

**CHURCH DEVELOPMENT CORPORATION, INC.**

**\* \* \* \* \***

**FINANCIAL STATEMENTS  
With INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2010 and 2009 and 2008**

## TABLE OF CONTENTS

	<b>Page</b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	2
Statements of Activity and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5-11
<b>Supplementary Information</b>	
Schedule of Operating Expenses	13

# COCHRAN HEAD VICK & CO., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

6700 Antioch Road, Suite 460  
Merriam, Kansas 66204  
(913) 378-1100 • (913) 378-1177 FAX

---

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Church Development Corporation, Inc.:

We have audited the accompanying statements of financial position of Church Development Corporation, Inc. the "Organization", a non-profit corporation, as of December 31, 2010, 2009 and 2008, and the related statements of activity and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Church Development Corporation, Inc. as of December 31, 2010, 2009 and 2008, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 19, 2011

**CHURCH DEVELOPMENT CORPORATION, INC.**

**Statements of Financial Position  
December 31, 2010, 2009 and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Assets</b>			
Current assets:			
Cash	\$ 2,367,999	736,069	1,983,968
Interest receivable	89,602	95,172	71,482
Prepaid expenses	6,314	6,314	7,157
Current portion of mortgage notes receivable	2,497,747	1,326,059	619,689
Current portion of loan participations	75,675	71,788	201,704
Current portion of other notes receivable	31,156	43,959	45,661
Marketable securities	<u>1,873,546</u>	<u>1,654,731</u>	<u>2,305,117</u>
Total current assets	<u>6,942,039</u>	<u>3,934,092</u>	<u>5,234,778</u>
Property and equipment:			
Automobile	14,900	14,900	22,278
Office equipment	<u>96,769</u>	<u>91,144</u>	<u>91,144</u>
	111,669	106,044	113,422
Less accumulated depreciation	<u>91,742</u>	<u>79,144</u>	<u>86,771</u>
Net property and equipment	<u>19,927</u>	<u>26,900</u>	<u>26,651</u>
Other assets:			
Mortgage notes receivable	22,882,105	26,423,020	20,393,319
Loan participations	1,738,582	1,817,734	4,729,498
Other notes receivable	<u>159,288</u>	<u>271,507</u>	<u>219,410</u>
Total other assets	<u>24,779,975</u>	<u>28,512,261</u>	<u>25,342,227</u>
Total assets	<u>\$ 31,741,941</u>	<u>32,473,253</u>	<u>30,603,656</u>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Note payable to bank - line of credit	\$ -	-	-
Accounts payable and accruals	6,306	2,890	1,836
Stewardship accounts	4,982,018	4,974,791	5,601,693
Savings certificates, current maturities	<u>14,268,871</u>	<u>12,017,376</u>	<u>8,617,475</u>
Total current liabilities	<u>19,257,195</u>	<u>16,995,057</u>	<u>14,221,004</u>
Savings certificates, net of current maturities	10,630,174	13,845,344	15,182,423
Total liabilities	<u>29,887,369</u>	<u>30,840,401</u>	<u>29,403,427</u>
Net assets:			
Unrestricted	1,549,572	1,327,852	1,200,229
Temporarily restricted	-	-	-
Permanently restricted	<u>305,000</u>	<u>305,000</u>	<u>-</u>
Total net assets	<u>1,854,572</u>	<u>1,632,852</u>	<u>1,200,229</u>
Total liabilities and net assets	<u>\$ 31,741,941</u>	<u>32,473,253</u>	<u>30,603,656</u>

See accompanying notes to financial statements.

**CHURCH DEVELOPMENT CORPORATION, INC.**

**Statements of Activity and Changes in Net Assets  
For the Years Ended December 31, 2010, 2009 and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Interest and investment income:			
Interest from loans	\$ 1,551,815	1,601,454	1,721,264
Interest and dividends from investments, certificates of deposit and cash	29,206	30,702	79,741
Net gain (loss) on investments	173,246	95,703	(1,001,051)
Total interest and investment income	<u>1,754,267</u>	<u>1,727,859</u>	<u>799,954</u>
Contributions	-	-	2,456
Net assets released from restrictions			
Restriction satisfied by charitable contribution	-	-	8,875
Total unrestricted net asset revenues	<u>1,754,267</u>	<u>1,727,859</u>	<u>811,285</u>
Dividend, interest and investment expense:			
Interest expense	1,142,696	1,238,482	1,509,840
Investment fees and expenses	-	3,435	6,989
Total interest and investment expense	<u>1,142,696</u>	<u>1,241,917</u>	<u>1,516,829</u>
Bad debt expense for loan loss	-	-	121,266
Net interest and investment income	<u>611,571</u>	<u>485,942</u>	<u>(826,810)</u>
Operating expenses	389,851	358,319	486,704
Changes in unrestricted net assets	<u>221,720</u>	<u>127,623</u>	<u>(1,313,514)</u>
Temporarily restricted net assets			
Contributions received	-	-	-
Net assets released from restriction			
Restriction satisfied by charitable contribution	-	-	(8,875)
Change in temporarily restricted net assets	<u>-</u>	<u>-</u>	<u>(8,875)</u>
Permanently restricted net assets			
Endowment received	<u>-</u>	<u>305,000</u>	<u>-</u>
Change in net assets	221,720	432,623	(1,322,389)
Net assets, beginning of year	<u>1,632,852</u>	<u>1,200,229</u>	<u>2,522,618</u>
Net assets, end of year	\$ <u>1,854,572</u>	<u>1,632,852</u>	<u>1,200,229</u>

See accompanying notes to financial statements.

**CHURCH DEVELOPMENT CORPORATION, INC.**

**Statements of Cash Flows  
For the Years Ended December 31, 2010, 2009 and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:			
Change in net assets	\$ 221,720	432,623	(1,322,389)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	12,598	14,651	16,325
Interest reinvested by stewardship account holders	60,189	79,809	215,581
Interest reinvested by certificate holders	659,108	681,363	738,444
Interest on mortgages receivable transferred from stewardship accounts	(408,125)	(435,587)	(370,155)
Changes in assets and liabilities:			
(Increase) decrease in interest receivable	5,570	(23,690)	18,153
Increase in prepaid expenses	-	843	-
(Increase) decrease in marketable securities	(218,815)	650,386	(655,740)
Increase (decrease) in accounts payable	3,416	1,054	(15,707)
Total adjustments	<u>113,941</u>	<u>968,829</u>	<u>(53,099)</u>
Net cash provided by operating activities	<u>335,661</u>	<u>1,401,452</u>	<u>(1,375,488)</u>
Cash flows from investing activities:			
Purchases of property and equipment	(5,625)	(14,900)	(10,449)
Principal collections on mortgage and other notes receivable	3,076,867	4,550,058	7,418,799
Disbursements for mortgage and other notes receivable	<u>(2,580,417)</u>	<u>(8,399,081)</u>	<u>(1,520,716)</u>
Net cash used in investing activities	<u>490,825</u>	<u>(3,863,923)</u>	<u>5,887,634</u>
Cash flows from financing activities:			
Proceeds from issuance of stewardship accounts	7,308,141	3,472,991	3,064,694
Payments made on stewardship accounts	(4,879,914)	(3,639,878)	(4,446,391)
Proceeds from issuance of savings certificates	1,116,887	3,683,628	2,549,921
Payments made for canceled certificates	(2,739,670)	(2,302,169)	(1,918,692)
Net proceeds from (repayment of) note payable to bank	-	-	(2,500,000)
Net cash provided by financing activities	<u>805,444</u>	<u>1,214,572</u>	<u>(3,250,468)</u>
Net increase (decrease) in cash	1,631,930	(1,247,899)	1,261,678
Cash at beginning of year	736,069	1,983,968	722,290
Cash at end of year	<u>\$ 2,367,999</u>	<u>736,069</u>	<u>1,983,968</u>

Cash paid for interest in 2010, 2009 and 2008 totaled \$659,439, \$690,247 and \$762,458, respectively.

See accompanying notes to financial statements.

# CHURCH DEVELOPMENT CORPORATION, INC.

## Notes to Financial Statements December 31, 2010, 2009 and 2008

### 1) Summary of Significant Accounting Policies

Church Development Corporation, Inc. the "Organization", a non-profit corporation, was incorporated in Kansas to provide stewardship opportunities for the people of God to invest financial resources in the mission and work of the churches and presbyteries of the Synod of Mid-America and other Synods of the Presbyterian Church (U.S.A.). This is accomplished by churches and individual Presbyterians investing in savings certificates and stewardship accounts from Church Development Corporation which then makes low interest loans for purposes such as new church development facilities, existing church renovation, emergency repairs to church and Presbytery and Synod building projects. Loans have been made to churches located in the states of Missouri, Kansas and Illinois and loan participations have been made to churches located in the states of Arizona, California, Colorado, New York, Washington and Pennsylvania.

#### Revenue Recognition

Interest income on loans is recognized on an accrual basis. Deposit account transaction fees and other ancillary non-interest income related to the deposit and lending activities are recognized as services are performed.

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### Property and Equipment

Property and equipment are recorded at cost with depreciation computed using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. The Organization has a policy of capitalizing fixed assets costing \$300 or more. Repairs and maintenance are charged to operations as incurred.

#### Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

#### Bad Debts

The Organization uses the direct write-off method of accounting for bad debts. Use of this method does not result in material differences from the allowance method.

#### Net Assets

The Organization is required to report 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.

The temporarily restricted net assets at December 31, 2010, 2009 and 2008 are composed of contributions for which purpose restrictions have not been satisfied that are related to The Building Society, an initiative of the Organization that has the purpose of accumulating funds that would be utilized for providing grants to certain Churches not otherwise able to fund repairs to their facilities.

The permanently restricted net assets at December 31, 2010 are composed of contributions by an individual, who has donated certain certificates to the Presbyterian Church of Sarcoxie, Missouri. Under terms of the contribution, the Organization holds the certificates and the Church receives the interest income thereon. Should the Church cease to exist, the certificates would

## CHURCH DEVELOPMENT CORPORATION, INC.

### Notes to Financial Statements December 31, 2010, 2009 and 2008

become the property of the Organization. Regardless of the Church's existence, the certificates' principal is to remain intact perpetually.

#### 2) Restrictions of Cash

A policy of the board of directors requires that the Organization maintain an amount equal to at least 5% of the Organization's net assets in cash, cash equivalents, or investments with a maturity of 30 days or less. The Organization was in compliance with this policy at December 31, 2010.

#### 3) Marketable Securities

All securities are designated as available-for-sale, a designation which provides the Organization with certain flexibility in managing its investment portfolio. Such securities are reported at fair value; net unrealized gains and losses are included in the change in net assets.

Interest income on securities is recognized on the interest method according to the terms of the security. Gains or losses on sales of securities are recognized in operations at the time of sale and are determined by the difference between the net sales proceeds and the cost of the securities using the specific identification method.

#### 4) Mortgage Notes, Loan Participations and Other Notes Receivable

The Organization has installment mortgage notes, loan participations, and other notes receivable bearing interest from 3.25% to 6.00%. The Organization has the ability and intent to hold these receivables until maturity so they are reported at their outstanding principal balance. The mortgage notes are secured by real property. Both the mortgage notes and other notes, with the exception of one mortgage with a balance of \$224,585 at December 31, 2010 (\$65,584 at December 31, 2009 and \$46,656 at December 31, 2008), are guaranteed by the Presbytery within which the borrowing church resides. The loan participations are secured by real property. These receivables mature at varying times from 2020 to 2031. Based on historical collections, no allowance has been established for any year presented in this report. Payments on these receivables are considered delinquent when, depending on when they were written; they are either fifteen or twenty days late. The Organization does not have a formal policy for placing loans on nonaccrual status. When loans are determined to be uncollectible, they are written off to bad debt expense.

#### 5) Derivative Instruments

Effective January 1, 2010, The Organization no longer participates in the investments of derivative securities. For the prior years 2009 and 2008, however The Organization sold call options to help mitigate the risk associated with falling market prices of equity securities. The cumulative \$4,724 and \$104,936 gains from the sales of the calls in 2009 and 2008, respectively, are included in Interest and Investment Income in the Statements of Activity.

CHURCH DEVELOPMENT CORPORATION, INC.

Notes to Financial Statements  
December 31, 2010, 2009 and 2008

6) **Savings Certificates**

Savings certificates pay interest (expressed as percentages) from 2.5% to 7.25% and mature at various dates from 2011 to 2015. Following are maturities of certificates for each of the next five (5) years - certificates issued with no penalty for early withdrawal have been recorded as current:

<u>Year Ended December 31</u>	<u>Amount</u>
2011	\$ 14,268,871
2012	5,027,810
2013	3,297,895
2014	1,341,694
2015	<u>962,775</u>
Total	\$ <u>24,899,045</u>

7) **Stewardship Accounts**

Stewardship accounts represent money market type accounts available to individuals, churches and related agencies within the Synod of Mid-America. These accounts earn interest monthly, require a minimum balance of \$250 to earn a return and are limited to three withdrawals a month.

8) **Note Payable to Bank**

In June 2010, the Organization entered into a line of credit agreement with a bank under which it may still borrow up to \$1,200,000. Any balance borrowed is due upon demand, and bears interest, payable monthly, at the bank's prime rate on the balance outstanding. The line of credit is collateralized by all financial assets of the Organization. At December 31, 2010, 2009, and 2008, the Organization had no outstanding borrowings.

In November 2006, the Organization entered into a line of credit agreement with a bank under which it may borrow up to \$5,000,000. Any balance borrowed was due November 2008, and bears interest, payable monthly, at .75% under the bank's prime rate for the first \$1,000,000 balance outstanding and at .5% under the prime rate for balances in excess of \$1,000,000. At December 31, 2007, \$2,500,000 was borrowed and bore interest at 6.5% and 6.75% as required under the agreement.

9) **Pension Plans**

The Organization sponsors two defined contribution pension plans that cover substantially all employees. Contributions to one plan for 2010, 2009 and 2008 are based on 11% of the employee's salary. The second plan matches each dollar of participant contribution up to 4% of the participant's salary. Expenses related to these plans for 2010, 2009 and 2008 were \$73,045, \$58,596 and \$74,293, respectively.

**CHURCH DEVELOPMENT CORPORATION, INC.**

**Notes to Financial Statements  
December 31, 2010, 2009 and 2008**

**10) Operating Lease**

During 2008, the Organization entered into a non-cancelable operating lease for office space expiring in October 2013. Minimum future rental payments under this lease for the years ending December 31 are as follows:

	2011	\$	18,024
	2012		18,024
	2013		<u>15,330</u>
	Total	\$	<u>51,378</u>

**11) Commitments**

The Organization had no loan commitments at December 31, 2010 that were not disbursed.

**12) Interest and Investment Income**

Interest and investment income consists of:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Mortgage notes interest	\$ 1,414,175	1,348,532	1,342,649
Notes interest	13,390	16,144	22,286
Loan participations interest	<u>124,250</u>	<u>236,778</u>	<u>356,329</u>
Interest from loans	<u>1,551,815</u>	<u>1,601,454</u>	<u>1,721,264</u>
Interest on bank money market account	29,206	797	14,941
Dividends	-	29,905	64,800
Interest & dividends, marketable securities	<u>29,206</u>	<u>30,702</u>	<u>79,741</u>
Gains from marketable securities:			
Realized gain (loss) on sales	132,202	(110,136)	(915,042)
Previously recognized unrealized losses on investments sold	(91,803)	114,036	28,027
Unrealized gain (loss) on securities still held	<u>132,847</u>	<u>91,803</u>	<u>(114,036)</u>
Net gain on marketable securities	<u>173,246</u>	<u>95,703</u>	<u>(1,001,051)</u>
Total interest and investment income	\$ <u>1,754,267</u>	<u>1,727,859</u>	<u>799,954</u>

**13) Related Party Transactions**

The Synod of Mid-America, a related organization, held Church Development Corporation savings certificates, a stewardship account, and related endowment accounts totaling \$650,010, \$543,598 and \$517,273 at December 31, 2010, 2009 and 2008, respectively. Interest of \$26,411, \$24,986 and \$24,801 was paid on these holdings in 2010, 2009 and 2008, respectively.

During 2010, 2009 and 2008, the Organization paid \$0, \$1,450 and \$0, respectively, for consulting services to a company owned by a member of the Board.

## CHURCH DEVELOPMENT CORPORATION, INC.

### Notes to Financial Statements December 31, 2010, 2009 and 2008

#### 14) Off-Balance-Sheet Risk

At December 31, 2010, the Organization has on deposit at one bank an amount that exceeds the federally insured limit of \$250,000 by \$698,909 (including outstanding checks). The possibility of loss exists if a bank holding the excess deposits were to fail. Also, at December 31, 2009, the Organization has cash totaling \$562,302 in brokerage accounts that are not federally insured.

#### 15) Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements* 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).

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Marketable securities the fair values of investments are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in industry to value debt securities without relying exclusively on quoted prices for specific securities but rather relying on the securities' relationship to other benchmark quoted securities.

The fair value amounts for mortgages, loan participations, other notes receivable and savings certificates payable have been determined by the Organization using unobservable inputs and valuation methodologies that reflect the Organization's own assumptions. Considerable judgment is necessarily required in interpreting market data to develop the estimated fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

**CHURCH DEVELOPMENT CORPORATION, INC.**

**Notes to Financial Statements  
December 31, 2010, 2009 and 2008**

The estimated fair values of the Organization's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
2010		
Financial assets:		
Cash	\$ 2,367,999	\$ 2,367,999
Mortgage notes, loan participations and other notes receivable	27,384,553	24,847,860
Interest receivable	89,602	89,602
Financial liabilities:		
Stewardship deposits	4,982,018	4,982,018
Savings certificates	24,899,045	25,738,623
2009		
Financial assets:		
Cash	\$ 736,069	\$ 736,069
Mortgage notes, loan participations and other notes receivable	29,954,067	28,031,158
Interest receivable	95,172	95,172
Financial liabilities:		
Stewardship deposits	4,974,791	4,974,791
Savings certificates	25,862,720	26,421,260
2008		
Financial assets:		
Cash	\$ 1,983,968	\$ 1,983,968
Mortgage notes, loan participations and other notes receivable	26,209,281	23,281,579
Interest receivable	71,482	71,482
Financial liabilities:		
Stewardship deposits	5,601,693	5,601,693
Savings certificates	23,799,898	24,609,050

Fair Value Measurements

The following table presents the Organization's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

CHURCH DEVELOPMENT CORPORATION, INC.

Notes to Financial Statements  
December 31, 2010, 2009 and 2008

Marketable Securities	Fair Value Measurements at Reporting Date Using	
	Fair Value	Quoted Prices In Active Markets For Identical Asset: (Level 1)
2010	\$ 1,873,546	\$ 1,873,546
2009	\$ 1,654,731	\$ 1,654,731
2008	\$ 2,305,117	\$ 2,305,117

16) **Subsequent Events**

Subsequent events have been evaluated through March 19, 2011, which is the date the financial statements were available to be issued.

**CHURCH DEVELOPMENT CORPORATION, INC.**

**Schedule of Operating Expenses  
For the Years Ended December 31, 2010, 2009 and 2008**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Salaries	\$ 194,750	183,478	212,402
Employee benefits	74,704	59,094	77,895
Grants	6,600	-	10,250
Consultants	2,866	1,203	10,573
Professional fees	20,387	22,725	33,321
Travel	12,177	10,091	26,099
Office rent	17,615	17,111	23,802
Payroll taxes	12,380	12,380	14,847
Depreciation	12,599	14,651	16,325
Marketing	8,289	11,429	14,640
Insurance	4,174	4,329	6,854
Postage	6,981	6,982	9,633
Meetings and conference calls	3,056	2,417	4,994
Supplies	2,807	1,711	8,273
Equipment maintenance	1,616	1,120	7,118
Phone	3,875	3,927	5,225
Dues and subscriptions	532	361	314
Miscellaneous	3,441	3,828	3,496
Bank service charges	1,002	1,236	643
Line of credit expense	-	246	-
 Total operating expense	 \$ <u>389,851</u>	 <u>358,319</u>	 <u>486,704</u>