



INDEPENDENT ACCOUNTANTS' REPORT

To the Finance Team,
Valley Creek Church
Flower Mound, Texas:

We have reviewed the accompanying statements of financial position of Valley Creek Church (a Texas nonprofit organization) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Valley Creek Church.

A review consists principally of inquiries of Church personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Ratliff & Associates, P.C.

February 10, 2010

VALLEY CREEK CHURCH
 Statements of Financial Position
 For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 542,320	\$ 302,632
Marketable securities	<u>156,464</u>	<u>8,186</u>
Total current assets	<u>698,784</u>	<u>310,818</u>
Property and equipment		
Land	1,250,000	1,250,000
Buildings	6,929,924	6,929,924
Furniture and equipment	914,158	849,385
Vehicles	12,208	12,208
Less: accumulated depreciation	<u>(1,842,472)</u>	<u>(1,483,033)</u>
Net property and equipment	<u>7,263,818</u>	<u>7,558,484</u>
Other assets		
Cash and investments restricted for capital purchases	2,614,804	1,985,185
Intangible assets, net of accumulated amortization	23,750	38,750
Deferred construction costs	<u>939,910</u>	<u>608,501</u>
Total other assets	<u>3,578,464</u>	<u>2,632,436</u>
Total Assets	<u>\$ 11,541,066</u>	<u>\$ 10,501,738</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Current maturities of long term debt	\$ 294,107	\$ 284,715
Accounts payable	11,390	25,561
Accrued expenses	<u>27,303</u>	<u>26,004</u>
Total current liabilities	332,800	336,280
Long-term debt, net of current maturities	<u>974,531</u>	<u>1,279,033</u>
Total liabilities	<u>1,307,331</u>	<u>1,615,313</u>
Net Assets		
Unrestricted	7,429,837	6,672,448
Temporarily restricted	<u>2,803,898</u>	<u>2,213,977</u>
Total net assets	<u>10,233,735</u>	<u>8,886,425</u>
Total Liabilities and Net Assets	<u>\$ 11,541,066</u>	<u>\$ 10,501,738</u>

See the accompanying notes and accountants' report.

VALLEY CREEK CHURCH
 Statements of Activities
 For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Changes in Unrestricted Net Assets:		
Revenues:		
Contributions and tithes	\$ 3,663,662	\$ 3,952,205
Mother's day out income	79,363	201,758
Other program income	90,962	117,000
Net assets released from restriction:		
Satisfaction of program restriction	247,312	359,296
Satisfaction of capital restriction	331,424	608,501
	<u>4,412,723</u>	<u>5,238,760</u>
Total revenues		
Operating Expenses:		
Church activities	1,849,048	2,157,675
Missions	496,811	635,698
Mother's day out expense	91,165	207,988
Fund raising expense	-	14,369
General and administrative	1,273,551	1,319,354
	<u>3,710,575</u>	<u>4,335,084</u>
Total operating expenses		
Other income and (expense)		
Interest and investment income	21,168	36,960
Unrealized gain (loss) on investments	65,296	(164,756)
Interest expense	(31,223)	(85,088)
	<u>55,241</u>	<u>(212,884)</u>
Net other expense		
	<u>757,389</u>	<u>690,792</u>
Increase in Unrestricted Net Assets		
Changes in Temporarily Restricted Net Assets:		
Contributions for capital expenditures	961,043	1,712,001
Contributions for designated programs	207,614	325,500
Less: net assets released from restriction	(578,736)	(967,797)
	<u>589,921</u>	<u>1,069,704</u>
Increase in Temporarily Restricted Net Assets		
	1,347,310	1,760,496
Increase in Net Assets		
	<u>8,886,425</u>	<u>7,125,929</u>
Net Assets at Beginning of Year		
	<u>\$ 10,233,735</u>	<u>\$ 8,886,425</u>
Net Assets at End of Year		

See the accompanying notes and accountants' report.

VALLEY CREEK CHURCH
 Statements of Cash Flows
 For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Contributions received	\$ 3,999,833	\$ 4,562,325
Cash paid for operations and programs	(3,348,566)	(3,972,253)
Interest received	21,168	36,960
Interest paid	<u>(31,223)</u>	<u>(85,088)</u>
Net cash provided by operating activities	<u>641,212</u>	<u>541,944</u>
Cash Flows from Investing Activities		
Investment in deferred construction costs	(331,409)	(532,371)
Investment in marketable securities	(918,263)	(1,470,071)
Investment in intangible assets	-	(45,000)
Proceeds from sale of securities	262,712	371,457
Proceeds from sale of equipment	-	4,950
Purchase of equipment	<u>(65,215)</u>	<u>(127,954)</u>
Net cash utilized by investing activities	<u>(1,052,175)</u>	<u>(1,798,989)</u>
Cash Flows from Financing Activities		
Contributions restricted for capital expenditures	945,761	1,700,360
Payments on bank note payable	<u>(295,110)</u>	<u>(763,580)</u>
Net cash provided by financing activities	<u>650,651</u>	<u>936,780</u>
Net increase (decrease)	239,688	(320,265)
Cash and cash equivalents at beginning of year	<u>302,632</u>	<u>622,897</u>
Cash and cash equivalents at end of year	<u>\$ 542,320</u>	<u>\$ 302,632</u>
Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities		
Increase in Net Assets	\$ 1,347,310	\$ 1,760,496
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	359,881	360,935
Amortization of intangible assets	15,000	6,250
Contributions restricted for capital expenditures	(961,043)	(1,712,001)
Non cash contributions	(41,768)	(34,138)
Unrealized loss on investments	(65,296)	164,756
Loss on sale of equipment	-	2,093
Decrease (increase) in accounts payable	(14,171)	(12,482)
Decrease in accrued expenses	<u>1,299</u>	<u>6,035</u>
Total adjustments	<u>(706,098)</u>	<u>(1,218,552)</u>
Net Cash Provided by Operating Activities	<u>\$ 641,212</u>	<u>\$ 541,944</u>

See the accompanying notes and accountants' report.

VALLEY CREEK CHURCH

Notes to Financial Statements

December 31, 2009 and 2008

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. This program was discontinued in May 2009.

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, 2009 and 2008

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 \$250,000 at various times during the year. The U.S. Federal Deposit Insurance Corporation insures amounts for up to \$250,000.

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.

Intangible Assets - Intangible assets include costs for the Church's website and name branding. Intangible assets with an initial cost of \$45,000 are amortized over a three year life. Amortization for the remaining two years is \$15,000 and \$8,750.

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 - 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 years ended December 31, 2009 and 2008 were \$41,716 and \$51,807 respectively. Non ministerial employees may contribute to the plan subject to the limitations by the Code.

VALLEY CREEK CHURCH

Notes to Financial Statements
December 31, 2009 and 2008

4 - Marketable Securities and Investments

Investments are comprised of the following:

	<u>2009</u>	<u>2008</u>
Corporate stocks	\$ 78,334	\$ 356,439
Fixed income	300,533	342,024
Cash and equivalents	1,728,038	948,353
Mutual funds	472,366	114,964
Other	<u>191,997</u>	<u>231,591</u>
Total	<u>\$ 2,771,268</u>	<u>\$ 1,993,371</u>

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

Marketable securities	\$ 156,464	\$ 8,186
Cash and investments restricted for capital purchases	<u>2,614,804</u>	<u>1,985,185</u>
Total	<u>\$ 2,771,268</u>	<u>\$ 1,993,371</u>

5 - Financial Instruments

The Church adopted SFAS No. 157, "Fair Value Measurements" during 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model. SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Church's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. All valuations were performed by Merrill Lynch, the custodian of the funds.

The following table provides the assets carried at fair value measured on a recurring basis as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Corporate stocks	\$ 78,334	\$ -	\$ -
Fixed income	300,533	-	-
Mutual funds	-	472,366	-
Alternative investments	<u>-</u>	<u>-</u>	<u>191,997</u>
Totals	<u>\$ 378,867</u>	<u>\$ 472,366</u>	<u>\$ 191,997</u>

VALLEY CREEK CHURCH

Notes to Financial Statements

December 31, 2009 and 2008

6 - Long Term Debt

Long-term debt at December 31, 2009 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 (2.5% at December 31, 2009), secured by land and buildings in Flower Mound, Texas.

Scheduled maturities of long-term debt for the three years ended December 31, 2009 are as follows:

2010		\$ 294,107
2011		<u>974,531</u>
		<u>\$ 1,268,638</u>

7 - Net Assets

Unrestricted net assets:	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 6,672,448	\$ 5,981,656
Increase in unrestricted net assets	<u>757,389</u>	<u>690,792</u>
Balance, end of year	<u>\$ 7,429,837</u>	<u>\$ 6,672,448</u>

Temporarily restricted net assets:

Balance, beginning of year	\$ 2,213,977	\$ 1,144,273
Increase in temporarily restricted net assets	<u>589,921</u>	<u>1,069,704</u>
Balance, end of year	<u>\$ 2,803,898</u>	<u>\$ 2,213,977</u>

Temporarily restricted net assets are available for the following:

Capital expenditures	\$ 2,614,804	\$ 1,985,184
China initiative	137,517	184,700
Missions activities	<u>51,577</u>	<u>44,093</u>
	<u>\$ 2,803,898</u>	<u>\$ 2,213,977</u>

8 - Operating Leases

The Church leases office equipment under leases that expire in 2013. Rental expense for this equipment was \$6,912 for the year ended December 31, 2009. Lease payments remaining under these leases for each of the next four years are as follows:

2010		\$ 6,093
2011		3,636
2012		3,636
2013		<u>606</u>
Minimum payments required		<u>\$ 13,971</u>

VALLEY CREEK CHURCH

Notes to Financial Statements

December 31, 2009 and 2008

9 - 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. At December 31, 2009, outstanding construction commitments totaled \$11,688.