

**CENTRAL CHURCH, INC. AND
CENTRAL MINISTRIES, INC.**

COMBINING FINANCIAL STATEMENTS

September 30, 2008 and June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Elders
Central Church, Inc.
Memphis, Tennessee

We have audited the accompanying combining statement of financial position of Central Church, Inc. and Central Ministries, Inc. as of September 30, 2008 and June 30, 2008, respectively, and the related combining statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of Central Church, Inc. and Central Ministries, Inc. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of Central Church, Inc. and Central Ministries, as of September 30, 2008 and June 30, 2008, respectively, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Watkins Uiberall, PLLC

Memphis, Tennessee
January 20, 2009, for Central Church, Inc. and
December 15, 2008, for Central Ministries, Inc.

CENTRAL CHURCH, INC. AND CENTRAL MINISTRIES, INC.

COMBINING STATEMENT OF FINANCIAL POSITION

September 30, 2008 and June 30, 2008, Respectively

	<u>Assets</u>		
	<u>Central Church</u>	<u>Central Ministries</u>	<u>Combined Total</u>
Cash and cash equivalents	\$ 1,353,346	\$ 439,098	\$ 1,792,444
Accounts receivable, net of allowance for doubtful accounts	2,806	21,944	24,750
Receivable from Central Ministries	1,948	-	1,948
Inventory	-	78,281	78,281
Prepaid expenses	170,287	3,927	174,214
Property and equipment, net	21,714,839	21,223	21,736,062
Unamortized loan cost, net	6,310	-	6,310
Property held for sale	600	-	600
Employee receivables	31,079	-	31,079
	<u>\$ 23,281,215</u>	<u>\$ 564,473</u>	<u>\$ 23,845,688</u>
	<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 131,778	\$ 5,818	\$ 137,596
Restricted funds and deposits	64,935	-	64,935
Accrued expenses	448,688	11,402	460,090
Accrued salaries	-	83,263	83,263
Deferred revenue	-	491,888	491,888
Payable to Central Church	-	9,995	9,995
Obligation under interest rate swaps	213,223	-	213,223
Note payable	8,622,888	-	8,622,888
	<u>9,481,512</u>	<u>602,366</u>	<u>10,083,878</u>
Net Assets (Deficit)			
Unrestricted	13,580,953	(83,465)	13,497,488
Temporarily restricted	218,750	45,572	264,322
	<u>13,799,703</u>	<u>(37,893)</u>	<u>13,761,810</u>
	<u>\$ 23,281,215</u>	<u>\$ 564,473</u>	<u>\$ 23,845,688</u>

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

CENTRAL CHURCH, INC. AND CENTRAL MINISTRIES, INC.

COMBINING STATEMENT OF ACTIVITIES

For the Years Ended September 30, 2008 and June 30, 2008, Respectively

	Central Church		
	Unrestricted	Temporarily Restricted	Total
Operating Support and Revenue			
Contributions	\$ 6,198,046	\$ 92,217	\$ 6,290,263
Designated fees	2,282,946	-	2,282,946
Designated contributions	573,227	-	573,227
Fundraising	-	-	-
Net sales	-	-	-
Tuition	-	-	-
Interest income	54,639	-	54,639
Other income	-	-	-
Change in market value of investments	-	-	-
Net assets released from restrictions	79,716	(79,716)	-
Total operating support and revenue	9,188,574	12,501	9,201,075
Operating Expenses			
Program expenses	8,378,049	-	8,378,049
General supporting expenses	796,762	-	796,762
Fundraising expenses	9,348	-	9,348
Total operating expenses	9,184,159	-	9,184,159
Change in net assets from operations	4,415	12,501	16,916
Non-operating Loss			
Change in fair value of interest rate swaps	(342,247)	-	(342,247)
Change in net assets	(337,832)	12,501	(325,331)
Net assets (deficit) at beginning of the year	13,918,785	206,249	14,125,034
Net assets (deficit) at the end of the year	\$ 13,580,953	\$ 218,750	\$ 13,799,703

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

Central Ministries			Combined		
Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
\$ 309,818	\$ 850	\$ 310,668	\$ 6,507,864	\$ 93,067	\$ 6,600,931
-	-	-	2,282,946	-	2,282,946
-	-	-	573,227	-	573,227
109,236	-	109,236	109,236	-	109,236
221,289	-	221,289	221,289	-	221,289
1,649,476	-	1,649,476	1,649,476	-	1,649,476
7,609	1,358	8,967	62,248	1,358	63,606
-	-	-	-	-	-
(944)	-	(944)	(944)	-	(944)
-	-	-	79,716	(79,716)	-
<u>2,296,484</u>	<u>2,208</u>	<u>2,298,692</u>	<u>11,485,058</u>	<u>14,709</u>	<u>11,499,767</u>
1,806,009	-	1,806,009	10,184,058	-	10,184,058
391,059	-	391,059	1,187,821	-	1,187,821
75,828	-	75,828	85,176	-	85,176
<u>2,272,896</u>	<u>-</u>	<u>2,272,896</u>	<u>11,457,055</u>	<u>-</u>	<u>11,457,055</u>
23,588	2,208	25,796	28,003	14,709	42,712
-	-	-	(342,247)	-	(342,247)
23,588	2,208	25,796	(314,244)	14,709	(299,535)
(107,053)	43,364	(63,689)	13,811,732	249,613	14,061,345
<u>\$ (83,465)</u>	<u>\$ 45,572</u>	<u>\$ (37,893)</u>	<u>\$ 13,497,488</u>	<u>\$ 264,322</u>	<u>\$ 13,761,810</u>

CENTRAL CHURCH, INC. AND CENTRAL MINISTRIES, INC.

COMBINING STATEMENT OF CASH FLOWS

For the Years Ended September 30, 2008 and June 30, 2008, Respectively

	Central Church	Central Ministries	Combined Total
Cash Flows Provided By (Used For) Operating Activities:			
Change in net assets	\$ (325,331)	\$ 25,796	\$ (299,535)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used For) Operating Activities:			
Depreciation	659,745	5,566	665,311
Amortization	6,311	-	6,311
Loss on disposal of asset	-	642	642
Change in fair value of interest rate swaps	342,247	-	342,247
Change in market value of investments	-	944	944
Increase (Decrease) in Cash and Cash Equivalents:			
Accounts receivable	23,679	(5,112)	18,567
Receivable from Central Ministries	2,803	-	2,803
Inventory	-	(9,620)	(9,620)
Prepaid expenses	(80,346)	(716)	(81,062)
Accounts payable	(39,949)	(1,540)	(41,489)
Restricted funds and deposits	13,526	-	13,526
Accrued expenses	56,774	17,851	74,625
Accrued salaries	-	(24,091)	(24,091)
Deferred revenue	-	(38,383)	(38,383)
Payable to Central Church	-	(12,828)	(12,828)
Total adjustments	<u>984,790</u>	<u>(67,287)</u>	<u>917,503</u>
Net cash provided by (used for) operating activities	659,459	(41,491)	617,968
Cash Flows From (Used For) Investing Activities:			
Principal receipts on employee receivables	11,457	-	11,457
Issuance of employee loans	(26,598)	-	(26,598)
Proceeds from maturing short-term investments	100,020	55,137	155,157
Purchases of property and equipment	(299,501)	(11,019)	(310,520)
Net cash from (used for) investing activities	<u>(214,622)</u>	<u>44,118</u>	<u>(170,504)</u>
Cash Flows From (Used For) Financing Activities:			
Principal payments on notes payable	<u>(627,367)</u>	<u>-</u>	<u>(627,367)</u>
Net increase (decrease) in cash and cash equivalents	(182,530)	2,627	(179,903)
Cash and cash equivalents at beginning of the year	<u>1,535,876</u>	<u>436,471</u>	<u>1,972,347</u>
Cash and cash equivalents at end of the year	<u>\$ 1,353,346</u>	<u>\$ 439,098</u>	<u>\$ 1,792,444</u>
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for interest	<u>\$ 557,463</u>	<u>\$ -</u>	<u>\$ 557,463</u>

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

CENTRAL CHURCH, INC AND CENTRAL MINISTRIES, INC.

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2008 and June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Central Church, Inc. (the "Church") and Central Ministries, Inc. (the "Ministry") are located in Collierville, Tennessee, and are independent Bible-centered organizations where Christ is preeminent.

The Ministry is responsible for the operation of a bookstore and a school for kindergarten through eighth grade, Central Day School. The organizations are governed by a Board of Elders which also functions as the Board of Trustees, which has the authority to make corporate decisions for the non-profit organizations. The IRS has designated Central Ministries, Inc. as an affiliate organization of Central Church, Inc.

Results of operations in the Combining Statement of Activities reflect all transactions increasing or decreasing net assets except those related to the interest rate swap agreements.

Principles of Combination

Due to common control, the combining financial statements include the accounts of Central Church as of September 30, 2008 and Central Ministries as of June 30, 2008.

Method of Accounting

The financial statements of the Church and Ministry have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Contributions and Support

The organizations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, each is required to present a statement of cash flows. Each has classified its financial statements to present the two classes of net assets that are applicable to the organization. Neither organization has any permanently restricted net assets.

The organizations record contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unrestricted contributions are used for the operation of the organizations. Temporarily restricted contributions are used based on the individual contributor's instructions. When a 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 net assets released from restrictions. When a donor restriction expires in the same year received, revenue is recognized as unrestricted net assets.

Concentrations and Credit Risks

The Church and Ministry's credit risks primarily relate to cash and cash equivalents, accounts receivable, and derivative instruments. Cash and cash equivalents are held in bank and brokerage accounts. The Ministry holds a brokerage account, which invests cash in uninsured money market accounts. The Church and Ministry maintain cash balances at a bank. Accounts at the bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to an aggregate of \$250,000.

Risks related to derivative instruments are based on fluctuations in interest rates.

Accounts receivable of the Ministry consist of credit memos from book vendors and tuition owed Central Day School. The Organization performs continual credit evaluations of its clients and has recorded a provision for doubtful accounts in the financial statements. Uncollectible accounts are written off at the time deemed uncollectible by management based on a review of client credit worthiness.

Functional Expenses

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

Gifts In-Kind

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market value in the period received. No amounts have been reflected in the statements for donated services since the criteria for recognition of such volunteer efforts under SFAS No. 116 have not been satisfied. Nevertheless, a substantial number of volunteers have donated significant amounts of time and services to the organizations' programs.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, all highly liquid debt instruments purchased with initial maturities of three months or less are considered to be cash equivalents.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. The allowance for uncollectible accounts is based upon a review of the receivables, past experience, current economic conditions, and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance for uncollectible accounts at June 30, 2008 was \$16,240.

Inventory

Inventory consists of books, music, videos, gifts, and cards and is stated at cost using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost. Acquisitions of property and equipment in excess of \$1,000 are capitalized. Depreciation is calculated on the straight-line method. The depreciation method is designed to write off the cost of the assets over their estimated useful lives ranging from five to forty years.

Maintenance and repairs are charged to expense as incurred. When facilities are retired or otherwise disposed of, the cost is removed from the asset accounts and the related depreciation allowance is adjusted with the difference being charged or credited to income.

Property held for sale is composed of property donated to the Church. The property is carried at market value at the date of the donation. Current market value approximates carrying value.

Donated property, materials, and equipment are recorded as contributions when received at their appraised or estimated fair market values.

Unamortized Loan Costs

Loan costs for the Church are amortized using the straight-line method over the outstanding life of the loan and are shown net of accumulated amortization of \$47,465 at September 30, 2008.

Derivatives

The Church follows the provisions of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" which requires all derivatives to be recognized as either assets or liabilities in the statement of financial position at fair market value. The interest rate swap agreements described in Note 4 are derivative instruments whose fair values are based on estimated market prices at which an offer would be made for unwinding the transactions.

Fair Value of Financial Instruments

The fair values of the Church's interest rate swap agreements are based on quoted market prices from financial institutions. The carrying amounts reported in the combining statement of financial position for cash and cash equivalents, accounts payable, and accrued expenses approximate their fair values due to the short-term nature of these instruments.

Service Bonuses

The Church has approved a policy for the payment of a service bonus, payable to employees who have completed 25 years of service, equal to 25% of the employee's annual pay. For the year ended September 30, 2008, \$32,368 of service bonuses were paid.

Income Taxes

The Church and Ministry are exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and, therefore, no provision has been made for such taxes.

NOTE 2 – PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	Central Church 9/30/08	Central Ministries 6/30/08	Combined Total
Land	\$ 2,244,806	\$ -	\$ 2,244,806
Buildings	22,443,198	-	22,443,198
Furniture, fixtures, and equipment	1,283,154	145,694	1,428,848
	25,971,158	145,694	26,116,852
Less accumulated depreciation	(4,256,319)	(124,471)	(4,380,790)
	<u>\$ 21,714,839</u>	<u>\$ 21,223</u>	<u>\$ 21,736,062</u>

NOTE 3 – NOTE PAYABLE

On July 8, 2005, the Church restructured its construction loan agreement with Suntrust Bank (the "bank") through the issuance of a note payable to the bank which includes a fixed-rate portion of principal indebtedness of \$2,200,000 and a variable-rate portion of \$9,814,274. The fixed-rate portion bears interest at a rate of 5.65% per annum, with monthly installments of principal and interest due in the amount of \$15,758. The variable-rate portion bears interest at the 90 day London Interbank Offered Rate ("LIBOR") plus 150 basis points (currently 4.62%), with payments of accrued interest due monthly. The entire principal balance of this note agreement is due on October 1, 2009. The loan is secured by a deed of trust on the Church property.

The note payable to the bank has several restrictive covenants including minimum debt service coverage and modified debt service coverage ratios. As of September 30, 2008, the Church was in compliance with these covenants.

At September 30, 2008, the outstanding principal balance consisted of the following:

Fixed rate portion	\$ 1,972,965
Variable rate portion	<u>6,649,923</u>
	<u>\$ 8,622,888</u>

Principal maturities for the note payable are as follows for the years ending September 30:

2009	\$ 79,650
2010	<u>8,543,238</u>
	<u>\$ 8,622,888</u>

Interest expense for the Church was \$557,463 for the year ended September 30, 2008.

NOTE 4 – INTEREST RATE SWAPS

In connection with the debt restructuring, the Church entered into two interest rate swap agreements (the “swaps”) with two financial institutions on July 8, 2005 in an effort to manage interest rate exposure. The swaps are considered derivative instruments and have been designated as fair value hedges.

The swaps are based on a combined notional amount of \$7.5 million in which the Church makes interest payments at a fixed rate of 6.24% per annum and receives interest payments at a floating rate of 90 day LIBOR plus a spread of 150 basis points. The effect of these swaps is to convert LIBOR-based interest payments to fixed-rate interest payments, thus hedging the Church against future increases in the LIBOR rate. The swaps terminate on July 1, 2020. At September 30, 2008, the combined fair value of the swaps was a liability of \$213,223, and accordingly is presented in the combining statement of financial position. The change in fair value of the swaps is included in the combining statement of activities.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Ministry is governed by the Church’s board of directors. The Ministry pays the Church \$10,800 per year for use of the space for the bookstore and the school pays \$46,080 for administrative services. The Ministry also pays the Church \$61,200 per year for janitorial and cleaning services. The Church does not charge the school building usage fees. For the year ended September 30, 2008, the Church charged the Ministry \$4,910 for space upgrades. The Church pays employee health insurance, disability, and administrative fees for the Ministry, for which it is reimbursed.

The Church had \$31,079 of loans due from employees as of September 30, 2008.

NOTE 6 – RETIREMENT PLAN

The Church and the Ministry have a non-contributory retirement plan for all eligible employees of the Church and the Ministry. The Church made contributions to the plan of \$178,310 for the year ended September 30, 2008, and the Ministry made contributions to the plan of \$38,370 for the year ended June 30, 2008.

NOTE 7 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	Central Church 9/30/08	Central Ministries 6/30/08	Combined Total
Sunday School Fund	\$ 13,367	\$ -	\$ 13,367
Choir Fund	10,023	-	10,023
Special Ministries Fund	15,501	-	15,501
Other Donor-Designated Funds	179,859	-	179,859
JML Scholarship Fund	-	1,170	1,170
Breck Jenkins Scholarship Fund	-	37,850	37,850
Autumn McEwen Scholarship Fund	-	1,548	1,548
General Scholarship Fund	-	4,892	4,892
Julia Christian Scholarship Fund	-	112	112
	<u>\$ 218,750</u>	<u>\$ 45,572</u>	<u>\$ 264,322</u>

Net assets were released from donor restrictions by incurring expenses satisfying the following purposes specified by donors:

	Central Church 9/30/08	Central Ministries 6/30/08	Combined Total
Sunday School Fund	\$ 17,951	\$ -	\$ 17,951
Choir Fund	1,408	-	1,408
Special Ministries Fund	4,344	-	4,344
Other Donor-Designated Funds	56,013	-	56,013
	<u>\$ 79,716</u>	<u>\$ -</u>	<u>\$ 79,716</u>

NOTE 8 – PROGRAM EXPENSES

Program expenses consisted of the following:

	Central Church 9/30/08	Central Ministries 6/30/08	Combined Total
Senior pastor ministries	\$ 370,047	\$ -	\$ 370,047
Women ministries	315,332	-	315,332
Singles ministries	5,542	-	5,542
Youth ministries	934,509	-	934,509
Adult outreach ministries	907,205	-	907,205
Tape ministries	3,052	-	3,052
Pastoral counseling ministries	143,186	-	143,186
Men’s ministries	84,214	-	84,214
Caring department ministries	66,262	-	66,262
Music ministries	658,539	-	658,539
Christian education ministries	774,309	-	774,309
Day care ministries	2,503,795	-	2,503,795
Senior adults ministries	273,390	-	273,390
Missions ministries	788,520	-	788,520
Family life ministries	534,622	-	534,622
Food services	15,525	-	15,525
Central Day School	-	1,607,733	1,607,733
Crosswalk	-	198,276	198,276
	<u>\$ 8,378,049</u>	<u>\$ 1,806,009</u>	<u>\$ 10,184,058</u>

NOTE 9 – COMMITMENT

On August 28, 2008, the Church entered into a contract to purchase 5.74 acres of land adjacent to the current Church property. The land was subsequently purchased in December 2008 for \$1,861,782. A portion of the purchase price was financed by the issuance of a line of credit of \$1,500,000 to SunTrust Bank. The loan bears interest at the 90 day London Interbank Offered Rate (“LIBOR”) plus 175 basis points, with payments of accrued interest due monthly beginning January 5, 2009. The entire principal balance of this loan agreement plus accrued interest is due on March 5, 2010. The loan is collateralized by the purchased land.