
**THE MISSION AND CHURCH EXTENSION
TRUST FUND OF
THE MICHIGAN AREA OF THE
UNITED METHODIST CHURCH**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Mission and Church Extension Trust Fund
Grand Rapids, Michigan

We have audited the accompanying statement of financial position of The Mission and Church Extension Trust Fund, (a nonprofit organization) as of December 31, 2010 and 2009, and the related statement of activities and cash flows for the years then ended. The financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 respects, the financial position of The Mission and Church Extension Trust Fund, as of December 31, 2010 and 2009, and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads 'Ullrey & Company'.

Ullrey & Company
Certified Public Accountants

Kalamazoo, Michigan
March 31, 2011

FINANCIAL STATEMENTS

THE MISSION AND CHURCH EXTENSION TRUST FUND
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010
WITH COMPARATIVE TOTALS FOR 2009

ASSETS

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,627,352 | \$ 1,511,096 |
| Investments held at United Methodist Foundation (UMF) | 198,538 | - |
| Promisory notes receivable | 102,593 | 146,520 |
| Mortgage notes receivable | 439,918 | 442,771 |
| | <u>2,368,401</u> | <u>2,100,387</u> |
| TOTAL CURRENT ASSETS | | |
| OTHER ASSETS | | |
| Promisory notes receivable | 187,125 | 335,771 |
| Mortgage notes receivable | 5,457,898 | 4,756,987 |
| | <u>5,645,023</u> | <u>5,092,758</u> |
| TOTAL OTHER ASSETS | | |
| TOTAL ASSETS | <u>\$ 8,013,424</u> | <u>\$ 7,193,145</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|---------------------|---------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 4,371 | \$ 914 |
| OTHER LIABILITIES | | |
| Investment accounts payable | 6,928,888 | 6,099,541 |
| | <u>6,933,259</u> | <u>6,100,455</u> |
| TOTAL LIABILITIES | | |
| NET ASSETS | | |
| Unrestricted net assets | 1,080,165 | 1,092,690 |
| | <u>1,080,165</u> | <u>1,092,690</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 8,013,424</u> | <u>\$ 7,193,145</u> |

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

THE MISSION AND CHURCH EXTENSION TRUST FUND

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2010

WITH COMPARATIVE TOTALS FOR 2009

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|---------------------|---------------------|
| <u>UNRESTRICTED NET ASSETS</u> | | |
| REVENUE | | |
| Mortgage note interest income | \$ 308,208 | \$ 341,022 |
| Promissory note interest income | 25,142 | 35,024 |
| Investment income | (1,462) | - |
| Interest income | 783 | 1,711 |
| Other income | 500 | 400 |
| | <u>333,171</u> | <u>378,157</u> |
| TOTAL REVENUE | | |
| INTEREST EXPENSE | | |
| Investment accounts interest paid | <u>231,209</u> | <u>222,623</u> |
| OPERATING EXPENSES | | |
| Loan officer expenses | 10,600 | 10,560 |
| Accounting services | 14,500 | 11,352 |
| Office support services | 16,300 | 16,600 |
| Legal fees | 17,505 | 37,583 |
| Audit fee | 6,335 | 5,400 |
| Resident agent expenses | 29,500 | 29,500 |
| Registration fees | 20 | - |
| Travel expenses | 3,703 | 4,116 |
| Insurance expense | 1,784 | 1,784 |
| Office expense | 2,000 | 1,800 |
| Computer support services | 4,695 | 3,600 |
| Computer and software expenses | 1,391 | 3,714 |
| Postage | 2,610 | 3,472 |
| Telephone | 3,081 | 3,011 |
| Miscellaneous expense | 463 | 2,710 |
| | <u>114,487</u> | <u>135,202</u> |
| TOTAL OPERATING EXPENSES | | |
| TOTAL EXPENSES | <u>345,696</u> | <u>357,825</u> |
| CHANGE IN NET ASSETS | (12,525) | 20,332 |
| NET ASSETS - Beginning of year | <u>1,092,690</u> | <u>1,072,358</u> |
| NET ASSETS - End of year | <u>\$ 1,080,165</u> | <u>\$ 1,092,690</u> |

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

THE MISSION AND CHURCH EXTENSION TRUST FUND

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

WITH COMPARATIVE TOTALS FOR 2009

| | <u>2010</u> | <u>2009</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ (12,525) | \$ 20,332 |
| Adjustments to reconcile increase in net cash provided by operations: | | |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | <u>3,457</u> | <u>914</u> |
| NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES | <u>(9,068)</u> | <u>21,246</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of new investments held at UMF | (200,000) | - |
| Unrealized (gains) losses on investments held at UMF | 4,031 | - |
| Investment income (loss) from investments held at UMF | (2,569) | |
| Proceeds from payments on mortgage notes receivable | 1,884,343 | 1,965,178 |
| Payments for issuance of new mortgage notes receivable | (2,582,402) | (1,040,000) |
| Proceeds from payments on promissory notes receivable | 192,573 | 163,292 |
| Payments for issuance of new promissory notes receivable | <u>-</u> | <u>(267,144)</u> |
| NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES | <u>(704,024)</u> | <u>821,326</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from new investment accounts payable | 864,264 | 260,899 |
| Proceeds from interest reinvested in investment accounts payable | 126,486 | 113,870 |
| Payments of principal on investment accounts payable | <u>(161,402)</u> | <u>(641,855)</u> |
| NET CASH USED BY FINANCING ACTIVITIES | <u>829,348</u> | <u>(267,086)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 116,256 | 575,486 |
| BEGINNING CASH AND CASH EQUIVALENTS | <u>1,511,096</u> | <u>935,610</u> |
| ENDING CASH AND CASH EQUIVALENTS | <u><u>\$ 1,627,352</u></u> | <u><u>\$ 1,511,096</u></u> |

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

THE MISSION AND EXTENSION CHURCH TRUST FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES

The Trust Fund provides a pooling of financial resources of Michigan United Methodists for the financing of capital needs of Michigan United Methodist churches.

The Trust Fund provides a financial opportunity whereby Michigan United Methodists can realize an investment in the future of the United Methodist Church while at the same time being good stewards of their own financial resources.

The primary purpose of the Fund is to provide a source of funds for borrowing by United Methodist churches in the State of Michigan to be used for church buildings, additions and improvements.

A secondary purpose of the Fund is to provide a prudent and safe investment opportunity for members of the United Methodist Church in the State of Michigan and for churches and church-related organizations.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS FOR ACCOUNTING

The financial statements of the Mission and Church Extension Trust Fund of the Michigan Area of the United Methodist Church have been prepared in conformity with accounting principles accepted in the United States of America.

FINANCIAL STATEMENT PRESENTATION

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.

Unrestricted net assets are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted net assets are subject to donor-imposed restrictions that may or will be met, either by the actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets are subject to donor-imposed restrictions and maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

As of December 31, 2010 and 2009, the Organization has no temporarily or permanently restricted net assets.

THE MISSION AND EXTENSION CHURCH TRUST FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

FINANCIAL INSTRUMENTS

The Organization's financial instruments consist of cash balances, fixed income securities, promissory notes, mortgages, investment accounts payable and accounts payable. The Organization's estimates of fair value approximate their carrying amounts as of December 31, 2010 and 2009.

INVESTMENTS AND INVESTMENT INCOME

Investments are stated at fair value based on quoted market prices. Unless donor or law restricts the income or loss, investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the increase or decrease in unrestricted net assets.

TAX EXEMPT STATUS

The Organization is exempt from federal income taxes under Section 501(c)3 of the Internal Revenue Code and from state income taxes. Contributions to the Organization are deductible as charitable contributions for federal income tax purposes. In addition, the Organization has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

PROPERTY AND EQUIPMENT

The Organization follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of \$500. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis. At December 31, 2010 and 2009, no assets meet the criteria for capitalization.

NOTE B - CASH

The total cash held at December 31, 2010 and 2009, amounts to \$1,646,932 and \$1,521,665, respectively. Of these amounts, \$250,000 is insured by the FDIC at December 31, 2010 and 2009.

THE MISSION AND EXTENSION CHURCH TRUST FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE C – MORTGAGE AND PROMISSORY NOTES RECEIVABLE

During the fiscal year ended December 31, 2010 and 2009, the Mission and Church Extension Trust Fund received \$2,076,916 and \$2,136,437 of principal payments, respectively. At December 31, 2010 and 2009, the schedule of principal payments receivable is as follows:

| | 2010 | 2009 |
|-----------------------------------|---------------------|---------------------|
| Mortgage notes receivable: | | |
| Receivable in less than one year | \$ 439,918 | \$ 442,771 |
| Receivable in one to five years | 1,756,221 | 1,500,399 |
| Receivable in six to ten years | 2,273,040 | 1,947,197 |
| Receivable over ten years | 1,428,637 | 1,309,391 |
| Total mortgage notes receivable | <u>\$ 5,897,816</u> | <u>\$ 5,199,758</u> |
| Promissory notes receivable: | | |
| Receivable in less than one year | \$ 102,593 | \$ 146,520 |
| Receivable in one to five years | 187,125 | 335,771 |
| Total promissory notes receivable | <u>\$ 289,718</u> | <u>\$ 482,291</u> |

As of the fiscal year ended December 31, 2010, the Mission and Church Extension Trust Fund of The Michigan Area of the United Methodist Church has twenty-one mortgages and twelve promissory loans extended to churches in the State of Michigan. Terms of the loans and interest rates offered are approved by the Board of Trustees and are targeted to be equal to or above rates available in commercial markets for similar investment of the funds. The safety of the investment is based on sound economic decisions, conservative loan policies and practices, diligent management of the loan portfolio and low administrative expenses.

THE MISSION AND EXTENSION CHURCH TRUST FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE C – MORTGAGE AND PROMISORY NOTES RECEIVABLE – CONTINUED

Management has evaluated the need for an allowance for loan losses based on the risks inherent in the portfolio, the estimated value of any underlying collateral and the guarantees, if any, of the principals of the borrowing organizations. Based on management's evaluation, as of December 31, 2010 and 2009, there is no allowance for loan losses. As of December 31, 2010 and 2009, none of these loans were delinquent (greater than 90 days past due).

A description of the loans outstanding as of December 31, 2010, is as follows:

| | Mortgage Notes Number of Loans | Principal Amount |
|---------------------------------|-----------------------------------|---------------------|
| \$0-\$100,000 | 4 | \$ 220,986 |
| \$100,001-250,000 | 8 | 1,357,878 |
| \$250,001-\$500,000 | 6 | 2,046,124 |
| \$500,001+ | 3 | 2,272,828 |
| Total mortgage notes receivable | 21 | \$ 5,897,816 |

| | Promisory Notes Number of Loans | Principal Amount |
|-----------------------------------|------------------------------------|---------------------|
| \$0-\$25,000 | 8 | \$ 76,537 |
| \$25,001-\$50,000 | 2 | 69,831 |
| \$50,001-\$75,000 | 1 | 63,540 |
| \$75,001+ | 1 | 79,810 |
| Total promissory notes receivable | 12 | \$ 289,718 |

All loans outstanding as of December 31, 2010, had a variable interest rate, which ranged from 5.25% to 7.5%. Of these loans, 5% of the total loans were unsecured promissory notes and 95% were secured mortgages.

NOTE D – INVESTMENT ACCOUNTS PAYABLE

The Organization offers investments at 100% of its face value. The purpose of the offering is to raise money to support the Organization's mission. The minimum initial investment in an investment is \$100. Investment accounts are unsecured general debt obligations. The investments pay interest at a variable interest rate, which is subject to change from time to time upon 30 days' prior written notice. An election is made at the time of purchase to have the interest either paid to the purchaser or reinvested and added to the principal balance of the investment semi-annually. Redemption of all or part of investments are payable within 60 days of request. The annual interest rate offered on investments as of December 31, 2010, is 3.25% for investments with balances of less than \$100,000, and 3.5% for investments with balances of \$100,000 or more.

Redemption requests could exceed available funds. At December 31, 2010, the Organization had cash and cash equivalents of \$1,646,932 and \$6,928,888 of outstanding investment accounts payable. As a result, cash and cash equivalents constituted approximately 24% of outstanding investment accounts.

THE MISSION AND EXTENSION CHURCH TRUST FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE E – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

As described in Note A, the Organization's estimates of the fair value of financial assets and liabilities approximate carrying value. Financial accounting standards establish 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 as follows:

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

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or 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.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

Cash and cash equivalents:

The Organization considers the carrying values of these financial instruments to approximate fair value because of the short period of time between origination of the instruments and their expected realization.

Investments, current and non-current:

The Organization's investment accounts include Level 1 and Level 2 securities. The Organization's Level 1 securities consist of demand deposits. The Organization's Level 2 securities consist of fixed income funds.

The following table summarizes the valuation of the Organization's financial instruments by the aforementioned pricing categories at December 31, 2010:

| | <u>Total</u> | <u>Quoted Prices in Active Markets (Level 1)</u> | <u>Prices with Other Observable Inputs (Level 2)</u> |
|---------------------------------|----------------------------|--|--|
| Cash and cash equivalents | <u>\$ 1,627,352</u> | <u>\$ 1,627,352</u> | <u>\$ -</u> |
| Investments | | | |
| Funds held in the UMF Bond Fund | <u>198,538</u> | <u>-</u> | <u>198,538</u> |
| Totals | <u>\$ 1,825,890</u> | <u>\$ 1,627,352</u> | <u>\$ 198,538</u> |

THE MISSION AND EXTENSION CHURCH TRUST FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE E – FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS - CONTINUED

The following is a summary of the Organization's investments at December 31, 2010:

| | <u>Amortized Cost</u> | <u>Gross Unrealized Holding Losses</u> | <u>Estimated Fair Value</u> |
|---|---------------------------|--|---------------------------------|
| Funds held in the UMF Bond Fund | <u>\$ 200,000</u> | <u>\$ (1,462)</u> | <u>\$ 198,538</u> |
| Reported as: | | | |
| Investments held at United Methodist Foundation (UMF) | | | <u>\$ 198,538</u> |

NOTE F – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through March 31, 2011, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through March 31, 2011, that would require adjustment or disclosure in the financial statements.