

No. 1105

**Board of Church Extension of Disciples of Christ
dba Church Extension
(inclusive of New Church Ministry)**

Lori Adams, Transitional President

130 East Washington Street, P.O. Box 7030, Indianapolis, IN 46207-7030
Telephone (800) 274-1883; en español (866) 534-1949 FAX (317) 635-6534
Web site www.churchextension.org E-mail info@churchextension.org

***Called by God, Church Extension, together with our investors and partners,
offers mission-driven capital planning and funding services to Disciples of Christ
congregations
in the context of their culture and stage of life.***

Church Extension came to a crossroads in 2010. For more than 127 years, this financial ministry of the Christian Church (Disciples of Christ) has been a resource to congregations, helping them acquire the knowledge, loans and other funding to plan and construct/renovate buildings to meet their 19th and 20th century ministry housing needs. Now, in the 21st century, with the rapid decline and evolution of congregational life as we know it, Church Extension's role in working with congregations is shifting dramatically.

This shift is not simply reactive. In fact, Church Extension has been deeply intentional over the past year in discerning the direction the organization should go. To that end, Church Extension staff and directors have been intensely engaged in discussion with other Disciples ministries and regional, pastoral and ecumenical partners who also recognize the need for significant change. Virtually all involved in the discernment believe it is imperative that we collaborate to meet congregations at the point of their needs, rather than within the context of our institutional structures. All the partners agree that we must find new and more effective ways to mobilize resources that support new and renewing congregational mission. We must accompany these congregations in their unique and often courageous missional journeys, not expect them to accompany us in our prescribed ones.

In summer 2010, Jim Powell announced he was retiring as president of Church Extension. He made this personal and professional decision on the eve of Church Extension's jumping off point – when the organization has a new vision for the future and is poised and prepared to serve differently and more collaboratively than ever before. After 27 years of exceptional leadership with Church Extension, Jim's legacy is this vision for service that helps congregations become more outward focused and more reflective of the ever-changing face of America. Jim made his retirement decision confident that he had helped to amass a creative, committed and knowledgeable team who could translate the vision into impactful services and programs that congregations are seeking.

A re-imagined Church Extension

The Hope Partnership for Missional Transformation has been born out of this vision. In collaboration with Disciples Home Missions, Higher Education Leadership Ministries and other partners, Hope Partnership addresses three major congregational areas of need that must be met overall if Disciples congregational mission is to be successfully redeveloped and sustained:

1. Physical assets must be leveraged for mission. Given the organization's expertise and legacy in helping congregations with mission-driving capital planning and funding, Church Extension is positioned to help churches think creatively about what forms housing/location for mission might take into the future.

Take Oakland Christian Church in Oakland, Iowa, for example. The congregation faced a dilemma – what to do about their old church building (1860) that was no longer meeting their needs and was, in fact, depleting resources they wanted to use for their ministry. With the help of Church Extension's planning services and after much creative effort, they determined that relocation into a former restaurant was the answer. They completed a capital campaign and came to Church Extension for a loan to complete remodeling of the donated space for worship and as a mission center. In the future, Church Extension will continue to expand and fine tune its relocation services for congregations.

2. Inspirational and empowering leaders must be developed through recruitment, network, training and support. Church Extension staff and others are in the process of developing assessment and training models to be piloted in 2011 that will help determine what qualities and expertise are best indicators of a leader's potential to help congregations succeed at making a meaningful and sustainable difference in their communities.

David Hedgepeth came to Community Christian Church in Marana, Ariz., at a point when the congregation had critical decisions to make and needed help making them. Church Extension's New Beginnings Assessment Service, provided in cooperation with the region, made it possible for Dave and other congregational leaders to openly and constructively explore their options. Through the process, Dave modeled patience, commitment, diligence, risk-taking, honesty and a willingness to try new things. Most importantly, he empowered his congregation by giving leadership away to them, by trusting them to make the sacrificial and right decisions for the sake of their future mission.

Likewise, Sammy Robles, a young Hispanic pastor, knew that his first-generation Hispanic church wasn't speaking to him and other second-generation Hispanic Disciples. With the help of New Church Ministry's services and planter training,

Sammy was able to identify a neighborhood containing the demographic he sought to serve in southeast Orlando, Fla., that wanted and needed a Disciples presence. His vision, creativity and openness to something new and different enabled him to launch Arise Christian Church in leased and cyber-space. The congregation continues to grow and serve.

3. New goals for mission and transformation must be identified, embraced and pursued. Congregations who shift to looking outward to the needs of their neighbors and then focus their energies and resources on meeting those needs are more likely to become truly transformed. This shift won't come easily to most congregations. Responding to the call to be missional will require ministry planning, a process with which Church Extension and other Hope partners will be able to help.

While New Light Christian Church in Indianapolis was making a sincere effort to connect with their neighboring community, their many programs were overwhelming their limited resources, making it difficult for them to meet their program and financial obligations effectively. Church Extension consultants worked with the church leaders to focus on the critical question of priorities and on what they could sustain and/or partner with to provide. As a result, New Light decided to focus its human and financial resources primarily on older youth, who rely on the church for guidance, support and safe haven. With this plan, the church was able to get healthier financially and, more importantly, is now making a more impactful difference in the lives of the young people they feel called to serve.

Business as usual

Even with Church Extension's intense dedication this past year to discerning and beginning implementation of this new vision, it was also very much "business as usual" at the organization in 2010:

- Overall, Church Extension provided 347 services and recorded 455 visits to congregations.
- Church Extension approved 52 loans in 2010, 18 of them to racial/ethnic and Puerto Rican Disciples of Christ congregations.
- Consultants worked intently one-on-one with congregations who were delinquent on loan payments to develop strategies to catch up on their payment obligations. Of the total number of past-due loans in 2010, 19 percent were back on track by the end of the year. Of the loans that were severely delinquent, 28 percent are back on track.
- Church Extension served 31 congregations with New Beginnings assessments (nine with modified assessments) to help them decide whether they can move

into an intentional decision for missional redefinition, redevelopment or closure. Church Extension also licensed the Presbyterian Church to use the New Beginnings process and trained their consultants to provide the service.

- Three congregations benefited from Green Audits, enabling them to defer dollars spent on energy to mission.

Witness Park Hill Christian Church in Kansas City, Mo., who lowered their energy costs by thousands of dollars and more than doubled the missional use of their building by implementing many of the recommendations in their Green Audit report.

In addition, Church Extension made four Green Loans to congregations to help fund environmental improvements to their buildings. The ministry also began a partnership with the Green Chalice program in the Kentucky region.

- Church Extension provided capital fundraising services to approximately 27 congregations in 2010. The ministry also continued to fine tune its new Mustard Seed Fundraising Service, designed primarily for racial/ethnic congregations, and the Ask Seek Knock Fundraising Service for larger-scale projects.
- Even with a significant decline in revenue, New Church Ministry continues to be a bright light in the denomination as a leader in helping Disciples create sustainable mission, primarily through the recruitment, development and coaching of passionate, inspiring and empowering new church leaders. In 2010, Disciples planted 46 new churches, bringing the total to 687 since 2001.

Some of these new churches were launched by established congregations. For example, Mississippi Boulevard Christian Church in Memphis, Tenn., successfully started four new congregations in just eight years. One averages 6,000 in worship; another reaches hundreds of children and youth; another focuses on racial reconciliation.

- New Church Ministry provided training and discernment support to 109 new church planters and core team members in 2010. Sixty-seven new church pastors attended New Church's Super Peer event where they were able to re-energize through the support and lifting up of fellow new church planters and coaches.
- Thanks to the blessings of generous donors, forward-thinking investors and conscientious borrowers, Church Extension continues to experience good financial health with positive operational results.

Today AND tomorrow

It is with passion, commitment, confidence and urgency that Church Extension staff, directors and partners will continue to focus on the challenges and blessings inherent in doing business as usual AND doing a new thing. Grounded in the foundation of the Church's four priorities and the imperative of strengthening congregations for mission, the organization will strive to serve churches so that together we may live out the Good News of Jesus Christ from our doorsteps to the end of the Earth.

The General Board reviewed Report No. 1105 from Church Extension – New Church Ministry. The report is submitted to the General Assembly for consideration and discussion. No action is required. (Discussion time 12 minutes)

Board of Church Extension of Disciples of Christ, Inc.

Financial Statements as of December 31, 2010
and 2009, and for the Three Years Ended
December 31, 2010, 2009, and 2008, and
Independent Auditors' Report

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 AND 2009, AND FOR THE THREE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-19

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Board of Church Extension of Disciples of Christ, Inc.
Indianapolis, Indiana

We have audited the accompanying statement of financial position of the Board of Church Extension of Disciples of Christ, Inc. ("Church Extension") as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Church Extension's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Church Extension for the year ended December 31, 2008 were audited by other auditors whose report, dated March 11, 2009, expressed an unqualified opinion on those statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Church Extension's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such 2010 and 2009 financial statements present fairly, in all material respects, the financial position of Church Extension as of December 31, 2010 and 2009, 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.

Deloitte & Touche LLP

March 22, 2011

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 8,723,624	\$ 3,049,620
INVESTMENTS	25,621,288	21,564,608
RESTRICTED INVESTMENTS	<u>2,883,400</u>	<u>2,610,000</u>
Total cash and investments	37,228,312	27,224,228
ACCRUED INTEREST RECEIVABLE	1,034,863	1,336,737
LOANS TO CHURCHES AND RELATED ORGANIZATIONS — Net	150,644,394	151,639,287
SUNDRY RECEIVABLES AND OTHER ASSETS	2,396,717	2,560,295
PROPERTY AND EQUIPMENT — Net	<u>171,782</u>	<u>207,863</u>
TOTAL	<u>\$ 191,476,068</u>	<u>\$ 182,968,410</u>
LIABILITIES AND NET ASSETS		
LINE OF CREDIT	\$ -	\$ 550,000
INVESTMENT NOTES AND OTHER OBLIGATIONS	161,991,225	155,051,008
OTHER LIABILITIES	1,663,793	1,698,584
BENEFIT OBLIGATIONS	<u>304,688</u>	<u>307,248</u>
Total liabilities	<u>163,959,706</u>	<u>157,606,840</u>
NET ASSETS:		
Unrestricted net assets:		
Interest-free loan funds	3,764,367	3,760,873
Accessibility low-interest loan funds	763,999	757,874
Memorial, named, and other board-designated funds	11,102,004	11,169,803
General	<u>9,797,489</u>	<u>7,243,751</u>
Total unrestricted net assets	25,427,859	22,932,301
Temporarily restricted net assets	1,205,654	1,549,083
Permanently restricted net assets	<u>882,849</u>	<u>880,186</u>
Total net assets	<u>27,516,362</u>	<u>25,361,570</u>
TOTAL	<u>\$ 191,476,068</u>	<u>\$ 182,968,410</u>

See notes to financial statements.

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENTS OF ACTIVITIES

FOR THE THREE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	2010	2009	2008
INCOME:			
Interest on loans	\$ 10,034,900	\$ 10,716,159	\$ 11,045,678
Interest and dividends on investments	728,012	636,048	695,176
Disciples Mission Fund	80,168	81,766	82,949
Fees, services, and other operating income	572,447	549,820	549,280
Net assets released from restrictions	<u>967,351</u>	<u>925,957</u>	<u>941,870</u>
Total income	<u>12,382,878</u>	<u>12,909,750</u>	<u>13,314,953</u>
EXPENSES:			
Interest on investment notes and other obligations	5,747,513	6,101,114	6,918,312
Salaries and employee benefits	3,757,182	3,834,666	3,524,473
Travel	339,862	302,409	307,872
Headquarters expense	1,871,848	1,937,987	1,719,744
Provision (benefit) for loan losses	(853,103)	120,000	90,000
New Church Ministry	<u>407,349</u>	<u>432,026</u>	<u>514,893</u>
Total expenses	<u>11,270,651</u>	<u>12,728,202</u>	<u>13,075,294</u>
INCOME FROM OPERATIONS	<u>1,112,227</u>	<u>181,548</u>	<u>239,659</u>
OTHER CHANGES IN UNRESTRICTED NET ASSETS:			
Bequests, annuities, and other gifts	388,201	263,349	1,633
Gain (loss) on investments	<u>995,130</u>	<u>1,444,801</u>	<u>(3,442,034)</u>
Total change in unrestricted net assets	<u>2,495,558</u>	<u>1,889,698</u>	<u>(3,200,742)</u>
TEMPORARILY RESTRICTED NET ASSETS:			
Temporarily restricted gift and investment income	623,922	1,096,816	661,999
Net assets released from restrictions	<u>(967,351)</u>	<u>(925,957)</u>	<u>(941,870)</u>
Total change in temporarily restricted net assets	<u>(343,429)</u>	<u>170,859</u>	<u>(279,871)</u>
PERMANENTLY RESTRICTED NET ASSETS:			
Permanently restricted gift and investment income (loss)	<u>2,663</u>	<u>4,982</u>	<u>(3,636)</u>
Total change in permanently restricted net assets	<u>2,663</u>	<u>4,982</u>	<u>(3,636)</u>
TOTAL CHANGE IN NET ASSETS	2,154,792	2,065,539	(3,484,249)
BEGINNING NET ASSETS	<u>25,361,570</u>	<u>23,296,031</u>	<u>26,780,280</u>
ENDING NET ASSETS	<u>\$ 27,516,362</u>	<u>\$ 25,361,570</u>	<u>\$ 23,296,031</u>

See notes to financial statements.

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

STATEMENTS OF CASH FLOWS

FOR THE THREE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	2010	2009	2008
OPERATING ACTIVITIES:			
Change in total net assets	\$ 2,154,792	\$ 2,065,539	\$ (3,484,249)
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:			
Provision (benefit) for loan losses	(853,103)	120,000	90,000
Depreciation and amortization	86,376	83,595	99,226
Amortization of premium — less accretion of discount on investments	601,834	95,492	2,996
Net (gain) loss on investments	(995,130)	(1,444,801)	3,472,471
Changes in operating assets and liabilities:			
Accrued interest receivable	301,874	(175,473)	2,658
Sundry receivable and other assets	163,578	(500,763)	(370,905)
Other liabilities and benefit obligations	(37,351)	36,476	(256,370)
Net cash provided by (used in) operating activities	<u>1,422,870</u>	<u>280,065</u>	<u>(444,173)</u>
INVESTING ACTIVITIES:			
Proceeds from sale of investments	13,630,471	12,057,817	13,087,349
Purchases of investments	(17,567,255)	(21,067,299)	(16,240,688)
Principal collected on loans	13,189,186	14,162,111	23,657,160
Loan funds advanced	(11,341,190)	(17,409,994)	(22,242,344)
Purchase of property and equipment	(50,295)	(27,741)	(93,846)
Net cash used in investing activities	<u>(2,139,083)</u>	<u>(12,285,106)</u>	<u>(1,832,369)</u>
FINANCING ACTIVITIES:			
Borrowings on line of credit	1,400,000	5,125,000	2,800,000
Repayments of line of credit	(1,950,000)	(4,575,000)	(2,800,000)
Sales of investment notes	76,121,980	43,863,062	29,388,368
Redemptions of investment notes	(69,181,763)	(34,385,852)	(29,217,435)
Net cash provided by financing activities	<u>6,390,217</u>	<u>10,027,210</u>	<u>170,933</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,674,004	(1,977,831)	(2,105,609)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>3,049,620</u>	<u>5,027,451</u>	<u>7,133,060</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 8,723,624</u>	<u>\$ 3,049,620</u>	<u>\$ 5,027,451</u>
INTEREST PAID	<u>\$ 2,129,500</u>	<u>\$ 2,272,715</u>	<u>\$ 2,839,481</u>

See notes to financial statements.

BOARD OF CHURCH EXTENSION OF DISCIPLES OF CHRIST, INC.

NOTES TO FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 AND 2009, AND FOR THE THREE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

1. SIGNIFICANT ACCOUNTING POLICIES

Business — Board of Church Extension of Disciples of Christ, Inc. (“Church Extension”) is a not-for-profit corporation affiliated through its common religious purposes with the Christian Church (Disciples of Christ). Church Extension is engaged primarily in assisting congregations and units of the Church in planning and financing their capital expansion projects. Church Extension is also engaged in providing resources to assist in establishing new congregations. Church Extension’s primary means of obtaining the funds necessary to conduct its operations is through the receipt of proceeds from the sale of its investment obligations, primarily in the form of term and demand notes. Church Extension believes that nearly all funds raised by issuance of its debt obligations are from members and units of the Christian Church (Disciples of Christ).

Events occurring subsequent to the date of the statement of financial condition have been evaluated for potential recognition or disclosure in the financial statements through March 22, 2011, the date of the issuance of the financial statements.

Cash Equivalents — Church Extension considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments — Investments, including permanently restricted investments, are carried at fair value. Investments for which quoted market prices are not available are valued by the investment manager of the fund based on fair value of the underlying assets. Realized and unrealized gains and losses on investments are calculated based on the cost or the amortized cost of the specific investment.

Restricted investments represent a deposit to support certain third-party financing arrangements and are discussed in Note 12.

The Board of Directors is responsible for setting and altering Church Extension’s investment policies. The Treasurer, a Vice President, and the Assistant Treasurer of Church Extension are responsible for directing the investments in accordance with those policies.

Loans — Interest income on interest-bearing loans is computed daily based upon the principal amount of the loans outstanding prior to payments received. The accrual of interest income for commercial loans is discontinued when there is a clear indication that the borrower’s cash flow may not be sufficient to meet payments as they become due. Such loans are placed on nonaccrual status when the principal or interest is past due 150 days or more, unless the borrower is making at least interest only payments or the loan is fully collateralized and is in the process of collection. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is charged against interest income and the loan is accounted for on the cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan is returned to accrual status when all delinquent interest and principal payments become current in accordance with the terms of the loan agreement or when the loan is both well secured and in the process of collection.

Church Extension maintains an allowance to absorb probable loan losses inherent in the portfolio. The allowance for possible loan losses is maintained at a level considered adequate by management to provide for potential losses in the loan portfolio. Management considers numerous factors in estimating possible loan losses including current economic conditions, prior loan loss and delinquency experience, and the composition of the loan portfolio. Additional amounts are added to the loan loss allowance to maintain an appropriate allowance as a percentage of the outstanding loan balance as deemed necessary.

Loans that exhibit probable or observed credit weaknesses are subject to individual review. A loan is impaired when it is probable Church Extension will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the fair value of the underlying collateral, or readily observable secondary market values. Church Extension evaluates the collectability of both principal and interest when assessing the need for a loss accrual.

Based on the nature of Church Extension's relationship with its borrowers and its desire to work with a borrower to meet its obligation without foreclosure, historical loan losses have been minimal. Any future recoveries are added back to the allowance.

Property and Equipment — Property and equipment are recorded on the basis of cost. Depreciation and amortization are computed by the straight-line method over the respective useful lives ranging from three to ten years.

Gift Income — Gifts qualifying as unconditional promises to give are recognized as assets and gift income when granted. Church Extension reports gifts of cash or other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Otherwise, gift income is recognized in the year of receipt.

Church Extension has been designated as the beneficiary of certain charitable gift annuities and remainder trusts. At the time the gift is made, Church Extension recognizes the net present value of the portion of the gift due to Church Extension at the time of the donor's death. Such calculations utilize actuarial assumptions as to the expected life of the donor as well as the current interest rate. The net present value of the gift is included in sundry receivables and other assets in the statements of financial position and as temporarily restricted gift income within the statements of activities when received. Changes in the fair values of the underlying annuity investments are recognized as temporarily restricted gift income and investment income within the statements of activities as they occur.

Net Assets — Net assets are allocated to and accounted for in individual categories based upon the purposes for which they are intended. Unrestricted net assets have no donor-imposed restrictions placed upon them. However, Church Extension has designated certain unrestricted net assets for specific purposes. Temporarily restricted net assets include net assets whose use by Church Extension is limited by donor-imposed stipulations that either expire by passage of time or can be met and removed by actions of Church Extension pursuant to those stipulations. Permanently restricted net assets include net assets whose use is limited by donor-imposed restrictions which stipulate that resources be maintained permanently but permits Church Extension to expend part or all of the income, or other economic benefits, derived from the donated assets.

Income Taxes — Church Extension is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code, except for income taxes on unrelated business income.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements — In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to improve disclosures about fair value instruments. The guidance requires additional disclosure about significant transfers between levels 1, 2, and 3 of the fair value hierarchy and requires disclosure of changes in level 3 activity on a gross basis. In addition, the guidance clarifies existing requirements regarding the required level of disaggregation by class of assets and liabilities and also clarifies disclosures of inputs and valuation techniques. This guidance is effective for periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements, which will be effective for fiscal years beginning after December 15, 2010. Comparative disclosures are not required in the first year the disclosures are required. Accordingly, Church Extension has adopted this amendment in the current year by adding additional disclosures, except for the additional Level 3 requirements which will be adopted in 2011. Church Extension did not have any significant transfers in or out of Level 1 and Level 2 fair value measurements during the years ended December 31, 2010 and 2009.

In July 2010, the FASB issued guidance expanding disclosures about the credit quality of financing receivables and the allowance for credit losses. The additional disclosures are intended to facilitate the evaluation of 1) the nature of credit risk inherent in Church Extension's portfolio of financing receivables, 2) how that risk is analyzed and assessed in arriving at the allowance for credit losses, and 3) the changes and reasons for those changes in the allowance for credit losses. Financing receivables include loans and notes receivable, and certain other contractual rights to receive money on demand or on fixed or determinable dates. The expanded disclosures, disaggregated by portfolio segment or class of financing receivable, include a roll-forward of the allowance for credit losses as well as impaired, nonaccrual, restructured and past due loans, and credit quality indicators. The disclosures are effective for annual reporting periods ending on or after December 15, 2011. Church Extension is currently evaluating the impact that this guidance will have on its financial statements.

2. INVESTMENTS

Investments at December 31 are summarized as follows:

	2010	
	Cost or Amortized Cost	Fair Value
Equities:		
Common stocks	\$ 62,776	\$ 61,874
Total equities	<u>62,776</u>	<u>61,874</u>
Fixed income:		
Corporate bonds	11,545,553	11,601,353
Other	<u>19,350</u>	<u>119,350</u>
Total fixed income	<u>11,564,903</u>	<u>11,720,703</u>
Certificates of deposit and commercial paper:		
Certificates of deposit	3,205,000	3,205,000
Variable rate demand notes and commercial paper	<u>191,145</u>	<u>191,145</u>
Total certificates of deposit and commercial paper	<u>3,396,145</u>	<u>3,396,145</u>
Pooled investment funds with related party — debt/equity securities (Note 10):	<u>10,280,908</u>	<u>10,442,566</u>
Total pooled investment funds with related party — debt/equity securities	<u>10,280,908</u>	<u>10,442,566</u>
Total investment securities	<u>\$25,304,732</u>	<u>\$25,621,288</u>
Restricted investments (Note 13) :		
Certificates of deposit	<u>\$ 2,883,400</u>	<u>\$ 2,883,400</u>

	2009	
	Cost or Amortized Cost	Fair Value
Equities:		
Common stocks	\$ 62,776	\$ 53,793
Total equities	<u>62,776</u>	<u>53,793</u>
Fixed income:		
Corporate bonds	7,499,050	7,499,050
Other	17,032	117,032
Total fixed income	<u>7,516,082</u>	<u>7,573,340</u>
Certificates of deposit and commercial paper:		
Certificates of deposit	2,200,000	2,200,000
Variable rate demand notes and commercial paper	2,553,764	2,553,764
Total certificates of deposit and commercial paper	<u>4,753,764</u>	<u>4,753,764</u>
Pooled investment funds with related party — debt/equity securities (Note 10):	<u>9,865,270</u>	<u>9,183,711</u>
Total pooled investment funds with related party — debt/equity securities	<u>9,865,270</u>	<u>9,183,711</u>
Total investment securities	<u>\$22,197,892</u>	<u>\$21,564,608</u>
Restricted investments (Note 13)		
Certificates of deposit	<u>\$ 2,610,000</u>	<u>\$ 2,610,000</u>

The fair value of investments restricted subject to gift agreement terms (included in pooled investment funds) totaled \$69,055 and \$64,256 at December 31, 2010 and 2009, respectively. Liabilities of \$1,278,675 and \$1,273,490 were also recorded related to this restricted gift at December 31, 2010 and 2009 respectively. The remaining assets associated with this gift were \$20,597 and \$20,494 at December 31, 2010 and 2009 respectively, which were included in investments and receivables in the amount of \$1,190,000 at both December 31, 2010 and 2009. During 2008, the assets of this gift agreement were released for use by the beneficiary. These assets are now being repaid over the next 14 years.

Net gain (loss) on investments for the years ended December 31 consist of the following:

	2010	2009	2008
Realized gains on investments	\$ 50,090	\$ 18,157	\$ 30,437
Net unrealized gains (losses) on investments:			
Unrealized gains	945,040	1,426,644	
Unrealized losses	<u> </u>	<u> </u>	<u>(3,472,471)</u>
Gain (loss) on investments	<u>995,130</u>	<u>1,444,801</u>	<u>(3,442,034)</u>
Interest and dividends on investments	<u>728,012</u>	<u>636,048</u>	<u>695,176</u>
Total investment return	<u>\$ 1,723,142</u>	<u>\$ 2,080,849</u>	<u>\$ (2,746,858)</u>

Gain (loss) on investments is exclusive of \$4,799 and \$2,830 of unrealized gains in 2010 and 2009, respectively, related to investments restricted subject to gift agreements discussed above.

Church Extension’s policy is to include interest and dividends earned on investments in its income from operations.

In accordance with ASU No. 2009-12, the Church Extension expanded its disclosures to include the category, fair value, redemption frequency, and redemption notice period for those assets whose value is estimated using the net asset value per share as of December 31, 2010.

The following table for December 31, 2010 sets forth a summary of the Church Extension’s investments with a reported NAV.

Investment	Fair Value Estimated Using Net Asset Value per Share				
	Fair Value*	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
Pooled investment funds — Christian Church Foundation	\$10,442,566	None	Immediate	None	None

* The fair values of the investments have been estimated using the net asset value of the investment.

(a) The pooled investment funds invest in short-term investments, stocks, and stock and bond funds. Church Extension can withdraw its investment in full at any time.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective January 1, 2008, Church Extension adopted the provisions of Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* (“ASC Topic 820”). This statement defines fair value, establishes a consistent framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. ASC Topic 820 requires, among other things, Church Extension’s valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs.

ASC Topic 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Church Extension’s market assumptions.

In accordance with ASC Topic 820, these two types of inputs have created the following fair value hierarchy:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 — Model-derived valuations in which one or more significant inputs or significant drivers are unobservable.

This hierarchy requires the use of observable market data when available. The hierarchy level for each of Church Extension's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2010, is as follows:

	Level 1	Level 2	Level 3	Total
Investments	\$ 11,663,227	\$ 13,958,061	\$ -	\$ 25,621,288
Restricted investments	<u> </u>	<u>2,883,400</u>	<u> </u>	<u>2,883,400</u>
Total assets	<u>\$ 11,663,227</u>	<u>\$ 16,841,461</u>	<u>\$ -</u>	<u>\$ 28,504,688</u>

The hierarchy level for each of Church Extension's assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2009, is as follows:

	Level 1	Level 2	Level 3	Total
Investments	\$ 7,508,865	\$ 14,055,743	\$ -	\$ 21,564,608
Restricted investments	<u> </u>	<u>2,610,000</u>	<u> </u>	<u>2,610,000</u>
Total assets	<u>\$ 7,508,865</u>	<u>\$ 16,665,743</u>	<u>\$ -</u>	<u>\$ 24,174,608</u>

4. PROPERTY AND EQUIPMENT — NET

Property and equipment at December 31 consist of the following:

	2010	2009
Leasehold improvements	\$ 118,326	\$ 118,326
Furniture and equipment	828,088	792,794
Computer software	<u>1,015,217</u>	<u>1,000,216</u>
	1,961,631	1,911,336
Less accumulated depreciation and amortization	<u>(1,789,849)</u>	<u>(1,703,473)</u>
	<u>\$ 171,782</u>	<u>\$ 207,863</u>

5. LOANS TO CHURCHES AND RELATED ORGANIZATIONS

Loans receivable at December 31 consist of the following:

	2010	2009
Mortgage loans:		
Interest bearing	\$ 148,535,441	\$ 150,511,455
Noninterest bearing	<u>1,459,865</u>	<u>1,670,664</u>
	149,995,306	152,182,119
Unsecured loans	<u>1,518,781</u>	<u>1,179,964</u>
	151,514,087	153,362,083
Less allowance for possible loan losses	<u>(869,693)</u>	<u>(1,722,796)</u>
	<u>\$ 150,644,394</u>	<u>\$ 151,639,287</u>

Transactions in the allowance for possible loan losses for the years ended December 31 are as follows:

	2010	2009
Balance — January 1	\$ 1,722,796	\$ 1,603,460
Losses charged off		(792)
Recoveries of losses previously charged off		128
Provision (benefit) for loan losses	<u>(853,103)</u>	<u>120,000</u>
Balance — December 31	<u>\$ 869,693</u>	<u>\$ 1,722,796</u>

As stated in Note 1, loans that exhibit probable or observed credit weaknesses are subject to individual review. The balance of these impaired loans and related valuation allowance as of December 31 were as follows:

	2010	2009
Loans past due more than 90 days with allowance	\$ 4,240,771	\$ 10,953,542
Loans past due more than 90 days without allowance	<u>6,893,621</u>	<u>1,002,400</u>
Total loans past due more than 90 days	<u>\$ 11,134,392</u>	<u>\$ 11,955,942</u>
Allowance for loans past due more than 90 days	<u>\$ (563,261)</u>	<u>\$ (1,704,357)</u>
Average loans past due more than 90 days	<u>\$ 11,545,167</u>	<u>\$ 11,697,524</u>
Total nonaccrual loans	<u>\$ 2,089,412</u>	<u>\$ 117,677</u>

Cash basis interest income recognized on impaired loans during each of the years presented was immaterial to the statements of activities.

Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. As of December 31:

2010	Level 1	Level 2	Level 3	Total Losses
Loans to churches and related organizations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,677,510</u>	<u>\$ 208,177</u>
2009	Level 1	Level 2	Level 3	Total Losses
Loans to churches and related organizations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,953,542</u>	<u>\$ 1,704,357</u>

During the year ended December 31, 2010, the Company recorded nonrecurring adjustments to certain collateral-dependent loans to churches and related organizations in accordance with ASC Topic 310-10. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. In cases where the carrying value exceeds the fair value of the collateral, an impairment loss is recognized.

Contractual loan maturities as of December 31, 2010, are as follows:

Years Ending December 31,

2011	\$ 2,716,019
2012	1,121,704
2013	1,067,599
2014	2,893,121
2015	1,908,789
Thereafter	<u>141,806,855</u>
	<u>\$ 151,514,087</u>

At December 31, 2010, Church Extension had loan and line commitments outstanding of \$13,618,615.

An interest rate adjustment for loans is performed every one to three years to reflect the current market interest rate. The carrying value of loans approximate their fair value due to the frequency of the interest rate resets.

6. INVESTMENT NOTES AND OTHER OBLIGATIONS

Investment notes and other obligations as of December 31 consist of the following:

	2010	2009
Demand and term notes (interest at 0.01%–8.0%)	\$ 140,247,152	\$ 138,558,398
Investment notes relating to loans (one to five year maturity, interest at 0.01%–6.5%)	<u>21,744,073</u>	<u>16,492,610</u>
	<u>\$ 161,991,225</u>	<u>\$ 155,051,008</u>

Maturities of investment notes and other obligations as of December 31, 2010, are as follows:

Years Ending December 31,

2011	\$ 71,619,215
2012	36,484,238
2013	41,464,814
2014	8,647,880
2015	3,651,207
Thereafter	<u>123,871</u>
	<u>\$ 161,991,225</u>

Over the past five years, reinvestment of Church Extension's investment notes has averaged 83% per year. Of the \$71,619,215 due in 2011, \$51,715,056 is term notes and \$19,904,159 is demand notes.

Interest compounded on investment notes was approximately \$3,619,000, \$3,631,000, and \$4,079,000, during 2010, 2009, and 2008, respectively. Church Extension's effective interest rate at December 31, 2010 was approximately 3.26%.

The fair value of investment notes and other obligations approximate carrying value.

Church Extension adheres to guidelines established by the North American Securities Administrators Association ("NASAA") in the statement of policy regarding Church Extension fund securities related to the general offering of the notes to investors. The statement of policy provides financial guidelines to states and provinces related to the selling of these notes. The guidelines require Church Extension to maintain a liquidity ratio (cash, cash equivalents, investments, and unused portions of lines of credit to outstanding investment notes) of at least 8% (with lines of credit not exceeding 2%), a capital adequacy ratio (unrestricted net assets to total assets) of at least 5%, and limits senior secured debt to a maximum of 10% of total assets. As of December 31, 2010, Church Extension is in compliance with the guideline requirements.

7. LINE OF CREDIT

Church Extension has available an unsecured line of credit with PNC Bank in the amount of \$3,500,000 whereby interest only is paid each month with any outstanding principal balance due in full on September 30, 2011. This line of credit replaced the previous unsecured line of credit in the amount of \$7,000,000 which was payable on demand. There were \$0 and \$550,000 of borrowings outstanding at December 31, 2010 and 2009, respectively.

On the current line of credit, borrowings bear interest at a floating rate equal to the Daily London InterBank Offered Rate ("LIBOR") plus 250 basis points, which was 2.761% at December 31, 2010.

On the previous line of credit, borrowings bore interest at Church Extension's choice of the bank's prime or at a floating rate equal to 30-day LIBOR plus 175 basis points, which was 1.981% at December 31, 2009.

Church Extension has agreed to a financial covenant to maintain a Liquidity Ratio of 2.50 to 1.00 of unencumbered assets to the maximum line of credit amount.

8. NET ASSETS

Temporarily restricted net assets as of December 31 are available for the following purposes:

	2010	2009
New Congregation Ministry	\$ 171,962	\$ 407,945
Annuity/life income trust agreements	<u>1,033,692</u>	<u>1,141,138</u>
	<u>\$ 1,205,654</u>	<u>\$ 1,549,083</u>

Permanently restricted net assets as of December 31, are available for the following purposes:

	2010	2009
Annuity/life income trust agreements	<u>\$ 882,849</u>	<u>\$ 880,186</u>

9. ENDOWMENT

Church Extension's endowment consists of approximately 25 individual funds established for a variety of purposes. Church Extension's endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has interpreted the adopted State of Indiana's "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Church Extension classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Church Extension in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board considers the following factors in making a determination to appropriate or accumulate endowment funds:

1. The duration and preservation of the fund
2. The purposes of Church Extension and the donor restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of Church Extension
7. The investment policies of Church Extension

Where the Board designates unrestricted funds to function as endowments they are classified as unrestricted net assets. Where the Board designates donor restricted non-endowment funds to function as endowments they are classified as temporarily restricted net assets.

Endowment net asset composition by type of fund as of December 31, 2010, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 558,218	\$ 863,136	\$ 1,421,354
Board-designated endowment funds	<u>1,975,984</u>	<u> </u>	<u> </u>	<u>1,975,984</u>
	<u>\$ 1,975,984</u>	<u>\$ 558,218</u>	<u>\$ 863,136</u>	<u>\$ 3,397,338</u>

Endowment net asset composition by type of fund as of December 31, 2009, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 599,434	\$ 859,041	\$ 1,458,475
Board-designated endowment funds	<u>1,754,843</u>	<u> </u>	<u> </u>	<u>1,754,843</u>
	<u>\$ 1,754,843</u>	<u>\$ 599,434</u>	<u>\$ 859,041</u>	<u>\$ 3,213,318</u>

Changes in endowment net assets for the year ended December 31, 2010, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — December 31, 2009	\$ 1,754,843	\$ 599,434	\$ 859,041	\$ 3,213,318
Investment return:				
Investment income	91,998	26,974	40,669	159,641
Net appreciation (realized and unrealized)	<u>138,751</u>	<u> </u>	<u> </u>	<u>138,751</u>
Total investment return	230,749	26,974	40,669	298,392
Contributions	82,390	1,300	100	83,790
Appropriation of endowment assets for expenditure	<u>(91,998)</u>	<u>(69,490)</u>	<u>(36,674)</u>	<u>(198,162)</u>
Endowment net assets — December 31, 2010	<u>\$ 1,975,984</u>	<u>\$ 558,218</u>	<u>\$ 863,136</u>	<u>\$ 3,397,338</u>

Changes in endowment net assets for the year ended December 31, 2009, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets —				
December 31, 2008	\$ 1,403,746	\$ 592,990	\$ 855,101	\$ 2,851,837
Investment return:				
Investment income	74,853	28,472	43,105	146,430
Net appreciation (realized and unrealized)	<u>288,032</u>	<u> </u>	<u> </u>	<u>288,032</u>
Total investment return	362,885	28,472	43,105	434,462
Contributions	63,065	1,500		64,565
Appropriation of endowment assets for expenditure	<u>(74,853)</u>	<u>(23,528)</u>	<u>(39,165)</u>	<u>(137,546)</u>
Endowment net assets —				
December 31, 2009	<u>\$ 1,754,843</u>	<u>\$ 599,434</u>	<u>\$ 859,041</u>	<u>\$ 3,213,318</u>

Return Objectives and Risk Parameters — Church Extension has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, unless otherwise instructed by the donor, endowment assets are invested in the Beasley Fund at the Christian Church Foundation, to utilize the Foundation’s expertise in investment management. The Foundation invests in a manner that is intended to yield a long-term rate of return, while assuming a moderate level of investment risk. Actual returns in any given year may vary.

Strategies Employed for Achieving Investment Objectives — To achieve its long-term rate of return objectives, Church Extension relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). By investing in the Beasley Fund of the Christian Church Foundation, Church Extension is able to take advantage of a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Relationship of Spending Policy to Investment Objectives — The Church Extension’s Investment Committee (“the Committee”) determines the method to be used to appropriate endowment funds for expenditure, unless otherwise instructed by the donor. The appropriation amount is determined as of the end of the year, for the next year’s expenditure and is equal to the percentage established by the Christian Church Foundation for income allocation. For 2011, this amount is 4.50 percent of the fair value, determined on a monthly basis. In establishing this method, the Committee considered the expected long-term rate of return on the investment of the Church Extension’s endowment funds. Accordingly, over the long-term, Church Extension expects the current spending policy to allow its endowment to grow, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts. Depending upon market conditions and the needs and available resources of Church Extension, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.

10. RELATED PARTIES

Church Extension provides services, makes loans, and sells investment obligations to certain units of the Christian Church (Disciples of Christ) with which its officers and Board of Directors are affiliated. These transactions are in the normal course of business and on the same terms, including interest rates and collateral, as those available to others.

Electronic data processing services for various units of the Christian Church are provided by Discipledata, Inc. (“DDI”), a non-profit cooperative. A staff member of Church Extension in a non-officer position is currently a member of the Board of Directors of DDI. Church Extension purchases data processing services from DDI at rates and terms comparable with those available to other customers of DDI. Data processing expenses were \$437,629, \$426,695, and \$442,305 for the years ended December 31, 2010, 2009, and 2008, respectively.

As of December 31, 2010 and 2009, Church Extension maintained \$16,442,853 and \$14,854,854, respectively, of investment notes held by Christian Church Foundation. As of December 31, 2010 and 2009, Church Extension has invested \$10,280,908, and \$9,865,270, respectively, in pooled investment funds of Christian Church Foundation, which have a fair value of \$10,442,566 and \$9,183,711, respectively.

Church Extension leases its primary office space from a related unit of the Christian Church. Office space occupancy costs expensed were \$281,794, \$272,711, and \$258,290 for the years ended December 31, 2010, 2009, and 2008, respectively. Minimum lease payments as of December 31, 2010 are as follows:

Years Ending December 31,

2011	\$ 182,812
2012	192,525
2013	204,003
2014	204,003
2015	213,221
2016	<u>121,396</u>
	<u>\$1,117,960</u>

11. RETIREMENT BENEFITS

Church Extension participates in a noncontributory, trustee retirement plan provided by the Pension Fund of the Christian Church (Disciples of Christ), Inc. which covers substantially all employees of Church Extension. Payments to the plan are based upon a fixed percentage of participants’ salaries and are actuarially determined to provide adequate funding for benefits defined in the plan. No liability exists under the plan for past service costs. The amounts charged to expense (which were equal to the payments made to the plan) were \$375,308, \$370,397, and \$342,463 for the years ended December 31, 2010, 2009, and 2008, respectively.

Church Extension also sponsors a defined-benefit health care plan that provides postretirement medical benefits to certain retirees who, at the time of their retirement, met the then-existing eligibility requirements. No other retirees or current employees are (or will be) eligible for benefits under the plan. The plan limits the amount of annual benefits payable to the eligible retirees. For the years ended December 31, 2010, 2009, and 2008, Church Extension paid benefits under the plan of \$34,796, \$36,920, and \$31,751, respectively. Church Extension has recorded a related benefit obligation of \$304,688 and \$307,248 at December 31, 2010 and 2009, respectively, which includes postretirement medical benefits and health reimbursement accounts reserve.

12. THIRD-PARTY FINANCING ARRANGEMENT

During 2006, Church Extension established a financing arrangement with a commercial bank to facilitate the extension of loans which exceed Church Extension's policy limits. Under the arrangement, Church Extension acted as an agent whereby adjustable rate taxable and tax-exempt securities were issued, the proceeds of which were used to fund the loans. As an agent, Church Extension has no obligation under the adjustable rate taxable and tax-exempt securities nor does Church Extension have any rights under the loans. Church Extension also services the loans through the collection of principal and interest which is remitted to the commercial bank. During 2006, two such transactions were executed with loans and borrowings issued of \$15.2 million, and a third loan was executed in 2007 in the amount of \$2.6 million.

Church Extension provided a guarantee to support the above loans in the amount of \$2.6 million. The guarantee is supported by collateral on deposit with the commercial bank. Such funds are classified as restricted investments on the statements of financial position. In accordance with ASC Topic 460, *Guarantees*, Church Extension records the fair value of the guarantee as a liability. The fair value of the liability is zero at December 31, 2010 and 2009. In the event a member church defaults on loan repayments, the collateral provided by Church Extension is subject to loss.

* * * * *