

# CONVERGE CORNERSTONE FUND

## FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007

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# CONVERGE CORNERSTONE FUND

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Converge Cornerstone Fund  
Arlington Heights, Illinois

We have audited the accompanying balance sheets of the Converge Cornerstone Fund as of December 31, 2009, 2008 and 2007 and the related statements of activities and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the organization'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, the financial statements referred to above present fairly, in all material respects, the financial position of the Converge Cornerstone Fund as of December 31, 2009, 2008 and 2007, and changes in its net assets and cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.



Wheaton, Illinois  
February 12, 2010

# CONVERGE CORNERSTONE FUND

## Balance Sheets

	December 31,		
	2009	2008	2007
<b>ASSETS:</b>			
Cash	\$ 598,996	\$ 171,268	\$ -
Investments	22,875,408	24,048,011	27,151,643
Loans receivable, net of allowance for doubtful loans	112,896,090	97,186,515	85,197,852
Accrued interest receivable	464,112	441,277	348,024
Other assets	33,804	54,447	41,978
Investments held for endowment	169,316	169,316	169,316
	<u>\$ 137,037,726</u>	<u>\$ 122,070,834</u>	<u>\$ 112,908,813</u>
<b>LIABILITIES AND NET ASSETS:</b>			
Bank overdraft	\$ -	\$ -	\$ 108,008
Other payables	57,914	34,960	28,265
Line of credit	470,000	4,700,000	2,455,000
Interest payable	43,819	108,468	90,776
Investment certificates	115,546,734	102,320,750	87,704,567
	<u>116,118,467</u>	<u>107,164,178</u>	<u>90,386,616</u>
<b>Net assets:</b>			
Unrestricted:			
Undesignated	15,589,131	15,319,374	15,743,237
Board designated reserve	9,243,738	8,185,660	7,016,365
Cumulative unrealized loss on investments	(4,082,926)	(8,767,694)	(406,721)
	<u>20,749,943</u>	<u>14,737,340</u>	<u>22,352,881</u>
Permanently restricted	169,316	169,316	169,316
	<u>20,919,259</u>	<u>14,906,656</u>	<u>22,522,197</u>
	<u>\$ 137,037,726</u>	<u>\$ 122,070,834</u>	<u>\$ 112,908,813</u>

See notes to financial statements

# CONVERGE CORNERSTONE FUND

## Statements of Activities

	Year Ended December 31,		
	2009	2008	2007
<b>CHANGES IN UNRESTRICTED NET ASSETS:</b>			
Interest and fees on loans receivable	\$ 6,774,133	\$ 5,831,814	\$ 5,434,480
Interest and dividends on investments	983,639	1,280,312	1,165,405
Total interest and dividend income	7,757,772	7,112,126	6,599,885
 Less interest expense on investment certificates	 (4,144,425)	 (4,307,788)	 (4,356,084)
 Net interest income	 3,613,347	 2,804,338	 2,243,801
 Other operating income and expenses:			
Other income	13,128	752	2,731
Capital campaign service fees	9,166	27,500	-
Provision for doubtful loans	(270,000)	(340,000)	(145,000)
Administrative expense	(732,918)	(765,773)	(692,768)
Professional services	(141,218)	(111,752)	(79,887)
Other operating expense	(143,508)	(124,483)	(158,343)
	(1,265,350)	(1,313,756)	(1,073,267)
 Net operating income	 2,347,997	 1,490,582	 1,170,534
Contribution to the Church	(1,000,000)	(1,000,000)	(1,000,000)
Net realized gains (losses) on investments	(20,162)	254,850	2,358,018
Net unrealized gains (losses) on investments	4,684,768	(8,360,973)	(1,306,396)
	(1,265,350)	(1,313,756)	(1,073,267)
 Change in Unrestricted Net Assets	 6,012,603	 (7,615,541)	 1,222,156
 Net Assets, Beginning of Year	 14,906,656	 22,522,197	 21,300,041
 Net Assets, End of Year	 \$ 20,919,259	 \$ 14,906,656	 \$ 22,522,197

See notes to financial statements

# CONVERGE CORNERSTONE FUND

## Statements of Cash Flows

	Year Ended December 31,		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from mortgage loan interest	\$ 6,520,542	\$ 5,557,355	\$ 4,605,099
Interest and dividends received on investments	953,335	1,253,800	1,153,064
Capital campaign service fees received	9,166	27,500	-
Contributions and miscellaneous income received	15,264	(679)	2,993
Cash paid to vendors and the Church	(972,259)	(978,372)	(896,089)
Interest paid to investors	(1,353,886)	(1,510,559)	(1,416,338)
Reinvested interest on certificates payable	(2,855,188)	(2,779,537)	(2,905,023)
Contribution to the Church	(1,000,000)	(1,000,000)	(1,000,000)
Net Cash Provided (Used) by Operating Activities	1,316,974	569,508	(456,294)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Principal payments received on loans	5,355,093	7,553,309	6,293,530
Loans made	(21,106,716)	(19,706,972)	(20,450,318)
Proceeds from sales and maturities of investments	7,628,239	5,962,967	9,257,371
Purchase of investments	(1,755,786)	(10,934,171)	(4,333,774)
Purchase of equipment	(6,060)	(26,548)	-
Net Cash Used by Investing Activities	(9,885,230)	(17,151,415)	(9,233,191)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds received from issuance of investment certificates	33,679,696	32,198,523	20,877,101
Reinvested interest on certificates payable	2,855,188	2,779,537	2,905,023
Payments made to redeem investment certificates	(23,308,900)	(20,361,877)	(16,227,976)
Net proceeds from (payments on) line of credit and bank overdraft	(4,230,000)	2,136,992	2,135,337
Net Cash Provided by Financing Activities	8,995,984	16,753,175	9,689,485
Change in Cash	427,728	171,268	-
Cash, Beginning of Year	171,268	-	-
Cash, End of Year	\$ 598,996	\$ 171,268	\$ -

See notes to financial statements

# CONVERGE CORNERSTONE FUND

## Statements of Cash Flows, continued

	Year Ended December 31,		
	2009	2008	2007
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Change in unrestricted net assets	\$ 6,012,603	\$ (7,615,541)	\$ 1,222,156
Adjustments:			
Amortization and depreciation - net	(10,677)	(15,777)	5,803
Net realized (gains) losses on sale of investments and property	20,162	(254,850)	(2,358,018)
Net unrealized (gains) losses on investments	(4,684,768)	8,360,973	1,306,396
Provision for doubtful loans	270,000	340,000	145,000
Loan origination costs and accrued interest added to principal	(227,952)	(175,000)	(854,411)
Change in:			
Accrued interest receivable	(20,699)	(94,684)	18,941
Interest payable	(64,649)	17,692	34,723
Other payables	22,954	6,695	23,116
Net Cash Provided (Used) by Operating Activities	\$ 1,316,974	\$ 569,508	\$ (456,294)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Matured investment certificates reinvested	\$ 32,772,607	\$ 25,609,748	\$ 25,619,016
Assets held for resale reclassified to loans receivable	\$ -	\$ -	\$ 51,055

See notes to financial statements

# CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
December 31, 2009, 2008 and 2007

## 1. NATURE OF ORGANIZATION:

On November 27, 1989, the Baptist General Conference Cornerstone Fund dba Converge Cornerstone Fund (the Fund) was incorporated as an Illinois not-for-profit corporation and assumed all of the assets and liabilities of its predecessor, The Home Missions Revolving Building Trust. The Fund is affiliated with the Baptist General Conference dba Converge Worldwide (the Church) in Arlington Heights, Illinois.

The purpose of the Fund is to make loans to the member churches, regional districts and other affiliated entities of the Church. Loans may be obtained for land purchases for future expansion and for the purchase, construction or remodeling of churches and related facilities. Churches make application for loans that include ministry and financial information for management of the Fund to evaluate the merits of the project. Management then provides information to the Board of Directors for final approval or denial of the application. The Fund's Board of Directors consists of a banker, a real estate appraiser, a pastor, a contractor and three employees of the Church. The Fund has 129 loans with an average balance of \$889,954.

Funding is provided by issuance of investment certificates to individuals and organizations associated with the Church. The Fund has 2,151 investors. Certificates, which may be payable upon demand or for a specified term, are interest bearing obligations of the Fund and have interest rates at December 31, 2009, from 2.00% to 6.00%, with a weighted average rate of 3.66%. Term certificates mature within six months to five years. Interest rates are established based upon comparison with bank certificate of deposit interest rates as well as U.S. Government Treasury certificate rates.

The Fund is administered by employees of the Church and is governed by a Board of Directors. The Fund reimburses the Church for salary and benefits of employees assigned to the Fund, as well as office and occupancy related expenses. The Fund is exempt from federal and state income taxes under the provisions of the Internal Revenue Code Section (IRC) 501(c)(3) and applicable state statutes and is not a private foundation under IRC Section 509(a)(1).

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### BASIS OF ACCOUNTING

The financial statements of the Fund have been prepared using the accrual basis of accounting, which gives recognition to income and related assets when earned and expenses and related liabilities when incurred. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates. The significant accounting policies followed are described below.

### CASH POLICY

Cash consists of a checking account. The Fund's cash balance is maintained with one financial institution. Cash may, at times, exceed federally insured limits. The Fund has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

# CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
December 31, 2009, 2008 and 2007

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### INVESTMENTS

Investments are recorded at fair value. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Realized and unrealized gains and losses are included in the statements of activities as increases or decreases in unrestricted net assets.

### LOANS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL LOANS

Loans receivable are stated at their principal amount outstanding less the related allowance for doubtful loans and are collateralized by church buildings and land. Generally, interest rates on loans are subject to review and adjustment every three to five years. Loans are typically amortized over a period of fifteen or twenty years.

The Fund charges loan origination and loan refinancing fees of up to 1.5% of the loan amount. The Fund analyzes fees received in relation to direct expenses for underwriting new loans. Loan fees charged by the Fund approximate actual costs incurred for loan processing. Accordingly, such fees are recognized on the statements of activities as a component of interest income in the year of loan origination.

The allowance for doubtful loans is maintained at a level that, in management's judgment, is adequate to absorb probable loan losses. In evaluating the adequacy of the reserve, management will analyze historical loan losses and the quality of the current loan portfolio. In addition, the net realizable value of property serving as collateral for delinquent loans will be assessed on an annual basis. Due to the nature of the relationship with its borrowers, the Fund is willing to make accommodations with borrowers whose payments are not current, so long as such accommodations do not jeopardize the interests of the Fund's investors. A loan is considered impaired when, based upon current information and events, it is probable that the Fund will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments are 90 days overdue. Loans will continue to accrue interest when a loan is 180 days delinquent; however, all accrued interest may be included in the allowance for doubtful loans. Payments for delinquent or impaired loans are treated as a payment of interest due until all accrued interest has been paid. Interest income on delinquent loans is recognized according to the original amortization schedule (accrual method).

### ASSETS HELD FOR RESALE

Assets held for resale represent property obtained through advanced land purchases or when a church was no longer able to service a loan. Each asset is expected to be sold in the future. All assets are recorded at the lower of cost or estimated net realizable value (appraised value less estimated selling costs). Operating expenses, such as property taxes and necessary costs of upkeep, are not capitalized as part of the cost of the asset. However, certain costs which could increase the value or marketability of the asset are capitalized. In 2007 the holding amount on the property held for resale was reclassified to loans receivable for the church originally on the title.

# CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
December 31, 2009, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

**BOARD DESIGNATED RESERVE**

This portion of unrestricted net assets is designated by Board action to provide a measure of protection against loss for the Fund's investors. Designated net assets are an amount equal to eight percent of the total investment certificates payable.

**PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of endowment fund investments to be held in perpetuity, the income from which is to be paid to a member church. The disclosures required by the Reporting Endowment Funds topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) have not been included in these financial statements due to immateriality.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

On January 1, 2009, the Fund adopted the new provisions of the Income Tax topic of the FASB ASC. These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the balance sheets if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2009, the Fund had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

3. INVESTMENTS:

Investments consist of the following:

	2009	2008	2007
Mutual funds	\$ 18,604,572	\$ 13,862,008	\$ 20,660,497
Money market instruments	1,039,134	1,979,326	26,218
Money market instruments - restrictively liquid	-	5,207,935	-
Corporate bonds	3,393,455	3,159,392	3,515,194
Mortgage backed securities	7,563	8,666	10,000
Certificates of deposit	-	-	3,109,050
	23,044,724	24,217,327	27,320,959
Less: Investments held for endowment	(169,316)	(169,316)	(169,316)
	\$ 22,875,408	\$ 24,048,011	\$ 27,151,643

# CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
December 31, 2009, 2008 and 2007

3. INVESTMENTS, continued:

At December 31, 2009, the corporate bonds and mortgage backed securities mature as follows:

Within one year	\$	837,412
After one year through five years		730,222
After ten years		1,833,384
	\$	3,401,018

The Fund has adopted the provisions of the Fair Value Measurements and Disclosure Topic of the FASB ASC. These standards define fair value, establish a framework for measuring fair value and enhance disclosures about fair value measurements. Fair value is defined under the standards as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market between market participants on the measurement date.

The fair values of investments are based on the framework established in the standards which establishes a three-level hierarchy for determining fair value. The valuations for each of these levels are determined as follows:

Level 1 - Quoted prices for identical instruments traded in active markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets or model-based valuations where significant assumptions are observable.

Level 3 - Model-based techniques using significant assumptions that are not observable. These unobservable assumptions reflect estimates of assumptions that market participants would use.

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2009:

	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 18,604,572	\$ 18,604,572	\$ -	\$ -
Money market instruments	1,039,134	1,039,134	-	-
Corporate bonds and mortgage backed securities	3,401,018	-	3,401,018	-
	\$ 23,044,724	\$ 19,643,706	\$ 3,401,018	\$ -

## CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
December 31, 2009, 2008 and 2007

4. LOANS RECEIVABLE, NET:

Loans receivable are summarized as follows:

	2009	2008	2007
Less than 5.75%	\$ 6,040,405	\$ 10,320,511	\$ 12,441,192
5.75% - 6.125%	42,997,851	33,917,683	24,811,257
6.25% - 6.625%	48,599,111	35,199,022	28,599,133
6.75% - 7.125%	15,036,838	16,652,885	17,851,184
7.25% - 7.625%	542,878	842,900	1,054,045
7.75% - 8.75%	1,587,011	1,891,518	1,739,045
	114,804,094	98,824,519	86,495,856
Allowance for doubtful loans	(1,908,004)	(1,638,004)	(1,298,004)
	\$ 112,896,090	\$ 97,186,515	\$ 85,197,852
 Average interest rate of loans	 6.25%	 6.26%	 6.25%

An analysis of the allowance for doubtful loans is as follows:

Balance, beginning of year	\$ 1,638,004	\$ 1,298,004	\$ 1,153,004
Provision for doubtful loans	270,000	340,000	145,000
	\$ 1,908,004	\$ 1,638,004	\$ 1,298,004

Loans at December 31, 2009, are estimated to mature as follows:

2010	\$ 5,830,068
2011	5,323,594
2012	5,214,290
2013	5,315,619
2014	5,610,263
Thereafter	87,510,260
	\$ 114,804,094

# CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
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4. LOANS RECEIVABLE, NET, continued:

At December 31, 2009, the Fund had five delinquent loans with a principal balance of \$1,116,877 or 1% of the Fund's aggregate principal balance of total loans outstanding. The amount of interest and principal payments owing and delinquent on such loans was \$59,473. Interest income recognized on delinquent loans during 2009 was \$76,200. The Fund believes that the collateral related to the delinquent loans will be sufficient to repay the loan balance.

At December 31, 2008, the Fund had three delinquent loans with a principal balance of \$375,984 or .4% of the Fund's aggregate principal balance of total loans outstanding. The amount of interest and principal payments owing and delinquent on such loans was \$87,498. Interest income recognized on delinquent loans during 2008 was \$20,201.

At December 31, 2007, the Fund had three delinquent loans with a principal balance of \$287,874 or .3% of the Fund's aggregate principal balance of total loans outstanding. The amount of interest and principal payments owing and delinquent on such loans was \$62,880. Interest income recognized on delinquent loans during 2007 was \$16,458.

The Fund had 129 mortgage loans at December 31, 2009. Although the Fund has no geographic restrictions on where the loans are made other than where member churches are located, aggregate loans in excess of five percent of total balances are concentrated in the following states:

State	Number of Loans	Amount	Percentage of Portfolio
Arizona	9	\$ 37,475,065	33%
Minnesota	21	19,205,346	17%
Illinois	14	16,983,027	15%
Florida	16	8,524,245	7%
	60	\$ 82,187,683	72%

## CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
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4. LOANS RECEIVABLE, NET, continued:

Loans receivable are distributed by size of loan as follows:

Balance	Number	Average Balance	Total Balance	Percentage of Portfolio
\$ 1,000,000 or more	30	\$ 2,987,803	\$ 89,634,076	78%
\$ 500,000 - 999,999	15	\$ 757,584	11,363,755	10%
\$ 300,000 - 499,999	15	\$ 393,593	5,903,899	5%
\$ 200,000 - 299,999	13	\$ 244,889	3,183,560	3%
\$ 100,000 - 199,999	21	\$ 137,038	2,877,790	2%
Less than \$100,000	35	\$ 52,600	1,841,014	2%
	<u>129</u>		<u>\$ 114,804,094</u>	<u>100%</u>

Although the Fund has a geographically diverse portfolio of loans to member churches, concentrations of credit risk exist with respect to the amount of delinquent loans and with respect to individually significant loans, which are defined as those exceeding five percent of the total loan portfolio. At December 31, 2009, 2008 and 2007, these individually significant loans totaled \$26,843,152, \$25,172,415 and \$24,972,933, respectively.

5. INVESTMENT CERTIFICATES:

At December 31, 2009, the Fund was indebted on certificates as summarized below:

Type	Fixed Rate and Demand Certificates	IRA Certificates	Total Certificates
Demand	\$ 28,558,529	\$ 17,209,125	\$ 45,767,654
Six-month	7,223,193	-	7,223,193
One year	10,784,002	-	10,784,002
Two year	12,543,010	-	12,543,010
Three year	5,873,782	-	5,873,782
Four year	1,024,520	-	1,024,520
Five year	32,330,573	-	32,330,573
	<u>\$ 98,337,609</u>	<u>\$ 17,209,125</u>	<u>\$ 115,546,734</u>

## CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
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5. INVESTMENT CERTIFICATES, continued:

Investment certificates, which bear interest at rates of 2.00% to 6.00%, mature as follows:

Year of Maturity	Fixed Rate and Demand Certificates	IRA Certificates	Total Certificates
2010	\$ 58,025,130	\$ 17,209,125	\$ 75,234,255
2011	15,695,618	-	15,695,618
2012	10,979,899	-	10,979,899
2013	5,135,954	-	5,135,954
2014	8,501,008	-	8,501,008
	\$ 98,337,609	\$ 17,209,125	\$ 115,546,734

Approximately 60% of all outstanding certificates are concentrated in three states as follows:

State	Number	Amount	Percentage of Portfolio
Illinois (including related parties, Note 6)	724	\$ 32,714,609	28%
Minnesota	1136	19,603,278	17%
California	653	17,392,132	15%
	2,513	\$ 69,710,019	60%

Large investors, who are defined as customers with certificate balances of \$100,000 or more, are as follows:

Investor Size	Number of Investors	Total Balance	Percentage of Portfolio
Related parties (Note 6)	5	\$ 5,697,854	5%
Greater than \$500,000	27	31,346,751	27%
\$200,001-500,000	71	19,222,591	17%
\$100,000-200,000	150	20,360,370	18%
	253	\$ 76,627,566	67%

# CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
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## 6. RELATED PARTY TRANSACTIONS:

Expenses include administrative charges of \$732,918, \$765,773 and \$692,768 for the years ended December 31, 2009, 2008 and 2007, respectively, allocated to the Fund by the Church.

In addition, investment certificates have been issued to related parties. Certificate balances and interest paid to related parties are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
The Church:			
Investment certificates	\$ 3,442,205	\$ 6,500,188	\$ 6,871,538
Interest paid	\$ 207,936	\$ 241,130	\$ 312,683
 Baptist General Conference Foundation:			
Investment certificates	\$ 2,255,649	\$ 2,515,402	\$ 1,647,771
Interest paid	\$ 91,399	\$ 110,165	\$ 87,476

The Board of Directors has established a policy to contribute a portion of the Fund's net income to the Church. This policy is reviewed annually in light of current circumstances. The objective of this contribution is to promote the health of borrowing churches and the growth of future churches as potential borrowers. For each of the years ended December 31, 2009, 2008 and 2007, \$1,000,000 was paid to the Church. Distribution of these gifts were made in monthly installments to the Church to cover expenses as they were incurred.

## 7. COMMITMENTS:

In the normal course of business, the Fund makes commitments to extend mortgage loans to meet the financing needs of member churches. Outstanding commitments are letters that outline the terms and conditions of the loan to be granted. The commitments represent expected disbursements based on estimated construction costs and may vary based on actual costs of construction. The Fund's exposure to credit loss, in the event of nonperformance by the churches to which it has extended commitments, is limited to the amount of the commitment. The Fund controls the credit risk of its commitments through credit approvals, limits and monitoring procedures. At December 31, 2009, the Fund had extended loan commitments of \$12,690,450.

# CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
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## 8. CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Fund to concentrations of credit risk consist principally of cash, cash equivalents, marketable securities and loans receivable. At December 31, 2009, \$1,039,134 of the Fund's marketable securities was invested in money market mutual funds. The Fund has not experienced any losses on these accounts and does not believe it is exposed to any significant risk of loss related to these money market investments. At December 31, 2009, \$18,604,572 of the Fund's investment portfolio was managed by the investment management firm of DiMeo Schneider & Associates, LLC.

Concentrations of credit risk with respect to loans receivable are limited by the secured position of the Fund in most instruments, the number of organizations comprising the Fund's loans receivable base and their dispersion across geographic areas, and the Fund's general policy of limiting the maximum loan amount to any one borrower to 7.5% of total assets. However, the Fund may make exceptions to this policy upon such determinations as the borrower's exceptionally strong financial position and growth potential. At December 31, 2009, the Fund had one borrowing church with loans totaling \$14,662,958, one borrowing church with loans totaling \$11,342,217, and another borrowing church with loans totaling \$11,020,019, all of which exceed 7.5% of the total assets of the Fund. All of the Fund's loans are with churches and related organizations of the Church. Loans made by the Fund are typically secured by first mortgages and are normally limited to 75% of the aggregate cost or value of the property securing the loan. While the Fund may be exposed to credit losses in the event of nonperformance by the above contracting parties, management has established an allowance for potential loan losses, which it believes is adequate to cover any such losses.

A substantial portion of the investment certificates issued by the Fund are demand instruments or will be maturing within the next two years. In addition, all demand investment certificates are payable upon 30 days written notice subject to availability of funds. The Fund has insufficient liquid assets to satisfy repayment of this amount. Management anticipates that a substantial portion of these certificates will be reinvested or rolled over into new certificates with the Fund, as has been the Fund's historical experience.

## 9. LINE OF CREDIT:

The Fund has a revolving line of credit from a bank and may borrow amounts up to \$7,500,000 at a variable interest rate based on the one-month LIBOR rate plus 50 basis points. The line of credit is secured by cash and investment accounts held by the Fund in collateral accounts with the lender. Interest must be paid monthly on any outstanding balance. At December 31, 2009, the balance owed on the line of credit was \$470,000.

## CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
December 31, 2009, 2008 and 2007

### 10. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair value of financial instruments, based on available market information and appropriate valuation methodologies, as of December 31, 2009, 2008 and 2007, are presented below.

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash	\$ 598,996	\$ 598,966	\$ 171,268	\$ 171,268
Investments	\$ 23,044,724	\$ 23,044,724	\$ 24,217,327	\$ 24,217,327
Loans receivable	\$ 112,896,090	\$ 111,916,901	\$ 97,186,515	\$ 98,795,888
Accrued interest receivable	\$ 464,112	\$ 464,112	\$ 441,277	\$ 441,277
Liabilities:				
Bank overdraft	\$ -	\$ -	\$ -	\$ -
Other payables	\$ 57,914	\$ 57,914	\$ 34,960	\$ 34,960
Line of credit	\$ 470,000	\$ 470,000	\$ 4,700,000	\$ 4,700,000
Interest payable	\$ 43,819	\$ 43,819	\$ 108,468	\$ 108,468
Investment certificates	\$ 115,546,734	\$ 117,300,733	\$ 102,320,750	\$ 103,204,274
	2007			
	Carrying Amount	Fair Value		
Assets:				
Cash	\$ -	\$ -		
Investments	\$ 27,320,959	\$ 27,320,959		
Loans receivable	\$ 85,197,852	\$ 83,634,189		
Accrued interest receivable	\$ 348,024	\$ 366,703		
Liabilities:				
Bank overdraft	\$ 108,008	\$ 108,008		
Other payables	\$ 28,265	\$ 28,265		
Line of credit	\$ 2,455,000	\$ 2,455,000		
Interest payable	\$ 90,776	\$ 90,776		
Investment certificates	\$ 87,704,567	\$ 88,229,545		

# CONVERGE CORNERSTONE FUND

Notes to Financial Statements  
December 31, 2009, 2008 and 2007

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS, continued:

The following methods and assumptions were used by the Fund in estimating the fair value of its financial instruments at December 31, 2009, 2008 and 2007:

**Cash and cash equivalents and accrued interest receivable:** The carrying amounts approximate fair value due to the short-term maturity of these instruments.

**Investments:** The basis of the fair values of investments is described in Notes 2 and 3.

**Accounts receivable:** The fair value of accounts receivable is the carrying amount because of the relatively short period of time between origination of the instrument and its expected realization.

**Loans receivable:** The Fund makes adjustable rate loans which permit adjustments every three or five years. The rate adjustments are generally based on a spread over a benchmark such as the 5-year treasury or the 5-year LIBOR swap rate. At any given time there will be anywhere from 1 month to 5 years until the next review date or maturity of a loan. The average effective yield on all loans receivable was approximately 6.25%, 6.26% and 6.25%, at December 31, 2009, 2008 and 2007, respectively. The fair value of loans receivable is estimated by discounting the expected future cash flows on each loan by an estimate of the market rate for the equivalent term to maturity or rate review.

**Other payables:** The fair value of other payables is the carrying amount because of the relatively short period of time between origination of the instrument and its expected realization.

**Investment certificates:** The fair values disclosed for investment certificates payable on demand are, by definition, equal to the amount payable on demand at the reporting date. The fair values for all other investment certificates are estimated using a discounted cash flow calculation that applies interest rates offered on certificates at December 31, 2009, 2008 and 2007, to a schedule of aggregated contractual maturities on such certificates. At December 31, 2009, the interest rates used in this calculation ranged from 2.125% to 3.875%. At December 31, 2008, the interest rates used in this calculation ranged from 3.37% to 4.5%. At December 31, 2007, the interest rates used in this calculation ranged from 4.57% to 5.125%.

## 11. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.