

Financial Statements

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

June 30, 2011

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

Financial Statements

June 30, 2011

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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, 2011, 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, 2010 financial statements and, in our report dated October 22, 2010, 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, 2011, 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.



October 21, 2011

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Statement of Financial Position

June 30, 2011 (With Comparative Totals for 2010)

	2011				2010
	Unrestricted		Temporarily	Permanently	
	Operating	Plant	Restricted	Restricted	Total
Assets:					
Cash and cash equivalents (note 2)	\$ 336,239	-	5,029	-	341,268
Accounts receivable, net of allowance for doubtful accounts of \$25,000 at June 30, 2011 and \$7,253 at June 30, 2010	8,167	-	-	-	8,167
Due from permanently restricted net assets	78,840	-	-	-	78,840
Investments (note 4)	12,075	-	-	159,164	171,239
Textbooks	104,853	-	-	-	104,853
Other assets	11,208	4,233	-	-	15,441
Real estate held for sale	7,400	-	-	-	7,400
Property and equipment, net (note 5)	-	3,141,914	-	-	3,141,914
Total assets	\$ 558,782	3,146,147	5,029	159,164	3,869,122
Liabilities:					
Unearned tuition	\$ 135,816	-	-	-	135,816
Accounts payable, salaries payable and accrued expenses	292,166	-	-	-	292,166
Due to unrestricted net assets	-	-	-	78,840	78,840
Notes payable (note 6)	-	84,411	-	-	84,411
Total liabilities	427,982	84,411	-	78,840	591,233
Net assets:					
Unrestricted	130,800	3,061,736	-	-	3,192,536
Temporarily restricted (note 9)	-	-	5,029	-	5,029
Permanently restricted (note 10)	-	-	-	80,324	80,324
Total net assets	130,800	3,061,736	5,029	80,324	3,277,889
Total liabilities and net assets	\$ 558,782	3,146,147	5,029	159,164	3,869,122

See accompanying notes to financial statements.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Statement of Activities

For the Year Ended June 30, 2011 (With Comparative Totals for 2010)

	Unrestricted		2011			2010
	Operating	Plant	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:						
Tuition and fees	\$ 4,487,934	-	-	-	4,487,934	4,625,932
Contributions	89,510	-	28,557	-	118,067	129,939
Sales and services of auxiliary enterprises	205,802	-	-	-	205,802	218,132
Investment income	284	-	2,789	-	3,073	2,604
Net unrealized gain on investment (note 4)	10,468	-	36,327	-	46,795	15,197
Other sources	137,811	-	-	-	137,811	153,172
Net assets released from restrictions (note 8)	68,273	-	(68,273)	-	-	-
Total support and revenue	5,000,082	-	(600)	-	4,999,482	5,144,976
Expenses:						
Program services:						
Instruction	2,563,780	-	-	-	2,563,780	2,711,360
Auxiliary enterprises	411,466	-	-	-	411,466	376,982
Total program services	2,975,246	-	-	-	2,975,246	3,088,342
Supporting services:						
Institutional support	1,280,666	-	-	-	1,280,666	1,163,762
Fund raising	4,141	-	-	-	4,141	3,162
Operation and maintenance of plant	696,770	-	-	-	696,770	644,678
Depreciation and amortization	-	435,027	-	-	435,027	429,670
Interest	-	5,883	-	-	5,883	7,598
Total supporting services	1,981,577	440,910	-	-	2,422,487	2,248,870
Total expenses	4,956,823	440,910	-	-	5,397,733	5,337,212
Transfers within unrestricted net assets:						
Debt service	(36,556)	36,556	-	-	-	-
Acquisitions of plant assets	(279,499)	279,499	-	-	-	-
Changes in net assets	(272,796)	(124,855)	(600)	-	(398,251)	(192,236)
Net assets at beginning of year	403,596	3,186,591	5,629	80,324	3,676,140	3,868,376
Net assets at end of year	\$ 130,800	3,061,736	5,029	80,324	3,277,889	3,676,140

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, 2011 (With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ (398,251)	(192,236)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Reinvested dividends	(2,789)	(1,361)
Depreciation and amortization	435,027	429,670
Bad debt expense	25,875	-
Net unrealized gain on investments	(46,795)	(15,197)
Net gain on investments	(1,607)	-
Decrease in accounts receivable	(22,587)	(5,021)
Decrease in textbooks	7,302	5,371
Increase in other assets	(1,231)	-
Increase (decrease) in unearned tuition	(11,417)	19,428
Decrease in accounts payable, salaries payable and accrued expenses	<u>(46,803)</u>	<u>(47,846)</u>
Net cash provided (used) by operating activities	<u>(63,276)</u>	<u>192,808</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(279,499)</u>	<u>(213,711)</u>
Net cash used by investing activities	<u>(279,499)</u>	<u>(213,711)</u>
Cash flows from financing activities:		
Payments on notes payable	<u>(30,671)</u>	<u>(28,958)</u>
Net cash used by financing activities	<u>(30,671)</u>	<u>(28,958)</u>
Net decrease in cash and cash equivalents	(373,446)	(49,861)
Cash and cash equivalents at beginning of year	<u>714,714</u>	<u>764,575</u>
Cash and cash equivalents at end of year	<u>\$ 341,268</u>	<u>714,714</u>

Supplemental disclosure:

Interest paid during the years ended June 30, 2011 and 2010 amounted to \$5,883 and \$7,598, respectively.

See accompanying notes to financial statements.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements

June 30, 2011

(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, 2011

(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, 2010. 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, 2010 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.

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, 2011

(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 financial instruments 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, 2011, the Corporation did not maintain cash in excess of the Federal Deposit Insurance Corporation limit of \$250,000. At June 30, 2010, the Corporation maintained cash in excess of the Federal Deposit Insurance Corporation limit of \$250,000 amounting to \$385,585.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2011

(3) Endowment:

The endowment investment consists of an equity mutual fund as follows at June 30, 2011 and 2010:

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Estimated Fair Value</u>
Balance at June 30, 2011	\$ 106,394	52,770	159,164
Balance at June 30, 2010	\$ 103,607	16,443	120,050

(4) Investments:

A summary of investments as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Equity mutual fund	\$ 159,164	120,050
Total held in endowment	159,164	120,050
Genesco stock	10,641	-
Finish Line stock	1,434	-
Total fair value	\$ 171,239	120,050

Investment income from the endowment investment consisted of dividends of \$2,788 and \$1,361 for the years ended June 30, 2011 and 2010, respectively. There were unrealized gains of \$36,326 and \$15,197 for the years ended June 30, 2011 and 2010, respectively. There were unrealized gains of \$10,468 for the Genesco and Finish Line stocks for the year ended June 30, 2011 and 2010.

(5) Property and Equipment:

Property and equipment consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 241,726	241,726
Buildings	6,930,774	6,901,774
Improvements other than buildings	1,914,089	1,831,608
Equipment, furniture and library	2,864,458	2,751,312
	11,951,047	11,726,420
Less accumulated depreciation	(8,809,133)	(8,429,843)
	\$ 3,141,914	3,296,577

Depreciation expense was \$434,163 and \$428,807 for the years ended June 30, 2011 and 2010, respectively.

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2011

(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 11, 2011. Any outstanding balance bears interest at the Bank's base commercial rate plus 2.0%. The line of credit is unsecured. There was no balance outstanding at June 30, 2011.

Unrestricted plant notes payable consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</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.	\$ 69,397	82,956
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.	<u>15,014</u>	<u>32,126</u>
	<u>\$ 84,411</u>	<u>115,082</u>

Maturities of the unrestricted note payables are as follows:

<u>Year ended</u> <u>June 30,</u>	
2012	\$ 29,378
2013	15,265
2014	16,158
2015	17,103
2016	<u>6,507</u>
	<u>\$ 84,411</u>

(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, 2011

(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, 2011, purpose restrictions were accomplished for scholarship awards and capital additions in the amount of \$68,273.

(9) Temporarily Restricted Net Assets:

Temporarily restricted net assets of \$5,029 are available for the McGill Scholarship Fund at June 30, 2011 and 2010.

(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 \$118,816 and \$156,511 during the years ended June 30, 2011 and 2010, 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, 2011 and 2010.

(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 \$29,957 for the years ended June 30, 2011 and 2010. Future minimum lease obligations as of June 30, 2011 are as follows:

Year Ended	
<u>June 30,</u>	
2012	\$ 31,200
2013	31,200
2014	31,200
2015	2,600
	<u>\$ 96,200</u>

CHRISTIAN EDUCATION, INC.

(Operating as Ezell-Harding Christian School)

Notes to Financial Statements, (Continued)

June 30, 2011

(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 \$33,601 and \$32,495 for the years ended June 30, 2011 and 2010, respectively.

(16) Fair Value of Financial Investments:

The following table presents the investments carried at fair value as of June 30, 2011 by caption on the statement of financial position and by FASB ASC 820, formerly SFAS 157 valuation hierarchy (note 1) and subject to measurement on a recurring basis:

	Total Carrying Value	Value Using Level 1	Value Using Level 2	Value Using Level 3
Common Stock	\$ 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 following table presents the investments carried at fair value as of June 30, 2010 by caption on the statement of financial position and by FASB ASC 820, formerly SFAS 157 valuation hierarchy (note 1) and subject to measurement on a recurring basis:

	Total Carrying Value	Value Using Level 1	Value Using Level 2	Value Using Level 3
Equity mutual fund	\$ 120,050	120,050	-	-
Real estate held for sale	7,400	-	7,400	-
Total assets at fair value	\$ 127,450	120,050	7,400	-

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

Real estate held for sale is valued at the assessed value as provide by the Davidson County Trustee.

(17) Subsequent Events:

Subsequent events were evaluated through October 21, 2011, the date the financial statements were available to be issued.