

RATLIFF & SOMMERVILLE, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Finance Team,
VALLEY CREEK CHURCH
Flower Mound, Texas:

We have audited the accompanying statements of financial position of VALLEY CREEK CHURCH (a Texas nonprofit organization) as of December 31, 2007 and the related statements of activities and cash flows for the year 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 from 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 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 VALLEY CREEK CHURCH at December 31, 2007, and the change 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.

Ratliff & Somerville, P.C.

March 25, 2008

VALLEY CREEK CHURCH
Statement of Financial Position
December 31, 2007

ASSETS

Cash and cash equivalents	\$	622,897
Marketable securities		<u>140,064</u>
Total current assets		762,961
Property and equipment		
Land		1,250,000
Buildings		6,929,924
Furniture and equipment		727,344
Vehicles		12,208
Less: accumulated depreciation		<u>(1,128,968)</u>
Net property and equipment		7,790,508
Other assets		
Cash and investments restricted for capital purchases		881,684
Restricted investment security		180,000
Deferred construction costs		<u>76,130</u>
Total other assets		<u>1,137,814</u>
Total Assets	\$	<u><u>9,691,283</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Current maturities of long term debt	\$	179,718
Accounts payable		38,043
Accrued expenses		19,969
Deferred revenue		<u>180,014</u>
Total current liabilities		417,744
Long-term debt, net of current maturities		<u>2,147,610</u>
Total liabilities		<u>2,565,354</u>
Net Assets		
Unrestricted		5,981,656
Temporarily restricted		<u>1,144,273</u>
Total net assets		<u>7,125,929</u>
Total Liabilities and Net Assets	\$	<u><u>9,691,283</u></u>

The accompanying notes are an integral part of these financial statements.

VALLEY CREEK CHURCH
Statement of Activities
For the Year Ended December 31, 2007

Changes in Unrestricted Net Assets:

Revenues:

Contributions and tithes	\$ 4,083,399
Mother's day out income	185,383
Other program income	34,761
Net assets released from restriction:	
Satisfaction of program restriction	320,308
Satisfaction of capital restriction	<u>-</u>

Total Revenues 4,623,851

Operating Expenses:

Church activities	1,962,967
Missions	515,502
Mother's day out expense	241,277
Fund raising expense	147,620
General and administrative	<u>808,733</u>

Total operating expenses 3,676,099

Other income and (expense)

Interest and investment income	46,916
Interest Expense	<u>(214,115)</u>

Net other expense (167,199)

Increase in Unrestricted Net Assets 780,553

Changes in Temporarily Restricted Net Assets:

Contributions for capital expenditures	881,684
Contributions for designated programs	443,274
Less: net assets released from restriction	<u>(320,308)</u>

Increase in Temporarily Restricted Net Assets 1,004,650

Increase in Net Assets 1,785,203

Net Assets at Beginning of Year 5,340,726

Net Assets at End of Year \$ 7,125,929

VALLEY CREEK CHURCH
Statement of Cash Flows
For the Year Ended December 31, 2007

Cash Flows from Operating Activities	
Contributions received	\$ 4,746,817
Cash paid for operations and programs	(3,347,095)
Interest received	46,916
Interest paid	<u>(214,115)</u>
Net cash provided by operating activities	<u>1,232,523</u>
Cash Flows from Investing Activities	
Investment in deferred construction costs	(76,130)
Investment in marketable securities	(1,021,748)
Purchase of equipment	<u>(148,416)</u>
Net cash utilized by investing activities	<u>(1,246,294)</u>
Cash Flows from Financing Activities	
Contributions restricted for debt reduction and capital expenditures	881,684
Payments on bank note payable	<u>(1,089,496)</u>
Net cash utilized by financing activities	<u>(207,812)</u>
Net decrease in cash and cash equivalents	(221,583)
Cash and cash equivalents at beginning of year	<u>844,480</u>
Cash and cash equivalents at end of year	<u>\$ 622,897</u>
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities	
Increase in Net Assets	\$ 1,785,203
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	333,629
Contributions restricted for debt reduction and capital expenditures	(881,684)
Increase in accounts payable	5,260
Decrease in accrued expenses	<u>(9,885)</u>
Total adjustments	<u>(552,680)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,232,523</u>

The accompanying notes are an integral part of these financial statements.

VALLEY CREEK CHURCH

Notes to Financial Statements

December 31, 2007

1 - Nature of Organization

VALLEY CREEK CHURCH (the "Church") is incorporated under the laws of the State of Texas as a not-for-profit religious organization. The Church is located in Flower Mound, Texas and a portion of its revenue is tied to the local economy. The Church's primary source of revenue is free-will donations from church members. The Church's vision consists of strengthening families, sharing Christ, sharpening believers and serving others. The Church is an independent, interdenominational church which welcomes people from a variety of backgrounds. The Church's Statement of Faith reflects a confidence in the Bible as God's Word and in Jesus Christ as the only source of salvation and eternal life.

2 - Summary of Significant Accounting Policies

A summary of the Church's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting - The financial statements of the Church have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recorded when incurred.

Revenues and Support - Revenues and support for the Church are primarily derived from unrestricted contributions from the Church membership. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of donor restrictions.

Recognition of Donor Restrictions - The Church reports gifts of cash and other assets as restricted support if they are received with donor restrictions that limit the use of the donated assets. Gifts of cash and other assets are reported as temporarily restricted net assets if the donor places a purpose or time restriction on the gift. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as unrestricted revenues.

The Church reports gifts of cash and other assets as permanently restricted support if they are received with donor stipulations that resources be maintained permanently but permits the Church to use part or all of the income derived from the donated asset for general or restricted purposes.

Programs - The Church pursues its objectives through the execution of these major programs:

Church Activities - studying God's word through Bible study and worshiping God in regular services, providing general oversight to all church ministries, discipleship training, and specific involvement in the other ministries, and leading believers in worshiping God through Biblical teaching, preaching and music.

Small Groups - connecting with others to build friendships to share life and the spiritual journey together.

Missions Outreach - supporting foreign and local ministries to reach additional people with the Gospel of Jesus Christ.

Mothers Day Out - providing a Christ centered learning experience where biblical principles and teaching will provide a loving environment for children to learn and grow.

Fund Raising - facilitating giving from donors and supporters of the Church.

General and Administrative - providing administrative support to the above functional areas.

VALLEY CREEK CHURCH

Notes to Financial Statements

December 31, 2007

2 - Summary of Significant Accounting Policies (continued)

Cash Equivalents - For purposes of the Statement of Cash Flows, the Church considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk - Financial instruments that potentially subject the Church to credit risk include cash on deposit with a financial institution exceeding \$100,000 at various times during the year. The U.S. Federal Deposit Insurance Corporation insures amounts for up to \$100,000.

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 disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment - Property and equipment are recorded at acquisition cost based substantially on the archive records of the Church. The Church capitalizes assets with a cost greater than \$1,000. Betterments and renewals are capitalized. Maintenance and repairs are charged to operations when incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and improvements	35 years
Furniture and equipment	5 years
Improvements	10 years

Impairment of Long-Lived Assets - Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Income Tax Status - The Church is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an other than private foundation.

3 - Marketable Securities and Investments

Investments are comprised of the following:

Corporate stocks	\$ 316,189
Fixed income	178,154
Cash and equivalents	398,184
Mutual funds	127,131
Other	<u>2,090</u>
Total	<u>\$ 1,021,748</u>

Investments are distributed in the Statement of Financial Position as follows:

Marketable securities	\$ 140,064
Cash and investments restricted for capital purchases	<u>881,684</u>
Total	<u>\$ 1,021,748</u>

VALLEY CREEK CHURCH

Notes to Financial Statements

December 31, 2007

4 - Retirement Plan

The Church provides its employees a qualified retirement plan under Section 403(b) of the Internal Revenue Code. The Church contributes from 6 to 10% of full-time minister's regular salary and ministers may make voluntary contributions. Contributions to the plan in the year ended December 31, 2007 were \$41,016. Non ministerial employees may contribute to the plan subject to the limitations by the Code.

5 - Long Term Debt

Long-term debt at December 31, 2007 consists of a note payable to a bank in the original amount of \$3,427,293, payable \$27,610 monthly until November 2011, interest at base bank rate minus three-quarters percent (6.75% at December 31, 2007), secured by land and buildings in Flower Mound, Texas. The Church made voluntary principal payments during 2007 of \$990,000.

Scheduled maturities of long-term debt for the four years ended December 31, 2007 are as follows:

2008	\$ 179,718
2009	192,232
2010	205,616
2011	<u>1,749,763</u>
	<u>\$ 2,327,329</u>

6 - Net Assets

Unrestricted net assets:

Balance, beginning of year	\$ 5,201,103
Increase in unrestricted net assets	<u>780,553</u>
Balance, end of year	<u>\$ 5,981,656</u>

Temporarily restricted net assets:

Balance, beginning of year	\$ 139,623
Increase in temporarily restricted net assets	<u>1,004,650</u>
Balance, end of year	<u>\$ 1,144,273</u>

VALLEY CREEK CHURCH

Notes to Financial Statements

December 31, 2007

6 - Net Assets, continued

Temporarily restricted net assets are available for the following:

Capital expenditures	\$ 881,684
China initiative	208,764
Missions activities	<u>53,825</u>
	<u>\$ 1,144,273</u>

7 - Operating Leases

The Church leases office equipment under leases that expire in 2010. Rental expense for this equipment was \$3,276 for the year ended December 31, 2007. Lease payments remaining under these leases for each of the next three years are as follows:

2008	\$ 3,276
2009	3,276
2010	<u>2,457</u>
Minimum payments required	<u>\$ 9,009</u>

8 - Commitments and Contingencies

In 2007, the Church commenced a construction program to expand the existing facility to build an approximate 70,000 square foot facility consisting of a new worship sanctuary, plaza, children's area and renovations to the existing facility. The estimated cost of the new facility is \$15 million and additional loans and contributions from a capital campaign will be required to complete the facility. The Church has entered into a construction contract for \$15 million for the construction of the new facility.