



Church Extension Plan

PARTNERS *in* MINISTRY®

Financial Statements

DECEMBER 31, 2009, 2008, and 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Church Extension Plan
Salem, Oregon

We have audited the statements of financial position of Church Extension Plan (the Ministry, a nonprofit corporation) as of December 31, 2009, 2008, and 2007, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the Ministry's management. 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 financial statements referred to above present fairly, in all material respects, the financial position of Church Extension Plan as of December 31, 2009, 2008, and 2007, 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.

As discussed in Note 20 to the financial statements, at December 31, 2009, 2008 and 2007, the Ministry failed to meet selected guidelines established by the North American Securities Administrators Association, Inc. (NASAA). The Ministry has been in regular contact with individual state regulators regarding its plan to meet these targets in the future, and does not anticipate significant changes to its ability to sell or renew notes or certificates in the applicable states.

AKT LLP

Salem, Oregon
March 5, 2010

Statements of Financial Position

December 31, 2009, 2008, and 2007

	2009	2008	2007
<u>Assets</u>			
Cash and cash equivalents	\$ 22,382,490	\$ 23,741,383	\$ 2,075,863
Restricted cash and cash equivalents	2,500,000	2,500,000	2,500,000
	<u>24,882,490</u>	<u>26,241,383</u>	<u>4,575,863</u>
Receivables			
Interest and other receivables	3,380,573	3,128,435	3,251,105
Certificates, net	6,505,930	6,349,952	6,714,658
Church loans unsecured	4,674,099	5,621,799	6,553,837
Mortgage notes, net	360,208,834	327,053,475	298,521,700
	<u>374,769,436</u>	<u>342,153,661</u>	<u>315,041,300</u>
Prepaid expenses	87,886	113,199	137,394
Property and equipment, net	4,695,340	4,953,723	5,218,172
Other real estate owned	9,395,324	10,264,987	9,286,829
Investments and unitrust assets	8,535,773	2,278,294	247,802
	<u>\$ 422,366,249</u>	<u>\$ 386,005,247</u>	<u>\$ 334,507,360</u>
<u>Liabilities</u>			
Accounts, interest and other payables	\$ 1,382,969	\$ 1,480,910	\$ 1,302,197
Notes and certificates payable:			
Bank line of credit	-	-	9,500,000
Unsecured:			
Notes	372,560,171	335,784,614	273,286,915
Certificates	36,426,837	37,235,079	39,380,965
Total notes and certificates payable	<u>408,987,008</u>	<u>373,019,693</u>	<u>322,167,880</u>
Gift annuities and unitrust obligations	599,916	542,393	542,738
Deferred compensation	630,487	597,617	562,898
Total liabilities	<u>411,600,380</u>	<u>375,640,613</u>	<u>324,575,713</u>
<u>Net Assets, Unrestricted</u>	<u>10,765,869</u>	<u>10,364,634</u>	<u>9,931,647</u>
	<u>\$ 422,366,249</u>	<u>\$ 386,005,247</u>	<u>\$ 334,507,360</u>

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

Statements of Activities

For the Years Ended December 31, 2009, 2008, and 2007

	2009	
	Amount	%
Interest Income:		
Interest revenue, loans	\$ 24,108,018	96.21%
Interest revenue, certificates and other	949,458	3.79%
Total interest income	<u>25,057,476</u>	<u>100.00%</u>
Interest Expense:		
Interest expense	18,867,060	75.30%
Amortization of deferred certificate expense	2,769,233	11.05%
Total interest expense	<u>21,636,293</u>	<u>86.35%</u>
Uncollectible receivables expense	<u>558,255</u>	<u>2.23%</u>
Interest income after uncollectible receivable expense, net	<u>2,862,928</u>	<u>11.42%</u>
Other operating income:		
Certificate revenue	2,610,735	10.42%
Contributions	5,480	0.02%
Other revenue	1,037,417	4.14%
Total other operating income	<u>3,653,632</u>	<u>14.58%</u>
Other:		
District offering and other	45,347	0.18%
Travel, lodging and related expenses	272,083	1.09%
Advertising and promotion	424,126	1.69%
Salaries	2,619,362	10.45%
Payroll taxes and personnel expenses	862,946	3.44%
Office supplies and expenses, including depreciation	823,176	3.29%
Directors' expenses	92,062	0.37%
Professional fees	784,010	3.13%
Insurance, licenses, taxes and other	192,213	0.77%
Total other operating expenses	<u>6,115,325</u>	<u>24.41%</u>
Increase (decrease) in unrestricted net assets	401,235	<u>1.59%</u>
Net assets, beginning	<u>10,364,634</u>	
Net assets, ending	<u>\$ 10,765,869</u>	

2008		2007	
Amount	%	Amount	%
\$ 21,539,768	95.77%	\$ 20,059,376	96.96%
951,429	4.23%	629,339	3.04%
<u>22,491,197</u>	<u>100.00%</u>	<u>20,688,715</u>	<u>100.00%</u>
18,265,582	81.21%	16,000,262	77.34%
2,911,475	12.94%	2,915,444	14.09%
<u>21,177,057</u>	<u>94.15%</u>	<u>18,915,706</u>	<u>91.43%</u>
506,071	2.25%	626,385	3.03%
<u>808,069</u>	<u>3.60%</u>	<u>1,146,624</u>	<u>5.54%</u>
2,629,189	11.69%	2,915,116	14.09%
903,000	4.01%	11,000	0.05%
<u>1,612,916</u>	<u>7.17%</u>	<u>1,266,111</u>	<u>6.12%</u>
<u>5,145,105</u>	<u>22.87%</u>	<u>4,192,227</u>	<u>20.26%</u>
91,775	0.41%	118,323	0.57%
242,929	1.08%	241,753	1.17%
311,338	1.38%	339,668	1.64%
2,531,732	11.26%	2,522,224	12.19%
793,862	3.53%	888,660	4.30%
858,802	3.82%	858,011	4.15%
92,084	0.41%	76,432	0.37%
488,010	2.17%	282,347	1.36%
109,655	0.49%	109,632	0.53%
<u>5,520,187</u>	<u>24.55%</u>	<u>5,437,050</u>	<u>26.28%</u>
432,987	<u>1.92%</u>	(98,199)	<u>-0.48%</u>
<u>9,931,647</u>		<u>10,029,846</u>	
<u>\$ 10,364,634</u>		<u>\$ 9,931,647</u>	

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

Statements of Cash Flows

For the Years Ended December 31, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:			
Increase (decrease) in unrestricted net assets	\$ 401,235	\$ 432,987	\$ (98,199)
Adjustments to reconcile increase (decrease) in unrestricted net asset to net cash provided by operating activities:			
Depreciation	295,126	329,998	322,652
Uncollectible receivable expense	558,255	506,071	626,385
Net certificate revenue	(2,610,735)	(2,629,189)	(2,915,116)
Certificate amortization	2,769,233	2,911,475	2,915,444
Compounded interest	14,710,460	13,487,387	12,235,703
Gain on investmemts	(54,141)	(5,521)	(544)
(Loss) gain on sale of property	69,211	(194,699)	-
(Loss) gain on redemption of certificates	32,815	(329,841)	-
(Increase) decrease in assets			
Receivables	(2,695,311)	(2,037,036)	(816,422)
Prepaid expenses	25,313	24,195	(8,696)
Decrease in liabilities			
Payables	(280,502)	(13,413)	(592,615)
Total adjustments	<u>12,819,723</u>	<u>12,049,427</u>	<u>11,766,791</u>
Net cash provided by operating activities	<u>13,220,958</u>	<u>12,482,414</u>	<u>11,668,592</u>
Cash flows from investing activities:			
Purchases of equipment	(36,744)	(65,549)	(71,468)
Principal collected on certificates receivable	4,525,456	4,473,070	5,671,547
Cash received from sale of OREOs	-	-	843,367
Mortgage fundings	(46,836,199)	(45,563,809)	(52,587,014)
Principal collected on mortgages	15,672,360	17,935,511	16,013,674
Purchases of investments	(8,215,831)	(2,084,679)	(326,435)
Proceeds from sale of investments	2,027,524	50,000	1,894,488
Net cash used by investing activities	<u>(32,863,434)</u>	<u>(25,255,456)</u>	<u>(28,561,841)</u>

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

Statements of Cash Flows *(continued ...)*

For the Years Ended December 31, 2009, 2008, and 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash flows from financing activities			
Net advances (repayments) on line of credit	\$ -	\$ (9,500,000)	\$ 4,350,000
Proceeds from borrowings	76,495,230	94,280,943	46,668,200
Principal payments on borrowings	(54,347,366)	(45,254,159)	(42,617,339)
Repayments on annuities, net	(22,095)	(12,921)	(6,455)
Payments on certificates payable	<u>(3,842,186)</u>	<u>(5,075,301)</u>	<u>(1,479,331)</u>
Net cash provided by financing activities	<u>18,283,583</u>	<u>34,438,562</u>	<u>6,915,075</u>
Net increase (decrease) in cash	(1,358,893)	21,665,520	(9,978,174)
Cash and cash equivalents, beginning	<u>26,241,383</u>	<u>4,575,863</u>	<u>14,554,037</u>
Cash and cash equivalents, ending	<u><u>\$ 24,882,490</u></u>	<u><u>\$ 26,241,383</u></u>	<u><u>\$ 4,575,863</u></u>
Represented by:			
Cash and cash equivalents	\$ 22,382,490	\$ 23,741,383	\$ 2,075,863
Restricted cash and cash equivalents	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
Total at end of year	<u><u>\$ 24,882,490</u></u>	<u><u>\$ 26,241,383</u></u>	<u><u>\$ 4,575,863</u></u>
Cash paid during year for interest	<u><u>\$ 4,151,090</u></u>	<u><u>\$ 4,663,244</u></u>	<u><u>\$ 3,722,758</u></u>

Notes to Financial Statements

December 31, 2009, 2008, and 2007

(1) *Summary of Significant Accounting Policies*

Organization

Church Extension Plan (The Ministry) provides financial and administrative services to churches and districts of the Assemblies of God. Founded in 1950 and incorporated in 1952 as a nonprofit corporation in the state of Oregon, Church Extension Plan has successfully assisted more than 2,100 Assemblies of God ministries across the United States of America and Puerto Rico.

Cash and Cash Equivalents

The Ministry considers all short-term, highly liquid investments to be cash equivalents, including money market accounts and short-term certificates of deposit with original maturities of one year or less. Short-term certificates of deposit are recorded at cost. Restricted cash and cash equivalents consists of a \$2.5 million certificate of deposit with Umpqua Bank pledged as security on its line of credit.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Ministry maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The FDIC Transaction Account Guarantee Program temporarily increased FDIC deposit insurance limits on interest bearing accounts from \$100,000 to \$250,000 and provided for unlimited FDIC insurance on non-interest or low interest bearing transaction accounts through June 30, 2010. The amount of cash and cash equivalents The Ministry had in excess of insured amounts was \$13.5 million at December 31, 2009. The Ministry has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

Certificate Revenue Recognition

The Ministry's primary lending program is Partners Plus, a certificate-based financing program, which involves the purchase of 20-year church certificates by Assemblies of God churches, related organizations, or members or friends of a church desiring a loan. Church certificates were designed to provide long-term low cost funds for The Ministry's church loan program. Typically church loans are supported by certificate sales between 10% and 20% of the amount of the church loan. Church certificates may be paid over 50 months with no interest. In 2009, The Ministry discounted these receivables to present value based on a discount rate of 5.62%. The discount rates used in 2008 and 2007 were 5.62% and 4.78%, respectively. Most certificates sell for \$1,000, but prices range from \$500 to \$5,000. Certificates mature in 20 years at 150% of the sales price, yielding approximately 2.5%. The Ministry underwrites the balance of the loan by borrowing from individuals, other ministries, or from operations.

The Ministry recognizes certificate revenue on the sale of certificates to the extent that the present value (based on a discount rate of 6.83% in 2009, 6.83% in 2008 and 7.45% in 2007,) of the certificate payable is exceeded by the discounted present value of the certificate. The discounted certificate is amortized over the life of the certificate, generally 20 years.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(1) *Summary of Significant Accounting Policies (continued)*

Mortgages and Certificates Receivable and Allowance for Loan Losses

Mortgages and certificates are stated at the amount of unpaid principal, reduced by an allowance for loan losses. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans based on evaluations of the collectibility of loans, prior loan loss experience, changes in the nature and volume of the portfolio, overall portfolio quality, review of specific problem loans, and economic conditions that may affect the borrowers' ability to pay. The allowance for loan losses is established through a charge to the uncollectible receivables expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. Past due status is determined based on how recently payments have been received. In accordance with The Ministry's plan and mission, The Ministry diligently works with its mortgage note holders to find solutions for those that are having difficulty meeting their payment agreement.

Interest is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economics, business conditions, and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. Recognition of interest income is resumed when the loan holder demonstrates it can make regular payments.

The Ministry makes loans to churches in certain areas that have experienced seismic activity, hurricanes, floods and other natural disasters in the past. Most churches do not carry casualty insurance on church buildings covering these perils because of limited availability, high premium cost, and the large percentage of self-insurance required under those policies that are available. The Ministry has not experienced any loan loss due to these natural disasters.

Property and Equipment and Depreciation

Property and equipment are stated at historical cost. Maintenance and repairs are charged to expense as incurred; major improvements are capitalized. Upon retirement or sale of assets, the cost and accumulated depreciation of the assets disposed are removed from the accounts and resulting gains or losses are recognized as other income. Depreciation is computed using the straight-line method based on their estimated useful life. It is The Ministry's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed.

Other Real Estate Owned

Other real estate owned (OREO) consists of land and church facilities acquired by The Ministry in satisfaction or partial satisfaction of mortgage notes receivables. OREOs are recorded at the lower of the carrying value of the mortgage or the fair market value minus estimated costs to sell. Costs of holding foreclosed property are charged to expense in the current period, except for significant property improvements, which are capitalized to the extent that the carrying value does not exceed estimated fair market value.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(1) Summary of Significant Accounting Policies *(continued)*

Other Real Estate Owned *(continued)*

The Ministry either attempts to sell the OREO or temporarily leases the property back to the churches with the intention that these churches may be able to repurchase the real estate in the future.

Fair Value Measurements

Generally accepted accounting principles establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that The Ministry has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets of liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2009, 2008 and 2007.

Certificates of deposit: Valued at fair value based on the quoted prices in the active market on which the certificates are sold.

US Government Securities: Valued at in the closing price reported on the active market on which the securities are sold.

Corporate bonds: Valued at fair value based on the quoted prices of similar securities in the active market on which the individual securities are sold.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(1) *Summary of Significant Accounting Policies (continued)*

Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Ministry 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 fair value measurement at the reporting date.

Income Taxes

The Ministry is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Exemptions from the State of Oregon corporation excise tax are provided by Oregon Revised Statutes 317.080.

Effective January 2009, The Ministry adopted the new accounting standards regarding “Accounting for Uncertain Tax Positions.” The adoption of this standard had no material impact on The Ministry’s financial position, activities or cash flows.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires The Ministry’s 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Ministry reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All of The Ministry’s net assets have been classified as unrestricted net assets.

Reclassifications

Certain reclassifications have been made to 2008 and 2007 financial statements to conform to the current year presentation.

Subsequent Events

The Ministry has evaluated subsequent events through March 5, 2010, which is the date the financial statements were issued.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(2) Cash and cash equivalents

Cash and cash equivalents consist of checking and savings accounts in banks, highly liquid investments with original maturities of three months or less, money market funds and certificates of deposit with original maturities of twelve months or less. Cash and cash equivalents consists of the following as of December 31:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Checking and savings accounts	\$ 11,933,290	\$ 2,500,287	\$ 2,052,340
Money market accounts	8,449,200	16,069,519	18,827
Short-term certificates of deposit	<u>4,500,000</u>	<u>7,671,577</u>	<u>2,504,696</u>
	<u>\$ 24,882,490</u>	<u>\$ 26,241,383</u>	<u>\$ 4,575,863</u>

(3) Certificates Receivable

Certificates receivable are generally collected over 50 months on a straight-line basis with a 0% interest rate. Some certificates, when purchased by a church and not an individual, carry an interest rate equal to that of the associated mortgage note. The Ministry has applied an imputed interest discount rate to the 0% interest rate certificates as shown below to adjust the carrying amount of the certificates receivable to fair value:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total certificates receivable	\$ 7,710,361	\$ 7,424,537	\$ 7,787,913
Less discount for imputed interest ranging from 0% to 7.3%	875,014	739,866	586,131
Less allowance for doubtful accounts	<u>329,417</u>	<u>334,719</u>	<u>487,124</u>
	<u>\$ 6,505,930</u>	<u>\$ 6,349,952</u>	<u>\$ 6,714,658</u>

Future maturities of certificates receivable for each of the next 5 years are as follows:

2010	\$ 3,126,384
2011	2,035,351
2012	1,683,766
2013	846,986
2014	<u>17,874</u>
	<u>\$ 7,710,361</u>

The discount rate used for certificates issued in 2009, 2008 and 2007 was 5.62%, 5.62% and 4.78%, respectively.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(4) Church Loans Unsecured

The Ministry has outstanding unsecured notes receivable of \$4,674,099 at December 31, 2009 (\$5,621,799 and \$6,553,837 at December 31, 2008, and 2007, respectively). The terms of the notes provide for varying repayment terms and interest rates. During 2009, 2008, and 2007, the Ministry recognized \$379,266, \$574,291, and \$595,632, respectively, as interest income from these notes.

(5) Mortgage Notes Receivable

Most church loans are secured by first mortgages or trust deeds on real property and are receivable over 20 to 30 years. Based on current lending rates, the fair value of these mortgage notes approximates their carrying amount. Net mortgage notes receivable balances are as follows:

	2009	2008	2007
Mortgage notes receivable	\$ 363,275,834	\$ 329,747,437	\$ 300,884,401
Church loans unsecured	4,674,099	5,621,799	6,553,837
Total mortgage notes receivable	367,949,933	335,369,236	307,438,238
Less allowance for loan losses	3,067,000	2,693,962	2,362,701
Net mortgage notes receivable	<u>\$ 364,882,933</u>	<u>\$ 332,675,274</u>	<u>\$ 305,075,537</u>

The mortgage notes receivable represent 708 loans at December 31, 2009 (698 and 704 loans at December 31, 2008, and 2007, respectively). The average interest rates for mortgage notes receivable were 7.00% in 2009, 7.09% in 2008 and 7.10% in 2007. The Ministry had unfunded loan commitments of approximately \$22,900,000, \$19,100,000 and \$44,500,000 at December 31, 2009, 2008 and 2007 respectively.

Future maturities of mortgages receivable for each of the next 5 years are as follows:

2010	\$ 5,498,244
2011	5,815,122
2012	6,198,819
2013	6,595,869
2014	6,999,288
2015 and thereafter	336,842,591
	<u>\$ 367,949,933</u>

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(5) Mortgage Notes Receivable (continued)

As of December 31, 2009, the total amount of loans on nonaccrual status was \$11,692,170. The amount of loans on nonaccrual status as of December 31, 2008, and 2007, was \$13,698,276 and \$10,649,386, respectively. The total recorded investment in loans past due 90 days or more and still accruing interest at December 31, 2009, 2008, and 2007, amounted to approximately \$20,204,000, \$19,159,000 and \$25,720,000, respectively.

Activity in the allowance for loan losses is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Beginning balance	\$ 2,693,962	\$ 2,362,701	\$ 2,422,240
Additions charged to operations	481,425	432,001	559,477
Direct write-downs charged to allowance account	<u>(108,387)</u>	<u>(100,740)</u>	<u>(619,016)</u>
	<u>\$ 3,067,000</u>	<u>\$ 2,693,962</u>	<u>\$ 2,362,701</u>

In 1999, The Ministry extended financing to Teen Challenge of Puerto Rico, Inc. (Teen Challenge) to construct facilities for their ministry in Puerto Rico for approximately \$10 million. By 2003, Teen Challenge had failed to meet the terms of the loan, and the loan balance plus unpaid accrued interest totaled approximately \$17.4 million. In order to reduce the principal and unpaid interest on the loan, The Ministry acquired the ownership of three properties from Teen Challenge and surrendered certificates that were security on the loan. The Ministry suspended the recognition of interest income on the loan beginning in 2006.

In September 2007, Teen Challenge of Puerto Rico underwent substantial management changes including the dismissal of its Board of Directors. Teen Challenge of North America was appointed as the new board which assigned a special team, including the President and the CFO of The Ministry, to oversee the entity's operations. A new director from the Teen Challenge of New England was appointed and several operations were changed and improved.

In 2008, a new repayment arrangement was made between The Ministry and Teen Challenge of Puerto Rico. Teen Challenge adhered to this agreement throughout 2008, and made loan payments to The Ministry totaling \$429,612 in 2008.

In 2009, Teen Challenge began making regular monthly principal and interest payments in the amount of \$78,581, and the loan was removed from non-accrual status. Total payments received in 2009 were \$921,091. The Ministry reported \$861,298 of interest earned on this loan for 2009 in the Statement of Activities.

The Ministry has not set aside a specific provision for credit losses related to the Teen Challenge loan because the fair market value of the collateral assigned to the loan exceeds the carrying amount of the loan and the loan is performing in accordance with the loan agreement.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(6) Property and Equipment

Property and equipment consist of:

	2009	2008	2007
Land	\$ 730,770	\$ 730,770	\$ 730,770
Building and improvements	4,144,075	4,144,075	4,144,075
Equipment and furniture	822,979	894,533	846,700
Software	935,753	931,211	1,033,445
	<u>6,633,577</u>	<u>6,700,589</u>	<u>6,754,990</u>
Less accumulated depreciation	1,938,237	1,746,866	1,536,818
	<u>\$ 4,695,340</u>	<u>\$ 4,953,723</u>	<u>\$ 5,218,172</u>

(7) Other Real Estate Owned

As described in Note 1, The Ministry owns several parcels of property acquired through foreclosure or in a deed in lieu in foreclosure. The Ministry either attempts to sell the OREO or temporarily leases the property back to the churches with the intention that these churches may be able to repurchase the real estate in the future. The following schedule shows the breakdown between leasing and selling activities:

	2009	2008	2007
Actively selling	\$ 8,590,335	\$ 9,489,998	\$ 7,613,776
Leasing back to churches	804,989	804,989	1,673,063
	<u>\$ 9,395,324</u>	<u>\$ 10,294,987</u>	<u>\$ 9,286,839</u>

(8) Investments

The following tables set forth, by level, within the fair value hierarchy, the Ministry's assets at fair value as of December 31, 2009, 2008 and 2007:

	Assets at Fair Value as of December 31, 2009		
	Level 1	Level 2	Total
Certificates of deposit	\$ 1,825,484	\$ -	\$ 1,825,484
US Government Securities	3,805,780	-	3,805,780
Corporate bonds	-	2,763,713	2,763,713
Total Investments	<u>5,631,264</u>	<u>2,763,713</u>	<u>8,394,977</u>
Unitrust Assets (Restricted)	140,796	-	140,796
Total Investments and Unitrust Assets	<u>\$ 5,772,060</u>	<u>\$ 2,763,713</u>	<u>\$ 8,535,773</u>

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(8) Investments (continued)

	Assets at Fair Value as of December 31, 2008		
	Level 1	Level 2	Total
US Government Securities	\$ 754,810	\$ -	\$ 754,810
Corporate bonds	-	1,458,141	1,458,141
Total Investments	754,810	1,458,141	2,212,951
Unitrust Assets (Restricted)	65,343	-	65,343
Total Investments and Unitrust Assets	<u>\$ 820,153</u>	<u>\$ 1,458,141</u>	<u>\$ 2,278,294</u>

	Assets at Fair Value as of December 31, 2007		
	Level 1	Level 2	Total
Corporate bonds	\$ -	\$ 149,764	\$ 149,764
Total Investments	-	149,764	149,764
Unitrust Assets (Restricted)	98,038	-	98,038
Total Investments and Unitrust Assets	<u>\$ 98,038</u>	<u>\$ 149,764</u>	<u>\$ 247,802</u>

The Ministry is required to hold funds in a separate account to act as a reserve for its gift annuities. The total cash and investments held in these separate accounts was \$570,698 in 2009, \$553,928 in 2008 and \$546,521 in 2007.

Gains on the Ministry's investments for 2009, 2008, and 2007 were \$54,141, \$5,521 and \$544, respectively.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(9) Bank Line of Credit

The Ministry has entered into a short-term line of credit agreement with Umpqua Bank in the amount of \$10,500,000. The line bears a variable interest rate at the Wall Street Journal prime rate minus 0.50%. The interest rate on the line as of December 31, 2009 was 2.75%. The line is secured by certain Mortgage Notes Receivable totaling \$13,882,409 and a certificate of deposit in the amount of \$2,500,000. The certificate of deposit that has been pledged to secure the line of credit is reported as restricted cash on the statement of financial position. No amounts were drawn on the line as of December 31, 2009 and 2008. The total drawn on the line as of December 31, 2007, was \$9,500,000. The line matures on June 28, 2010.

(10) Notes Payable

Notes payable consist of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<i>Vision Notes</i>			
Notes payable to various churches and individuals at variable and fixed interest rates ranging from 3.25% to 7.0%, unsecured	\$259,594,434	\$233,362,611	\$182,944,157
<i>Individual Retirement Account</i>			
Notes payable to various individual retirement accounts, fixed interest rates ranging from 4.25% to 6.25%, unsecured	70,098,238	62,461,574	52,531,475
<i>Life Rewards</i>			
403(b) funds invested in <i>Vision Notes</i> , variable interest rate at 6.35%, unsecured	<u>42,867,499</u>	<u>39,960,429</u>	<u>37,811,283</u>
Total notes payable	<u><u>\$372,560,171</u></u>	<u><u>\$335,784,614</u></u>	<u><u>\$273,286,915</u></u>

The average interest rates for the notes payable were 5.12% in 2009, 5.76% in 2008, and 5.85% in 2007. Purchasers of the notes may specify frequency of interest payments, or interest may be compounded and added monthly to the principal.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(10) Notes Payable (continued)

Maturities of notes payable for each of the next 5 years are as follows:

	Life Rewards 403(b) Note	IRA Notes	Vision Notes	Total
2010	\$ 42,867,499	\$ 25,803,195	\$ 128,509,912	\$ 197,180,606
2011	-	11,190,930	46,887,297	58,078,227
2012	-	5,434,779	33,344,963	38,779,742
2013	-	13,261,608	23,028,837	36,290,445
2014	-	14,407,726	27,823,425	42,231,151
	<u>\$ 42,867,499</u>	<u>\$ 70,098,238</u>	<u>\$ 259,594,434</u>	<u>\$ 372,560,171</u>

The Life Rewards note is shown as current maturity because the 403(b) participants have the option to change his or her investment allocation within the plan at any time. As of December 31, 2009, over 98% of all funds in the 403(b) were invested in Vision Notes.

The maturities of the IRA notes are based on the length of the underlying note purchased with the IRA funds. These notes may be rolled over to a different plan or distributed to the investor at their option (subject to certain legal restrictions and early withdrawal penalties).

Upon maturity of the notes, note holders have the option to renew their notes at the current rates and terms offered by The Ministry or to take a distribution. In addition, at The Ministry's discretion, note holders may take early distributions on their notes payable subject to certain penalties. Distributions on the notes in relation to their maturities are as follows:

	<i>(in millions)</i>		
	2009	2008	2007
Total notes matured	\$ 214.7	\$ 124.6	\$ 142.0
Distributions on matured notes	\$ 22.8	\$ 9.3	\$ 7.4
Distributions on non-matured notes	\$ 31.5	\$ 35.9	\$ 35.2

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(11) Certificates Payable

Certificates payable consist of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Unsecured future maturity value of certificates payable	\$ 91,089,475	\$ 96,626,425	\$ 101,419,638
Less certificate discount with rates ranging from 5.50% to 9.43%	<u>(54,662,638)</u>	<u>(59,391,346)</u>	<u>(62,038,673)</u>
Net certificate liability	<u>\$ 36,426,837</u>	<u>\$ 37,235,079</u>	<u>\$ 39,380,965</u>

Maturities of certificates payable for each of the next 5 years are as follows:

2010	\$ 1,893,550
2011	1,028,700
2012	1,050,750
2013	524,250
2014	1,143,750
2015 and thereafter	<u>85,448,475</u>
	<u>\$ 91,089,475</u>

(12) Gift Annuities and Unitrust Agreements

The Ministry carries four gift annuities that include aggregate initial deposits of \$490,400. The interest rates on the payouts range from 7.6% - 10.3% with an annual aggregate payment of \$17,674. The Ministry is in compliance with the reserving requirements of ORS 731.716 in connection with said annuities. The Gift Annuities Liability was \$488,505 as of December 31, 2009; \$495,293 as of December 31, 2008; and \$471,499 as of December 31, 2007.

At December 31, 2009, The Ministry acted as the trustee for two Charitable Remainder Unitrusts. The initial deposits on these Unitrusts were \$164,233 and the interest rates on the payout is 6.5% to 9.5% (limited to income earned) with an annual aggregate payment amount of \$7,803 in 2009. The Unitrust Obligation Liability was \$111,411 as of December 31, 2009, \$47,100 as of December 31, 2008, and \$71,239 as of December 31, 2007.

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(13) *Deferred Compensation*

Through 2002, The Ministry offered its employees an unfunded deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan was terminated in 2003; however, one former participant of the program has not yet transferred his balance out of the plan.

(14) *Pension Plan*

The Ministry offers a tax-deferred defined contribution plan through Life Rewards for all eligible employees. The Ministry makes a contribution of the first 3% of the eligible employee's salary. In addition, if the employee elects to defer a portion of their compensation, at The Ministry's discretion, it will match the next 3%. The contribution to the plan was \$105,148 in 2009, \$68,766 and \$130,343 in 2008 and 2007, respectively.

(15) *Employee Medical Benefit Plan*

The Ministry maintains a self-insured medical plan covering substantially all full-time active employees and their families. The Ministry limits their losses through the use of stop-loss insurance policies. Specific individual losses are limited to \$40,000 per occurrence with a \$650,238 combined limit at December 31, 2009. The liability recorded for incurred but not reported claims at December 31, 2009, 2008 and 2007 was \$60,000 each year.

(16) *Functional Classification of Expenses*

The Ministry's primary program is providing financial services to churches (see Note 1); accordingly, their primary program expenses are mortgage and certificate services. Expenses for the years ended December 31 by program, administrative and fundraising services are as follows:

	2009	2008	2007
Program expenses	\$ 2,299,353	\$ 2,169,355	\$ 2,295,036
Administrative services	3,653,167	3,350,832	3,142,014
Fundraising	162,805	-	-
	<u>\$ 6,115,325</u>	<u>\$ 5,520,187</u>	<u>\$ 5,437,050</u>

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(17) Operating Lease Commitments

The Ministry leases office space and a parking lot to tenants under noncancelable operating leases with terms of five to seven years. The following is a schedule by years of future minimum rentals under leases as of December 31, 2009:

Year Ending December 31:

2010	\$ 345,992
2011	354,077
2012	258,883
2013	54,078
2014	54,078
	\$ 1,067,108
	\$ 1,067,108

(18) Noncash Activity

The Ministry had noncash OREO transactions that resulted in the following changes in assets for the years ended December 31:

	2009	2008	2007
Deeds in lieu of foreclosure	\$ 1,306,713	\$ 1,968,871	\$ 122,640
Certificates canceled and applied to OREOs	-	-	104,744
OREOs transferred to mortgage receivables	1,968,872	868,074	-

(19) Related Party

Life Rewards, a 403(b)(9) retirement income account plan, is affiliated through common management of The Ministry. Life Rewards was created by The Ministry for the benefit of eligible Assemblies of God ministries. The Plan also covers all employees of The Ministry. Certain administrative functions are performed by officers and employees of The Ministry. No such officer or employee receives compensation from the Plan.

During 2008, The Ministry received a \$900,000 donation from a charitable foundation. The foundation's chairman is an employee of The Ministry.

The President and the Chief Financial Officer were appointed to serve as board members to Teen Challenge of Puerto Rico in 2007 (See also Note 5).

Notes to Financial Statements *(continued ...)*

December 31, 2009, 2008, and 2007

(20) NASAA Guideline Requirements

The Ministry is subject to certain capital and liquidity guidelines established by the North American Securities Administrators Association, Inc. (“NASAA”) which established policies for church extension funds (“CEF”). The adoption of the policies established by NASAA is the decision of the individual states and their regulators. Inability to meet the NASAA targets in those states which have adopted the guidelines as regulations could result in the inability to sell notes or certificates in the applicable state.

The Ministry did not meet one of the guidelines as of December 31, 2009 and 2008, and two as of December 31, 2007. Management is in regular communication with state regulators regarding their plans to meet these requirements in the future and has not experienced any nor does not anticipate any significant changes in its ability to sell or renew notes or certificates in the applicable states.

The guidelines issued by NASAA call for a CEF’s net assets to be positive and equal to five percent (5%) or more of its total assets. As of December 31, 2009, The Ministry’s net assets were 2.55% of its total assets (2.69% and 2.97% in 2008 and 2007, respectively).

NASAA has established a liquidity guideline for CEFs of at least 8% of its total outstanding notes. The Ministry’s liquidity ratio as of December 31, 2009 was 10.16% (9.63% and 1.65% at December 31, 2008 and 2007, respectively).

(21) Litigation

The Ministry is subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to currently pending or threatened actions is not expected to materially affect the financial position or results of operations of the Ministry.