

# **National Church Residences and Affiliates**

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**Special Purpose Financial Report  
with Additional Information  
June 30, 2009**

# National Church Residences and Affiliates

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## Contents

<b>Report Letter</b>	1-2
<b>Special Purpose Financial Statements</b>	
Balance Sheet	3-4
Statement of Activities	5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Special Purpose Financial Statements	8-28
<b>Additional Information</b>	29
<b>Report Letter</b>	30
Combining Special Purpose Balance Sheet	31-32
Combining Special Purpose Statement of Activities	33

## Independent Auditor's Report

To the Board of Trustees  
National Church Residences and Affiliates

We have audited the accompanying special purpose balance sheet of National Church Residences and Affiliates ("NCR and Affiliates") as of June 30, 2009 and the related special purpose statements of activities, changes in net assets, and cash flows for the year then ended. These special purpose financial statements are the responsibility of NCR and Affiliates' management. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying special purpose financial statements have been prepared for the purpose of complying with, and on the basis of, accounting practices specified by the credit agreements between Bank of America and NCR and Affiliates. These special purpose financial statements are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose financial statements of NCR and Affiliates as of June 30, 2009 and for the year then ended present fairly, in all material respects, the information set forth therein on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 27, 2009 on our consideration of NCR and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide opinions on the effectiveness of internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

To the Board of Trustees  
National Church Residences and Affiliates

We have audited the special purpose financial statements of National Church Residences and Affiliates for the year ended June 30, 2008 on the basis of accounting practices specified by Section 5.10 of the master trust indenture dated December 1, 1999 between Fifth Third Bank and NCR and Affiliates, and have issued our unqualified opinion thereon dated August 21, 2008. The previously issued June 30, 2008 special purpose financial statements included two additional entities (NCR Foundation and NCR Health Care) that are not included in the accompanying financial statements. The scope of our auditing procedures was not designed to provide a basis for our expression of an opinion about whether the accompanying June 30, 2008 financial statements of NCR and Affiliates are fairly presented in conformity with accounting practices specified by the credit agreements between Bank of America and NCR and Affiliates; accordingly, we do not express such an opinion on them. However, the accompanying special purpose financial statements of NCR and Affiliates for the year ended June 30, 2008 referred to above have been subjected to the auditing procedures applied during our audit of those previously issued statements and, in our opinion, are fairly stated in all material respects in relation to the June 30, 2008 special purpose financial statements, as previously issued, taken as a whole.

This report is intended solely for the use of the boards of trustees and management of NCR and Affiliates, NCR and Affiliates' lenders, and the bondholders and is not intended to be and should not be used for any other purpose.

*Plante & Moran, PLLC*

August 27, 2009

# National Church Residences and Affiliates

## Special Purpose Balance Sheet

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,173,568	\$ 2,822,308
Investments (Note 2)	17,293,466	11,594,753
Designated and restricted cash and investments (Note 2)	2,852,850	3,250
Other receivables:		
Related parties (Note 4)	4,468,139	3,416,510
Current portion of long-term receivables from related parties (Note 4)	384,524	444,371
Other	1,016,707	421,763
Other current assets	29,944	632,450
	<hr/>	<hr/>
Total current assets	30,219,198	19,335,405
<b>Property and Equipment - Net (Note 5)</b>	19,960,789	20,478,541
<b>Other</b>		
Designated and restricted cash and investments (Note 2)	7,071,931	7,072,962
Long-term receivables from related parties - Net of current portion (Note 4)	13,883,105	14,822,064
Investment in related party organizations (Note 4)	2,432,967	2,496,218
Net unamortized bond issuance costs	565,946	342,248
Other noncurrent assets	1,255,323	986,991
	<hr/>	<hr/>
Total assets	<b><u>\$ 75,389,259</u></b>	<b><u>\$ 65,534,429</u></b>

# National Church Residences and Affiliates

## Special Purpose Balance Sheet (Continued)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 4,229,700	\$ 3,387,775
Line of credit (Note 6)	-	889,947
Accrued interest	96,988	79,041
Deposits held	516,087	399,892
Accrued liabilities and other:		
Life-lease fees (Note 9)	865,074	841,374
Current portion of long-term debt (Note 7)	199,346	612,643
Related parties accounts payable	3,026,307	3,026,307
	<u>8,933,502</u>	<u>9,236,979</u>
<b>Long-term Debt</b> - Net of current portion (Note 7)	32,100,017	24,786,410
<b>Other Long-term Liabilities</b>		
Refundable fees (Note 9)	8,302,348	7,960,811
Deferred compensation liability	132,985	516,940
Workers' compensation liability - Including reserves for related parties	909,872	312,403
Deferred revenue - Life-lease fees - Net of current portion (Note 9)	8,174,553	9,007,279
Deferred revenue - Developer fees	50,000	363,500
Pension liability (Note 8)	237,067	-
Fair value of interest rate swap agreement	155,271	-
	<u>16,393,644</u>	<u>13,350,107</u>
<b>Net Assets</b> - Unrestricted	<u>16,393,644</u>	<u>13,350,107</u>
	<u>\$ 75,389,259</u>	<u>\$ 65,534,429</u>
Total liabilities and net assets		

# National Church Residences and Affiliates

## Special Purpose Statement of Activities

	Year Ended	
	June 30, 2009	June 30, 2008
<b>Operating Revenue</b>		
Management fees	\$ 14,761,878	\$ 14,077,061
Service and administrative	3,544,664	2,957,411
Developer fees and other	7,113,705	4,511,231
Life-lease amortization revenue	1,062,614	1,374,083
Distributions received from unconsolidated subsidiaries	2,664,110	2,510,322
Rental revenue	833,138	607,801
Total operating revenue	29,980,109	26,037,909
<b>Operating Expenses</b>		
Payroll and other employee-related expenses	12,701,471	11,556,284
Administration	4,385,210	3,659,837
Depreciation and amortization	2,413,802	2,374,372
Operating and maintenance	1,061,185	1,161,060
Interest	885,951	705,482
Taxes and insurance	752,231	518,531
Travel	607,069	780,223
Advertising	460,042	617,051
Utilities	428,972	414,348
Service and ancillary	151,303	270,269
Other	356,613	545,236
Total operating expenses	24,203,849	22,602,693
<b>Operating Income</b>	5,776,260	3,435,216
<b>Other (Loss) Income</b>		
Net investment loss (Note 2)	(1,755,936)	(491,033)
Change in value of interest rate swap (Note 7)	(155,271)	-
Contribution to related party (Note 4)	-	(4,495,842)
(Loss) gain on equity investment in related party organization (Note 4)	(63,251)	71,348
Pension-related changes other than net periodic benefit cost (Note 8)	(447,569)	(175,503)
Loss on refunding of bonds	(310,696)	-
Total other loss	(2,732,723)	(5,091,030)
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<b>\$ 3,043,537</b>	<b>\$ (1,655,814)</b>

# **National Church Residences and Affiliates**

## **Special Purpose Statement of Changes in Net Assets**

	<u>Unrestricted</u>
<b>Net Assets - July 1, 2007</b>	\$ 15,005,921
<b>Decrease in Net Assets</b>	<u>(1,655,814)</u>
<b>Net Assets - June 30, 2008</b>	13,350,107
<b>Increase in Net Assets</b>	<u>3,043,537</u>
<b>Net Assets - June 30, 2009</b>	<u><b>\$ 16,393,644</b></u>

# National Church Residences and Affiliates

## Special Purpose Statement of Cash Flows

	Year Ended	
	June 30, 2009	June 30, 2008
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 3,043,537	\$ (1,655,814)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Realized and unrealized loss on investments	2,406,457	1,242,450
Life-lease amortization revenue	(1,062,614)	(1,374,083)
Provision for bad debts	565,828	864,573
Depreciation and amortization	2,413,802	2,374,372
Loss on refunding of bonds	310,696	-
Change in value of interest rate swap	155,271	-
Loss on equity investment in related party	63,251	(71,348)
Changes in assets and liabilities which provided (used) cash:		
Other assets	(260,770)	(811,784)
Accounts payable and accrued expenses	1,096,939	623,826
Deposits held	116,195	141,863
Other liabilities	(313,500)	(180,496)
Workers' compensation liability	597,469	171,663
Deferred compensation liability	(383,955)	60,694
Net cash provided by operating activities	8,748,606	1,385,916
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(1,861,955)	(2,642,843)
Changes in receivables - Related parties	(215,714)	(249,822)
Purchase of marketable securities	(12,380,259)	(15,960,970)
Proceeds from marketable securities	4,275,089	14,904,365
Net increase in designated and restricted cash and investments	(2,848,569)	(3,139,785)
Net cash used in investing activities	(13,031,408)	(7,089,055)
<b>Cash Flows from Financing Activities</b>		
Life-lease receipts (net of refunds)	595,125	988,330
Proceeds from debt issuance	18,089,690	3,122,587
Payments of debt	(11,592,317)	(648,628)
(Payments on) proceeds from lines of credit	(889,947)	889,947
Payment of bond financing costs	(568,489)	-
Net cash provided by financing activities	5,634,062	4,352,236
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,351,260	(1,350,903)
<b>Cash and Cash Equivalents - Beginning of year</b>	2,822,308	4,173,211
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 4,173,568</b>	<b>\$ 2,822,308</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 798,370	\$ 734,273
Noncash pass-through notes payable and notes receivable assumed	402,937	2,100,482

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note I - Nature of Business and Significant Accounting Policies

**Description of Organization** - National Church Residences and Affiliates (NCR and Affiliates) are not-for-profit corporations whose purpose is to develop and manage housing and to provide services to individuals with limited incomes. The Affiliates include NCR Affordable Housing Management and Services and Bristol Village Homes. All of the Affiliates were formed during the fiscal years ended June 30, 2006 and 2005. The activities of the Affiliates were formally included and accounted for in National Church Residences (NCR) prior to being formed and separated into separate legal entities. NCR and Affiliates are obligated under credit agreements with Bank of America. NCR and NCR Affordable Housing Management Services are also obligated under a 2008 master trust indenture with US Bank.

**NCR** - NCR is the base of operations for NCR's development and housing management functions and the controlling member of 252 related party organizations. NCR has the authority to direct activities, management, and policies of the related parties through its board of trustees. NCR also provides management and related services to the related party organizations classified below:

Entity Classification	Number of Entities
Not-for-profit subsidiaries owned, currently in operation	173
Not-for-profit subsidiaries owned, currently in development	2
Partnerships in operation (ownership interest ranging from .01 percent to 1 percent)	63
Healthcare facilities and agencies owned and in operation	12
NCR owned - Stafford Court	1
Bristol Village Homes	1
Total controlled entities	252
Managed for others, currently in operation	72
Total portfolio	324

**NCR Affordable Housing Management and Services** - NCR Affordable Housing Management and Services is an organization that was set up to assume the management functions for NCR's housing portfolio once approval has been received from HUD.

**Bristol Village Homes** - Bristol Village Homes includes 380 independent houses located in Waverly, Ohio.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note I - Nature of Business and Significant Accounting Policies (Continued)

The significant accounting policies followed by NCR and Affiliates are described below:

**Special Purpose Financial Statements** - NCR and Affiliates are obligated under the credit agreements with Bank of America. Other corporations in which NCR is the sole member are not obligated under these credit agreements; therefore, the financial statements do not include the accounts of the related party corporations in which NCR is the sole member, other than the Affiliates, as defined previously. The financial statements have been prepared for the purpose of complying with, and on the basis of, accounting practices specified by the credit agreements between Bank of America and NCR and Affiliates and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

**The Reporting Entity - Basis of Presentation of the Financial Statements** - The special purpose financial statements include the accounts of NCR, NCR Affordable Housing Management and Services, and Bristol Village Homes and exclude the accounts of all other corporations in which NCR is the sole member or any related party organizations. Accordingly, the accompanying special purpose financial statements exclude any item of undistributed income or loss from the corporations in which NCR is the sole member and all related party organizations.

Prior to the 2008 agreements, NCR and Affiliates were obligated under a 1999 master trust indenture with Fifth Third Bank. The 1999 master trust indenture required two additional related parties, NCR Health Care and NCR Foundation, to be included in the special purpose financial statements. The accompanying financial statements are presented in accordance with the credit agreements with Bank of America noted above and do not include NCR Health Care or NCR Foundation. The effect of the change in reporting entity decreased the total change in net assets by \$1,828,975 for the year ended June 30, 2009 and decreased the total change in net assets by \$3,393,698 for the year ended June 30, 2008.

**Related Party Organizations** - The corporations in which NCR is the sole member, affiliated partnerships, and other organizations in which NCR has an ownership or member interest are referred to herein as "related party organizations."

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note I - Nature of Business and Significant Accounting Policies (Continued)

The unaudited combined financial information of NCR and its related party organizations (not covered by the report of the independent auditor) is presented below based on each of the corporations' fiscal years ended in 2008 and 2007. This information excludes facilities managed for others.

	Unaudited	
	2008	2007
Total revenue	\$ 178,597,277	\$ 171,948,267
Total expenses - Before depreciation and amortization	<u>(157,619,821)</u>	<u>(141,590,376)</u>
Income - Before depreciation and amortization	20,977,456	30,357,891
Depreciation and amortization	<u>(35,939,392)</u>	<u>(30,095,883)</u>
Net (loss) income	<u>\$ (14,961,936)</u>	<u>\$ 262,008</u>
Current assets	\$ 73,339,862	\$ 73,362,010
Other assets	91,466,417	82,590,206
Property and equipment - Net of accumulated depreciation of \$312,559,482 and \$279,003,911 at fiscal years ended 2008 and 2007, respectively	724,171,014	729,834,469
Unamortized debt issuance costs	<u>11,409,980</u>	<u>11,146,094</u>
Total assets	<u>\$ 900,387,273</u>	<u>\$ 896,932,779</u>
Current liabilities	\$ 75,540,618	\$ 64,056,884
Long-term liabilities	748,755,777	752,005,963
Net assets/Equity	<u>76,090,879</u>	<u>80,869,993</u>
Total liabilities and fund balances	<u>\$ 900,387,274</u>	<u>\$ 896,932,840</u>

**Use of Estimates** - The preparation of financial statements 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.

**Cash and Cash Equivalents** - NCR and Affiliates consider all highly liquid investments with an original maturity of three months or less to be cash equivalents (excluding temporarily restricted cash and investments).

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Designated and Restricted Cash and Investments** - Designated and restricted cash and investments are stated at fair market value. Restricted cash and investments include primarily assets held by trustees for debt service. Board-designated cash and investments are to be used to mitigate future financial obligations and operational asset replacement. Board-designated funds can be used for other uses upon decision by the board.

**Investments in Debt Securities and Certain Equity Securities** - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included in the special purpose statement of activities.

**Receivables** - Accounts receivable from non-related and related parties are based on net charges. An allowance for uncollectible accounts is established by evaluating the accounts receivable aging and history of unpaid accounts. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible.

**Property and Equipment** - Property and equipment are carried at cost or, if donated, at fair market value at the date of donation. Depreciation is provided at rates designed to amortize the carrying amount of an asset over its estimated useful life and is computed by the straight-line method. Maintenance, repairs, and renewals that do not involve any substantial betterments are charged to expense when incurred.

Land improvements	15-25 years
Building and building improvements	10-40 years
Furniture and equipment	5-10 years
Vehicles	3-5 years

**Bond Issue Costs** - Bond issue costs are deferred and amortized over the term of the related debt using the straight-line method.

**Workers' Compensation Self-insurance** - NCR self-insures its workers' compensation liabilities and those of its related parties in the state of Ohio. NCR and its Ohio related parties are self-insured for the first \$350,000 per incident. NCR receives deposits from its related parties to pay liabilities incurred.

**Developer Fees - Revenue Recognition** - Revenue from development activities is recognized over the development period when earned and paid, which includes the period necessary for the newly developed properties to achieve breakeven cash flow from rental operations. Further, developer fees are deferred to the extent of any estimated operating deficit guarantees related to the properties anticipated to be funded by NCR (see Note 12).

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Income Taxes** - A provision for income taxes has not been included in the special purpose financial statements since NCR and Affiliates have received tax-exempt status from the Internal Revenue Service under Section 501(c)(3).

**Interest Rate Swap** - Bristol Village entered into an interest rate swap transaction to reduce economic risks associated with variability in cash outflows for interest required under provisions of variable rate bonds. Interest rate swaps are recognized as assets or liabilities at fair value. Realized gains and losses on interest rate swaps are classified as a component of operating income and are presented as part of interest expense in the special purpose statement of activities. Unrealized changes in the fair value of the interest rate swap are presented separately on the special purpose statement of activities in other income (loss).

### Note 2 - Unrestricted and Designated Cash and Investments

#### Unrestricted Investments

The aggregate carrying amount of NCR and Affiliates' investments by major type at June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Cash equivalents	\$ 4,085,690	\$ 1,720,846
Certificates of deposit	926,737	271,181
Corporate bonds	5,553,902	2,105,033
Government securities	1,877,968	672,811
Equity securities and mutual funds	4,849,169	6,824,882
Total unrestricted investments	<u>\$ 17,293,466</u>	<u>\$ 11,594,753</u>

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 2 - Unrestricted and Designated Cash and Investments (Continued)

#### Designated and Restricted Cash and Investments

The composition of designated cash and investments at June 30 is set forth in the following table:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 3,194,255	\$ 3,361,274
Certificates of deposit	2,139,758	87,768
Government securities	2,136,623	78,447
Corporate obligations	593,918	1,116,594
Equity securities and mutual funds	<u>1,860,227</u>	<u>2,432,129</u>
Total designated and restricted cash and investments	9,924,781	7,076,212
Less current portion of designated and restricted cash and investments (debt service funds)	<u>(2,852,850)</u>	<u>(3,250)</u>
Total designated and restricted cash and investments - Noncurrent	<u>\$ 7,071,931</u>	<u>\$ 7,072,962</u>

#### Net Investment Loss

The composition of the unrestricted investment loss for the years ended June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 650,521	\$ 751,417
Net realized gains and losses	(40,701)	75,223
Changes in unrealized gains and losses	<u>(2,365,756)</u>	<u>(1,317,673)</u>
Net investment loss	<u>\$ (1,755,936)</u>	<u>\$ (491,033)</u>

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 3 - Fair Value

As of July 1, 2008, NCR and Affiliates adopted Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures for fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective prospectively for periods beginning July 1, 2008 for financial assets and liabilities and for periods beginning July 1, 2009 for nonfinancial assets and liabilities as a result of the deferral of the effective date of SFAS 157 provided by FSP FAS 157-2. The implementation of the provisions of SFAS 157 for financial assets and liabilities as of July 1, 2008 did not have a material impact on NCR and Affiliates' special purpose financial statements.

The following table presents information about NCR and Affiliates' assets and liabilities measured at fair value on a recurring basis at June 30, 2009, and the valuation techniques used by NCR and Affiliates to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that NCR and Affiliates has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. NCR and Affiliates' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 3 - Fair Value (Continued)

Disclosures concerning assets and liabilities measured at fair value on a recurring basis are as follows and do not include cash and cash equivalents included in the investment and designated and restricted cash and investment balances.

#### Fair Value Measurements at June 30, 2009

	Balance at June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Investments	\$ 12,281,039	\$ 4,849,169	\$ 7,431,870	\$ -
Designated and restricted investments	4,590,768	1,860,227	2,730,541	-
<b>Liabilities</b> - Swap agreement	155,271	-	155,271	-

### Note 4 - Related Party Transactions

In connection with its recurring operations, NCR and Affiliates have numerous transactions with related party organizations. Approximately 86 percent and 88 percent of NCR and Affiliates' revenues were earned from the related party transactions during fiscal years ended June 30, 2009 and 2008, respectively.

NCR charges various fees for services provided to its operational related parties (management fees, bookkeeping fees, etc). It also periodically fronts construction and development costs on behalf of newly formed related parties until funds are available for reimbursement. Both of these types of charges are reflected in other receivables from related parties. Other receivables - related parties of \$4,468,139 and \$3,416,510 are net of allowance for doubtful accounts of approximately \$0 and \$230,000 at June 30, 2009 and 2008, respectively.

At both June 30, 2009 and 2008, Bristol Village had a payable to NCR Foundation, a related entity under common control, totaling \$3,026,307. This payable has no set terms and does not bear interest. During the year ended June 30, 2008, NCR made a contribution to NCR Foundation totaling \$4,495,842.

Through development of new tax credit entities, NCR will receive pass-through loans from various agencies in which funds loaned to NCR are then loaned into the designated entities. In addition, NCR can also advance funds to related parties in order to assist in operational shortfalls.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 4 - Related Party Transactions (Continued)

These types of loans are reflected in notes receivable from related parties at June 30, summarized as follows:

	<u>2009</u>	<u>2008</u>
Pass-through loans	\$ 9,755,341	\$ 9,352,404
Operational support loans	3,094,863	1,836,041
Acquisition loans and other	3,730,869	5,637,731
Less allowance for doubtful accounts	<u>(2,313,444)</u>	<u>(1,559,741)</u>
Net receivables from related parties	14,267,629	15,266,435
Less current portion	<u>(384,524)</u>	<u>(444,371)</u>
Net long-term receivables from related parties	<u>\$ 13,883,105</u>	<u>\$ 14,822,064</u>

In addition to the receivables referred to above at June 30, 2009 and 2008, certain related party organizations were indebted to NCR and Affiliates in the amount of approximately \$18,690,000 and \$17,190,000, respectively (excluding interest). A portion of these receivables is flow-through grants to related party organizations, which will be recorded as grant revenue when funds are received from the related party organizations.

Another portion of these receivables is capital support notes in which NCR, as part of a refinancing or acquisition of related party organizations, acquired a note receivable. These notes typically represent the difference between the appraised value and the outstanding debt of the newly formed entity. Since these notes may not result in actual proceeds for NCR, they are not recorded on the special purpose financial statements.

In December 2006, NCR Affordable Housing Management and Services purchased 100 percent of the stock of Wingate Management, a for-profit management company that manages these four sites as well as 18 other properties. Notes payable totaling \$948,942 and \$1,014,954, payable to the previous owners of the Wingate Management stock, remain outstanding as of June 30, 2009 and 2008, respectively. NCR Affordable Housing Management and Services is accounting for this investment in Wingate Management under the equity method. At June 30, 2009 and 2008, the investment in Wingate Management totaled \$2,432,967 and \$2,496,218, respectively.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 5 - Property and Equipment

Property and equipment are summarized at June 30 as follows:

	2009			
	Land and Land Improvements	Buildings	Other	Totals
Bristol Village	\$ 3,883,416	\$ 36,198,475	\$ 1,045,200	\$ 41,127,091
Office building	322,927	5,403,053	4,112,671	9,838,651
Stafford Court	27,717	301,867	79,923	409,507
Total	4,234,060	41,903,395	5,237,794	51,375,249
Less accumulated depreciation	<u>(1,534,675)</u>	<u>(25,538,630)</u>	<u>(4,341,155)</u>	<u>(31,414,460)</u>
Net property and equipment	<u>\$ 2,699,385</u>	<u>\$ 16,364,765</u>	<u>\$ 896,639</u>	<u>\$ 19,960,789</u>

	2008			
	Land and Land Improvements	Buildings	Other	Totals
Bristol Village	\$ 3,826,477	\$ 35,973,769	\$ 1,014,782	\$ 40,815,028
Office building	322,927	5,063,748	4,094,909	9,481,584
Stafford Court	27,717	306,706	79,000	413,423
Total	4,177,121	41,344,223	5,188,691	50,710,035
Less accumulated depreciation	<u>(1,306,231)</u>	<u>(24,554,063)</u>	<u>(4,371,200)</u>	<u>(30,231,494)</u>
Net property and equipment	<u>\$ 2,870,890</u>	<u>\$ 16,790,160</u>	<u>\$ 817,491</u>	<u>\$ 20,478,541</u>

Depreciation expense totaled approximately \$2,380,000 and \$2,361,000 for the years ended June 30, 2009 and 2008, respectively.

### Note 6 - Line of Credit

NCR and Affiliates have one unsecured revolving line of credit up to a maximum of \$3,000,000. This line bears interest at the bank's prime rate (3.31 percent at June 30, 2009), with interest due monthly, and expires during fiscal year 2010. At June 30, 2009 and 2008, the outstanding balance on the line totaled \$0 and \$889,947, respectively.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 7 - Long-term Debt

A summary of long-term debt at June 30, 2009 and 2008 follows:

	Facility	Interest Rate June 30, 2009	Maturity	Outstanding Balance 2009	Outstanding Balance 2008
<b>National Church Residences</b>					
<b>Tax Exempt Bond</b>					
	County of Franklin Central Office	N/A	2025	\$ -	\$ 2,795,000
	County of Pike Central Office	Variable - .38 %	2033	4,030,000	-
<b>Mortgage Notes</b>					
	Key Bank Central Office	N/A	2010	-	1,052,317
	Bank of America Central Office	4.25%	2011	1,052,317	-
	National City Bank Stafford Court	7.30 %	2012	567,050	590,762
<b>Pass-through Notes</b>					
	City of Columbus Abbey Church Village	- %	2016	1,384,253	1,423,112
	City of Columbus Country Ridge Apts.	3.00 %	2038	1,561,243	1,526,683
	Ohio Housing Finance Agency Country Ridge Apts.	3.00 %	2019	344,632	336,294
	Ohio Housing Finance Agency Commons at Grant	2.00 %	2042	318,552	312,532
	Ohio Housing Finance Agency Waggoner Senior Housing	2.00 %	2042	255,181	250,681
	Ohio Housing Finance Agency Westerville Senior Housing	2.00 %	2034	274,734	269,665
	Ohio Housing Finance Agency Kirby Manor	2.00 %	2047	488,170	479,170
	Ohio Housing Finance Agency Chantry Place	2.00 %	2037	790,808	775,808
	Ohio Housing Finance Agency Meadowview	2.00 %	2043	572,223	561,070
	Ohio Housing Finance Agency Westerville II	2.00 %	2038	260,594	255,889
	Ohio Housing Finance Agency Bristol Court	2.00 %	2038	568,739	557,184
	Ohio Housing Finance Agency Harborview	2.00 %	2042	210,795	210,022
	Ohio Housing Finance Agency Viewpoint	2.00 %	2044	754,596	739,981
	Ohio Housing Finance Agency Hilltop II	2.00 %	2033	274,995	-
	Greater Buffalo Savings Summitview	- %	2035	900,000	900,000
	Johnson Bank Courtyard Willow Woods	1%	2023	364,610	360,960
<b>Bristol Village Homes</b>					
<b>Tax Exempt Bond</b>					
	County of Pike Bristol Village Homes	N/A	2025	-	7,745,000
	County of Pike Bristol Village Homes	Variable - .38 %	2033	13,135,000	-
<b>Mortgage Note</b>					
	U.S. Dept of HUD Activity Center	5.25 %	N/A	241,929	241,969
<b>MacArthur Foundation Loan</b>					
	Central Office	2.00 %	2018	3,000,000	3,000,000
<b>NCR Affordable Housing Management and Services</b>					
	Ravet Family Trust Wingate Management	4.90 %	2016	648,942	714,954
	Ravet Family Trust Wingate Management	4.90 %	2016	300,000	300,000
	Total debt			32,299,363	25,399,053
	Less current portion			(199,346)	(612,643)
	Long-term portion			<u>\$ 32,100,017</u>	<u>\$ 24,786,410</u>

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 7 - Long-term Debt (Continued)

In conjunction with both County of Pike Bonds, NCR and Affiliates have entered into remarketing agreements, which require the remarketing agents to utilize their efforts to remarket any such bonds that may be tendered for payment. If the proceeds of the remarketing agents are not sufficient to purchase the Series 2008 Bonds tendered, the trustee is required to draw on irrevocable letters of credit to pay the necessary purchase price. The letters of credit total up to a maximum of \$17,329,597 and, in the event the letters of credit are drawn upon, the amount must be repaid in three years or by the expiration date of the letters of credit, which is November 15, 2013.

In conjunction with the Series 2008 Bonds, Bristol Village entered into a swap agreement with a counterparty that essentially changes the interest rate on Bristol Village's portion of the Bonds to a fixed rate of 2.614 percent. A liability was recorded related to this agreement totaling approximately \$155,000, which represents the instrument's fair value, at June 30, 2009.

Provisions of the County of Pike Bonds require NCR and Affiliates to, among other things, comply with certain financial ratios, restrict additional encumbrances, and restrict the sale or acquisition of certain assets and merger with another entity. At June 30, 2009, NCR was in compliance with these requirements.

Mortgages and notes payable are collateralized by the properties and lease revenues from the properties. The remaining long-term debt is secured by interest in gross revenues and collateralized property and equipment.

The pass-through notes outstanding balances included in the above table include unpaid interest.

Scheduled principal repayments on long-term debt are as follows:

Years Ending June 30	Amount
2010	\$ 199,346
2011	257,245
2012	1,539,956
2013	566,213
2014	592,522
Thereafter	29,144,081
Total	<u>\$ 32,299,363</u>

# **National Church Residences and Affiliates**

## **Notes to Special Purpose Financial Statements June 30, 2009 and 2008**

### **Note 8 - Pension and Other Postretirement Benefit Plans**

NCR and Affiliates and its related party organizations have one multiple-employer defined benefit retirement plan and two multiple-employer defined contribution plans (the "Retirement Plans") for the employees of NCR and Affiliates and its related party organizations who meet certain requirements as to age and length of service. NCR is the sponsor for these plans.

The defined contribution plan provides employer contributions (including matching percentage) ranging from 3 percent to 5 percent depending on an employee's years of service. NCR and Affiliates' total contribution made to the defined contribution plan was approximately \$543,000 and \$557,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

NCR and Affiliates' direct responsibility for the defined benefit retirement plan is approximately 25 percent for both years ended June 30, 2009 and 2008. NCR and Affiliates' total contribution to the defined benefit retirement plan totaled \$138,882 and \$264,936 in fiscal 2009 and 2008, respectively. NCR and Affiliates make annual contributions to the Retirement Plans equal to the minimum annual contributions required by the applicable regulations.

The NCR defined benefit plan was frozen from July 1, 2003 through June 30, 2006 and then again effective June 30, 2007. During this time, participants did not earn any credited service for purposes of calculating participants' benefits under the plan. Effective July 1, 2006, NCR also changed the benefit formula from 1 percent times average monthly earnings to 3/4 of 1 percent times average monthly earnings and eliminated lump-sum distributions for benefits earned after July 1, 2006. NCR is obligated to continue to make contributions to the plan.

During the year ended June 30, 2008, NCR implemented a new pension plan called the Supplemental Retirement Plan, a defined contribution plan that is designed to provide the same level of retirement funds, when coupled with the existing plans, that would have been achieved had the defined benefits plan not been frozen. NCR and Affiliates' total contribution made to this defined contribution plan was approximately \$24,000 and \$9,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

#### Obligations and Funded Status

	NCR and Affiliates' Direct			
	Responsibility		Total Plan	
	2009	2008	2009	2008
<b>At June 30</b>				
<b>Change in Benefit Obligation</b>				
Benefit obligation at beginning of year	\$ 1,862,754	\$ 1,982,496	\$ 7,493,628	\$ 8,007,885
Interest cost	123,659	119,633	497,466	483,231
Actuarial loss (gain)	38,848	(101,109)	156,279	(408,409)
Benefit payments	(22,408)	(21,654)	(90,146)	(87,468)
Settlements	(136,994)	(124,183)	(551,110)	(501,611)
Benefit obligation at end of year	1,865,859	1,855,183	7,506,117	7,493,628

#### Change in Plan Assets

Fair value of plan assets at beginning of year	1,974,690	1,993,655	7,943,931	8,052,961
Actual return on plan assets	(325,378)	(146,092)	(1,308,955)	(591,089)
Employer contributions	138,882	264,936	558,705	1,071,138
Benefits paid	(22,408)	(21,654)	(90,146)	(87,468)
Settlements	(136,994)	(124,183)	(551,110)	(501,611)
Fair value of plan assets at end of year	1,628,792	1,966,662	6,552,425	7,943,931
Funded status at end of year	\$ (237,067)	\$ 111,479	\$ (953,692)	\$ 450,303

Amounts recognized in the special purpose balance sheet consist of the following:

	NCR and Affiliates' Direct			
	Responsibility		Total Plan	
	2009	2008	2009	2008
Noncurrent assets	\$ -	\$ 111,481	\$ -	\$ 450,303
Noncurrent liabilities	\$ (237,067)	\$ -	\$ (953,692)	\$ -

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

Amounts recognized in unrestricted net assets consist of the following:

	NCR and Affiliates'		Total Plan	
	Direct Responsibility			
	2009	2008	2009	2008
Net actuarial loss	\$ 623,801	\$ 175,503	\$ 2,509,474	\$ 708,965

The accumulated benefit obligation for NCR and Affiliates' direct responsibility of the defined benefit pension plan was \$1,865,859 and \$1,855,183 at June 30, 2009 and 2008, respectively. The accumulated benefit obligation for the total defined benefit pension plan was \$7,506,117 and \$7,493,628 at June 30, 2009 and 2008, respectively.

### Components of Net Periodic Benefit Cost and Other Amounts Recognized in Unrestricted Net Assets

	NCR and Affiliates' Direct		Total Plan	
	Responsibility			
	2009	2008	2009	2008
<b>Net Periodic Benefit Cost</b>				
Interest cost	\$ 123,659	\$ 119,633	\$ 497,466	\$ 483,231
Expected return on plan assets	(130,985)	(142,040)	(526,936)	(573,742)
Amortization of net loss	1,842	-	7,412	-
Curtailment and settlement costs	45,800	11,749	184,249	47,457
Net periodic benefit cost	40,316	(10,658)	162,191	(43,054)
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets</b>				
Net loss	495,211	187,252	1,992,170	756,422
Settlement	(45,800)	(11,749)	(184,249)	(47,457)
Amortization of net gain	(1,842)	-	(7,412)	-
Total recognized in unrestricted net assets	447,569	175,503	1,800,509	708,965
Total recognized in net periodic benefit cost and unrestricted net assets	\$ 447,569	\$ 164,845	\$ 1,800,509	\$ 665,911

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

The estimated net loss for the defined benefit pension plan that will be amortized from pension-related changes other than net periodic benefit cost into net periodic benefit cost over the next fiscal year is \$75,061.

#### Assumptions

#### Weighted Average Assumptions Used to Determine Benefit Obligations at June 30

	Pension Benefits	
	2009	2008
Discount rate	6.75 %	6.25 %
Rate of compensation increase	5.00	5.00

#### Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended June 30

	Pension Benefits	
	2009	2008
Discount rate	6.75 %	6.25 %
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	5.00	5.00

The overall expected rate of return on plan assets represents a weighted average composite rate based on the historical rates of returns of the respective asset classes adjusted for anticipated market movements.

#### Plan Assets

	2009	2008
Asset category:		
Equity securities	62 %	63 %
Cash equivalents/fixed income	32	29
Other	6	8
Total	100 %	100 %

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 8 - Pension and Other Postretirement Benefit Plans (Continued)

The objective of the plan is to have long-term growth through the investment of equities and fixed income instruments, to provide prudent management in compliance with ERISA guidelines, and actuarial and contracted obligations. The target allocation range of percentages for each major category of plan assets is as follows:

Equity securities	40%-60%
Cash equivalents/fixed income	25%-40%
Real estate	5%-15%
Other	5%-15%

#### Cash Flow

#### Contributions

NCR and all related parties that participate in the total defined benefit plan plan to contribute an estimated \$47,000 per month through December 2009. The contributions for 2010 have yet to be determined.

#### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the fiscal years ending June 30:

Years Ending June 30	NCR and Affiliates' Direct	
	Responsibility	Total Plan
2010	\$ 81,407	\$ 327,491
2011	85,491	343,918
2012	87,019	350,067
2013	220,297	886,226
2014	125,639	505,428
2015-2019	712,840	2,867,666

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 9 - Deferred Revenues and Refundable Fees

NCR and Affiliates offer rental, traditional, and return of capital plans for Bristol Village residents. The rental plan requires monthly rental payments with no required up-front fees. Revenue resulting from monthly rental payments is included in rental revenue on the special purpose statement of activities. Under the terms of the traditional plan, a portion of the life-lease is refundable upon termination of the lease contract within four years of the move-in date and re-occupancy of the residency unit. The return of capital plans provides between 50 percent and 94 percent (depending on the plan chosen) refundability of the life-lease fees upon termination of the lease contract and re-occupancy of the residency unit. The deferred revenue portion of the traditional and return of capital plans is recognized over the actuarially determined estimated life of the residents, the balance of which is recognized in the year the resident moves out.

Deferred revenues consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Traditional plan	\$ 8,682,248	\$ 9,251,820
Return of capital plan	<u>357,379</u>	<u>596,833</u>
Total deferred revenue from life-lease fees	9,039,627	9,848,653
Less current portion of life-lease fees	<u>(865,074)</u>	<u>(841,374)</u>
Long-term portion of life-lease fees	<u>\$ 8,174,553</u>	<u>\$ 9,007,279</u>

Based on the terms of the traditional and return of capital plans, NCR and Affiliates recorded a liability for the estimated repayment of the refundable life-lease fees in the amount of \$8,302,348 and \$7,960,811 at June 30, 2009 and 2008, respectively, which is included in long-term liabilities on the special purpose balance sheet. The total gross amount of contractual refund obligations under existing contracts was \$9,189,810 and \$9,480,970 at June 30, 2009 and 2008, respectively. In addition, monthly services and administrative fees received from residents are recognized as revenue on a monthly basis.

### Note 10 - Program, Support Services, and Fund-raising Expenses

Total operating expense consisted of expenses relating to program, support services, and fund-raising expenses in the following amounts at June 30:

	<u>2009</u>	<u>2008</u>
Program services	\$ 22,452,100	\$ 20,945,559
Support services	1,609,226	1,517,562
Fund-raising	<u>142,523</u>	<u>139,572</u>
Total	<u>\$ 24,203,849</u>	<u>\$ 22,602,693</u>

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 11 - Fair Values of Financial Instruments

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

**Short-term Financial Instruments** - The fair values of short-term financial instruments, including cash and cash equivalents, accounts receivable and payable, and accrued liabilities approximate the carrying amounts in the accompanying special purpose financial statements due to the short maturity of such instruments.

**Investments** - Investments are recorded at fair value in the accompanying special purpose financial statements. Fair value is determined based on quoted market prices.

**Long-term Obligations** - The fair value of long-term obligations approximates the carrying amounts in the accompanying special purpose financial statements. The carrying value of the debt approximates market based on current borrowing rates.

**Swap Agreement** - The swap agreement is recorded at fair value in the accompanying special purpose financial statements. Fair value is determined based on market prices.

### Note 12 - Commitments and Contingencies

NCR has various commitments and contingencies related to its primary business activities. These commitments are as follows:

**Construction Equity and Loan Guarantees** - NCR has guaranteed various loans and equity of certain related party transactions. In the event of default by a related party, NCR could be obligated to repay the full amount outstanding. The maximum potential future payments of these loans at June 30 are as follows:

	2009	2008
Bristol Court	\$ 643,580	\$ 643,580
Chantry Place	-	2,000,000
Courtyard at Willow Woods	-	1,230,969
Harborview	-	732,129
Madison Tower	-	2,944,733
McPherson Woods	306,000	306,000
Meadowview	1,000,000	1,000,000
Memorial Towers	-	4,700,000
New Towne Village	-	1,585,090
Ravine at Central College II	-	2,350,000
Romulus	-	3,502,627
Santiago Fajardo Village	-	1,562,953
Solberg Tower	-	4,675,499

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2009 and 2008

### Note 12 - Commitments and Contingencies (Continued)

	<u>2009</u>	<u>2008</u>
Summerfield Village	\$ -	\$ 1,301,575
Vanderbilt	-	5,550,000
Viewpoint	-	9,800,000
Villa Esperanza	-	2,513,335
Villa Providencia	-	2,035,441
Villas of Combined Locks	-	2,456,387
Wayne Tower	-	2,723,396
Total	<u>\$ 1,949,580</u>	<u>\$ 53,613,714</u>

These loans and mortgages bear interest at variable rates, which range from 1.0 percent to 6.0 percent at June 30, 2008. The debt is secured by the assets held by the related party organizations, which consist principally of properties and facilities. The construction guarantees typically will expire at the end of a 30-month period. In the event NCR is required to make payments under these guarantees, NCR could seek to recover these amounts from the related party organizations; however, NCR does not hold specific recourse or collateral rights in connection with the guarantees.

**Operating Deficit** - NCR has made certain commitments related to numerous low-income tax credit housing projects developed by partnerships sponsored by NCR. To induce investor participation in the projects, NCR has extended operating deficit guarantees to the general partners in the partnerships. These guarantees can be drawn upon for specified purposes. Operating deficit guarantees totaled \$24,233,474 and \$28,333,474 at June 30, 2009 and 2008, respectively.

In the event NCR is required to make payments under these guarantees, NCR could seek to recover these amounts from the related party organizations; however, NCR does not hold specific recourse or collateral rights in connection with the guarantees. At June 30, 2009 and 2008, approximately \$2,112,000 and \$2,080,000, respectively, was cumulatively funded by NCR. Management believes that any additional funding of these operating deficit/completion guarantees will not be material, if required.

In relation to these projects, NCR has made certain limited guarantees with assurance that the low-income tax credits will be available to the investors over the projected periods during which the credits are anticipated to be earned. As of June 30, 2009, NCR believes it has completed all matters necessary to assure that the credits will be available and anticipates that all future requirements will be met. Such matters consist principally of renting the housing units to qualified tenants and maintaining proper administrative records.

# **National Church Residences and Affiliates**

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## **Notes to Special Purpose Financial Statements June 30, 2009 and 2008**

### **Note 12 - Commitments and Contingencies (Continued)**

NCR is involved in litigation arising in the ordinary course of business. In the opinion of NCR's management and legal counsel, liabilities not covered by insurance resulting from such litigation are not expected to be material.

In May 2007, HUD performed a comprehensive review of NCR's management practices. As a result of HUD's review, NCR reserved \$1,200,000 and \$400,000 in accrued expenses as of June 30, 2009 and 2008, respectively, as a contingency for future reimbursements to HUD sites for site charges that the review team did not consider to be eligible program expenses.

### **Note 13 - Subsequent Event**

The special purpose financial statements and related disclosures include evaluation of events up through and including August 27, 2009, which is the date the special purpose financial statements were issued.

On July 24, 2009, NCR and Affiliates entered into various guarantee agreements related to a tax credit project that is currently in the planning and construction phase. Total construction guarantees related to this project entered into on July 24, 2009 totaled approximately \$11,435,000. In addition, an operating deficit guarantee and a tax credit guarantee for this project were entered into on July 24, 2009, totaling approximately \$1,636,000.

## **Additional Information**

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To the Board of Trustees  
National Church Residences and Affiliates

We have audited the special purpose financial statements of National Church Residences and Affiliates as of June 30, 2009 and 2008. Our audits were made for the purpose of forming an opinion on the special purpose financial statements taken as a whole. The accompanying combining special purpose balance sheet and statement of activities information is presented for the purpose of additional analysis of the special purpose financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the special purpose financial statements. The combining information has been subjected to the procedures applied in the audits of the special purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

August 27, 2009

# National Church Residences and Affiliates

## Combining Special Purpose Balance Sheet June 30, 2009

	National Church Residences	NCR Affordable Housing Management and Services	Bristol Village Homes	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,281,332	\$ 376,964	\$ 515,272	\$ 4,173,568
Investments	14,764,592	-	2,528,874	17,293,466
Designated and restricted cash and investments	115,409	-	2,737,441	2,852,850
Other receivables:				
Related parties	4,468,139	-	-	4,468,139
Current portion of long-term receivable from related parties	384,524	-	-	384,524
Other	794,534	-	222,173	1,016,707
Other current assets	16,876	-	13,068	29,944
Total current assets	23,825,406	376,964	6,016,828	30,219,198
<b>Property and Equipment - Net</b>	4,650,459	-	15,310,330	19,960,789
<b>Other</b>				
Designated and restricted cash and investments	4,526,033	-	2,545,898	7,071,931
Long-term receivables from related parties - Net	13,883,105	-	-	13,883,105
Investment in related party organizations	230	2,432,737	-	2,432,967
Net unamortized bond issuance costs	136,313	-	429,633	565,946
Other noncurrent assets	1,255,323	-	-	1,255,323
Total assets	<b>\$ 48,276,869</b>	<b>\$ 2,809,701</b>	<b>\$ 24,302,689</b>	<b>\$ 75,389,259</b>

## National Church Residences and Affiliates

### Combining Special Purpose Balance Sheet (Continued) June 30, 2009

	National Church Residences	NCR Affordable Housing Management and Services	Bristol Village Homes	Total
<b>Liabilities and Net Assets (Deficit)</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 2,421,324	\$ -	\$ 1,808,376	\$ 4,229,700
Accrued interest	21,336	55,299	20,353	96,988
Deposits held	426,270	-	89,817	516,087
Accrued liabilities and other:				
Life-lease fees	-	-	865,074	865,074
Current portion of long-term debt	131,114	68,202	30	199,346
Related parties accounts (receivable) payables	(4,002,000)	3,502,000	3,526,307	3,026,307
Total current liabilities	(1,001,956)	3,625,501	6,309,957	8,933,502
<b>Long-term Debt - Net of current portion</b>	17,842,378	880,740	13,376,899	32,100,017
<b>Other Long-term Liabilities</b>				
Refundable fees	-	-	8,302,348	8,302,348
Deferred compensation liability	132,985	-	-	132,985
Workers' compensation liability - Including reserves for related parties	909,872	-	-	909,872
Deferred revenue - Life-lease fees - Net of current portion	-	-	8,174,553	8,174,553
Deferred revenue - Developer fees	50,000	-	-	50,000
Pension liability	219,254	-	17,813	237,067
Fair value of interest rate swap agreement	-	-	155,271	155,271
<b>Net Assets (Deficit) - Unrestricted</b>	30,124,336	(1,696,540)	(12,034,152)	16,393,644
Total liabilities and net assets (deficit)	<b>\$ 48,276,869</b>	<b>\$ 2,809,701</b>	<b>\$ 24,302,689</b>	<b>\$ 75,389,259</b>

## National Church Residences and Affiliates

### Combining Special Purpose Statement of Activities Year Ended June 30, 2009

	National Church Residences	NCR Affordable Housing Management and Services	Bristol Village Homes	Total
<b>Operating Revenue</b>				
Management fees	\$ 14,284,878	\$ 477,000	\$ -	\$ 14,761,878
Service and administrative	993,618	-	2,551,046	3,544,664
Developer fees and other	7,060,931	-	52,774	7,113,705
Life-lease amortization revenue	-	-	1,062,614	1,062,614
Distributions received from unconsolidated subsidiaries	1,814,110	-	850,000	2,664,110
Rental revenue	296,687	-	536,451	833,138
Total operating revenue	24,450,224	477,000	5,052,885	29,980,109
<b>Operating Expenses</b>				
Payroll and other employee-related expenses	12,148,765	-	552,706	12,701,471
Administration	3,961,278	37	423,895	4,385,210
Depreciation and amortization	458,722	-	1,955,080	2,413,802
Operating and maintenance	351,867	-	709,318	1,061,185
Interest	432,587	50,741	402,623	885,951
Taxes and insurance	305,670	-	446,561	752,231
Travel	571,727	-	35,342	607,069
Advertising	163,190	-	296,852	460,042
Utilities	108,895	-	320,077	428,972
Service and ancillary	44,186	-	107,117	151,303
Other	-	-	356,613	356,613
Total operating expenses	18,546,887	50,778	5,606,184	24,203,849
<b>Operating Income (Loss)</b>	5,903,337	426,222	(553,299)	5,776,260
<b>Other Income (Loss)</b>				
Net investment loss	(1,123,359)	-	(632,577)	(1,755,936)
Change in value of interest rate swap	-	-	(155,271)	(155,271)
Loss on equity investment in related party organization	-	(63,251)	-	(63,251)
Pension-related changes other than net periodic benefit cost	(413,937)	-	(33,632)	(447,569)
Loss on refunding of bonds	(110,549)	-	(200,147)	(310,696)
Total other loss	(1,647,845)	(63,251)	(1,021,627)	(2,732,723)
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<b>\$ 4,255,492</b>	<b>\$ 362,971</b>	<b>\$ (1,574,926)</b>	<b>\$ 3,043,537</b>