decrease in cash and cash equivalents	(107,632)	(373,446)
Cash and cash equivalents at beginning of year	<u>341,268</u>	<u>714,714</u>
Cash and cash equivalents at end of year	<u>\$ 233,636</u>	<u>341,268</u>

Supplemental disclosure:

Interest paid during the years ended June 30, 2012 and 2011 amounted to \$5,411 and \$5,883, respectively.

See accompanying notes to financial statements.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies:

Organized in 1972, Christian Education, Inc. (the Corporation) operates Ezell-Harding Christian School located in Antioch, Tennessee. The School provides classes from early childhood through high school.

The financial statements of Christian Education, Inc. have been prepared on the accrual basis following Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958. The significant accounting policies followed are described below:

Financial Statement Presentation

The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Contributions, including unconditional promises to give, are recorded as made. Mere intentions to give are not considered unconditional promises to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Use of Estimates

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

Accounts Receivable

Tuition is financed to students by short-term unsecured accounts receivable. The Corporation periodically reviews all delinquent accounts and charges off accounts after collection efforts are exhausted.

The allowance for doubtful accounts represents an amount which, in management's judgment, will be adequate to absorb potential uncollectible accounts receivable. In determining the adequacy of the allowance, management considers general economic conditions, the customer's financial ability and the age of the receivable.

Investments

The Corporation has adopted FASB ASC 958, in which investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their estimated fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the statement of activities. Ordinary investment income and realized and unrealized gains and losses are recorded in unrestricted net assets unless donor restrictions or legal compliance require their retention for a specific purpose. In this case, the ordinary investment income and realized and unrealized gains and losses are recorded in the temporarily restricted or permanently restricted classes of net assets. The estimated fair market values are determined based on the quoted market value of the securities.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2012

(1) Summary of Significant Accounting Policies: (Continued)

Inventories

Inventories are recorded at the lower of cost or fair market value.

Property and Equipment

Plant assets consisting of land, buildings, improvements and equipment are stated in the accompanying statement of financial position at cost, or, if contributed, at fair market value at date of gift. Depreciation is calculated by the straight-line method. The estimated useful lives of plant assets are as follows:

Buildings and improvements	10-30 years
Equipment, furniture and library	3-7 years

Revenue

Tuition revenue is recognized as earned. Tuition is collected monthly in advance and is refundable based on weeks in attendance.

Comparative Data

The financial statements and notes include certain comparative information as of and for the year ended June 30, 2011. With respect to the statement of financial position and statement of activities, such prior year information is not presented by net asset class. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2011 from which the summarized information was derived.

Income Taxes

The Corporation has applied for and received notification that it qualifies as a tax exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Corporation is not a private foundation as defined in Section 509(a) of the IRC. The tax years from June 30, 2009 and forward remain open to tax audit.

Donated Services and Materials

Donated assets are reflected as contributions in the accompanying statements at their estimated fair market values at the date of donation.

Donated services are not reflected in the financial statements unless the services create or enhance a nonfinancial asset or require specialized skills that would otherwise need to be purchased if not donated. Nevertheless, a number of volunteers donate significant amounts of their time to the Corporation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Advertising Costs

The Corporation expenses all advertising costs as they are incurred.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2012

(1) Summary of Significant Accounting Policies: (Continued)

Fair Values

The Corporation has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data, including interest rate yield curves, option volatilities and third party information. Valuation adjustments may be made to ensure that assets and liabilities are recorded at fair value. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain assets and liabilities could result in a different estimate of fair value at the reporting date. Generally accepted accounting principles have a three-level valuation hierarchy for fair value measurements. An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

(2) Cash:

At June 30, 2012 and 2011, the Corporation did not maintain cash in excess of the Federal Deposit Insurance Corporation limit of \$250,000.

(3) Endowment:

The endowment investment consists of an equity mutual fund as follows at June 30, 2012 and 2011:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Estimated Fair Value</u>
Balance at June 30, 2012	\$ 108,704	2,041	110,745
Balance at June 30, 2011	\$ 106,394	52,770	159,164

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2012

(4) Investments:

A summary of investments as of June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Equity mutual fund	\$ 110,745	159,164
Total held in endowment	110,745	159,164
Genesco stock	-	10,641
Finish Line stock	1,593	1,434
Total fair value	\$ <u>112,338</u>	<u>171,239</u>

Investment income from the endowment investment consisted of dividends of \$2,310 and \$2,789 for the years ended June 30, 2012 and 2011, respectively. There were unrealized gains (losses) for the endowment assets of \$(729) and \$36,326 for the years ended June 30, 2012 and 2011, respectively. There were unrealized gains of \$1,229 and \$10,469 for the Genesco and Finish Line stocks for the year ended June 30, 2012 and 2011.

(5) Property and Equipment:

Property and equipment consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 241,726	241,726
Buildings	7,117,512	6,930,774
Improvements other than buildings	2,023,858	1,914,089
Equipment, furniture and library	2,938,955	2,864,458
	<u>12,322,050</u>	<u>11,951,047</u>
Less accumulated depreciation	<u>(9,238,847)</u>	<u>(8,809,133)</u>
	\$ <u>3,083,203</u>	<u>3,141,914</u>

Depreciation expense was \$442,260 and \$434,163 for the years ended June 30, 2012 and 2011, respectively.

(6) Notes Payable:

The Corporation has a \$275,000 line of credit with First Tennessee Bank. Terms of the line of credit call for monthly interest payments with the balance due at maturity, which is December 18, 2012. Any outstanding balance bears interest at the Bank's base commercial rate plus 1.25%. The line of credit is unsecured. The balance outstanding at June 30, 2012 was \$275,000. There was no balance outstanding as of June 30, 2011.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2012

(6) Notes Payable: (Continued)

Unrestricted plant notes payable consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Note payable to a bank with interest at 5.7% with 102 monthly installments of principal and interest required that would enable the principal balance to be repaid by the June 17, 2016 maturity date. Note is secured by the elementary classrooms and library.	\$ 55,041	69,397
Note payable to a bank with interest at 5.69% with 36 monthly installments of principal and interest required that would enable the principal to be repaid by the April 16, 2012 maturity date. Note is secured by the Corporation's equipment.	-	15,014
	<u>\$ 55,041</u>	<u>84,411</u>

Maturities of the unrestricted plant note payables are as follows:

Year ended <u>June 30,</u>	
2013	\$ 15,265
2014	16,158
2015	17,103
2016	<u>6,515</u>
	<u>\$ 55,041</u>

Subsequent to year end, the Corporation obtained a new line of credit secured by property.
Proceeds from the line were used to retire the outstanding notes payable.

(7) Risks and Uncertainties:

The School utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2012

(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. During the year ended June 30, 2012, purpose restrictions were accomplished for scholarship awards and capital additions in the amount of \$132,032.

(9) Temporarily Restricted Net Assets:

Temporarily restricted net assets of \$7,029 are available for the McGill Scholarship Fund at June 30, 2012 and 2011.

(10) Permanently Restricted Net Assets:

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support regular scholarship awards of the Corporation.

(11) Related Party Transactions:

Certain members of the Board and their companies have performed portions of school campus construction over the years. These companies have also performed maintenance and repair activities. Portions of this work were donated while other portions were purchased. The amounts purchased from related parties were \$201,197 and \$118,816 during the years ended June 30, 2012 and 2011, respectively. Additionally, there have been contributions from related parties. These donations totaled \$214,573 and \$38,863, respectively.

(12) Non-Contributory Tax Sheltered Annuity Plan:

The Corporation has a non-contributory tax sheltered annuity plan under section 401(a) of the Internal Revenue Code covering substantially all employees. Employer contributions are determined annually by the Board of Directors. There is no employer contribution for the year ended June 30, 2012 and 2011.

(13) Leases:

The Corporation leases certain office equipment under operating leases. The leases require monthly payments totaling \$2,600. Rent expense related to these leases totaled \$31,200 and \$29,957 for the years ended June 30, 2012 and 2011. Future minimum lease obligations as of June 30, 2012 are as follows:

Year Ended	
<u>June 30,</u>	
2013	\$ 31,200
2014	31,200
2015	2,600
	<u>\$ 65,000</u>

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2012

(14) Functional Allocation of Expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(15) Advertising Costs:

Advertising costs were \$25,995 and \$33,601 for the years ended June 30, 2012 and 2011, respectively.

(16) Fair Value of Financial Investments:

The following table presents the investments carried at fair value as of June 30, 2012 by their nature and by FASB ASC 820 valuation hierarchy and subject to measurement on a recurring basis:

	Total Value	Value Level 1	Value Level 2	Value Level 3
Common stocks	\$ 1,593	1,593	-	-
Equity mutual fund	110,745	110,745	-	-
Real estate held for sale	7,400	-	7,400	-
Total assets at fair value	\$ 119,738	112,338	7,400	-

The following table presents the investments carried at fair value as of June 30, 2011 by their nature and by FASB ASC 820 valuation hierarchy and subject to measurement on a recurring basis:

	Total Value	Value Level 1	Value Level 2	Value Level 3
Common stocks	\$ 12,075	12,075	-	-
Equity mutual fund	159,164	159,164	-	-
Real estate held for sale	7,400	-	7,400	-
Total assets at fair value	\$ 178,639	171,239	7,400	-

The equity mutual fund and the common stocks held by the Corporation have a daily quoted market price.

Real estate held for sale is value as the assessed value as provided by the Davidson County Trustee.

(17) Subsequent Events:

Subsequent events were evaluated through September 27, 2012, the date the financial statements were available to be issued.