VILLAGE MISSIONS

Financial Statements

June 30, 2005 and 2004

Contents

AKT

ALDRICH KILBRIDE & TATONE LLC
CPAs & Business Consultants

Helping our clients achieve their goals.

PORTLAND

5665 SW MEADOWS RD.
SUITE 200 | LAKE OSWEGO,
OREGON 97035-3131
PHONE: 503.620.4489
FAX: 503.624.0817

SALEM

1011 COMMERCIAL ST. NE
SUITE 120 | SALEM,
OREGON 97301-1085
PHONE: 503.585.7774
FAX: 503.364.8405

WWW.AKTCPA.COM

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Village Missions
Dallas, Oregon

We have audited the accompanying statement of financial position of Village Missions (the Ministry) as of June 30, 2005, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Ministry's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Ministry's June 30, 2004 financial statements, and in our report dated September 16, 2004, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Village Missions as of June 30, 2005, the activities and changes in its net assets, its functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Aldrich Kilbride & Tatone LLC

Salem, Oregon
September 9, 2005

VILLAGE MISSIONS

Statements of Financial Position
June 30, 2005 and 2004

Assets		2005	2004
Cash	$	2,410,778	2,057,022
Accrued interest receivable		11,628	7,299
Accounts receivable, net of allowance for doubtful accounts of zero		16,147	6,881
Receivable from benefit plan		-	318,347
Prepaid expenses		74,027	49,918
Investments		694,425	703,467
Notes receivable		6,732	8,240
Land, buildings, and equipment, net		648,066	659,452
Prepaid pension cost		-	242,816
Deferred pension cost		-	384,807
	$	3,861,803	4,438,249
Liabilities and Net Assets			
Accounts payable	$	69,030	90,703
Accrued expenses		308,890	311,713
Accrued pension costs		353,232	-
Payable to benefit plan		15,096	-
Total liabilities		746,248	402,416
Net assets:			
Unrestricted:			
Designated:			
New fields fund		22,662	93,916
Retirement projects		1,291,744	1,265,812
Education, benefits, and other		22,341	76,552
Undesignated operating reserve		2,456,139	2,344,894
Minimum pension liability		(969,244)	-
Total unrestricted		2,823,642	3,781,174
Temporarily restricted:			
Designated fields		73,359	65,201
Christmas gifts		66,862	64,570
Employee benefits		78,947	68,665
Funds held in trust		18,537	18,537
Other		19,379	2,870
Total temporarily restricted		257,084	219,843
Permanently restricted - education fund		34,829	34,816
Total net assets		3,115,555	4,035,833
	$	3,861,803	4,438,249

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

VILLAGE MISSIONS

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	Unrestricted	Temporarily Restricted
Support and revenue:		
Support:		
Contributions	$ 4,246,601	825,013
Field salary contributions	2,715,172	-
Total support	6,961,773	825,013
Revenue:		
Retirement facility rent	40,700	-
Interest and dividends	94,066	-
Gain (loss) on valuation and sale of assets	313	-
Other income	6,383	-
Satisfaction of donor restrictions	787,772	(787,772)
Total support and revenue	7,891,007	37,241
Expenses:		
Rural ministry program	6,805,366	-
Conferences	212,220	-
Candidate school	5,651	-
Leadership development	57,505	-
Retirement facilities	66,121	-
Administration	592,947	-
Development	139,485	-
Total expenses	7,879,295	-
Increase in net assets	11,712	37,241
Increase in minimum pension liability over unrecognized prior service cost	(969,244)	-
Net assets, beginning	3,781,174	219,843
Net assets, ending	$ 2,823,642	257,084

Permanently Restricted	2005 Total	2004 Total (Memo Only)
-	5,071,614	5,131,414
-	2,715,172	2,679,375
-	7,786,786	7,810,789
-	40,700	33,593
13	94,079	79,934
-	313	(36,097)
-	6,383	8,246
-	-	-
13	7,928,261	7,896,465
-	6,805,366	6,625,235
-	212,220	187,200
-	5,651	8,475
-	57,505	-
-	66,121	49,755
-	592,947	555,843
-	139,485	121,844
-	7,879,295	7,548,352
13	48,966	348,113
-	(969,244)	-
34,816	4,035,833	3,687,720
34,829	3,115,555	4,035,833

VILLAGE MISSIONS

Statements of Functional Expenses

Years Ended June 30, 2005 and 2004

	Rural Ministry Program	Conferences	Candidate School	Leadership Development
Salaries and wages	$ 4,032,603	-	-	35,557
Payroll taxes	2,251	-	-	-
Retirement	107,611	-	-	-
Other employee benefits	266,277	-	-	8,778
Child supplement	12,311	-	-	-
Designated gifts	2,182,209	-	-	-
Meetings and seminars	-	-	-	1,180
Staff training	97	4,046	-	203
Moving	25,873	-	-	-
Food	11,016	540	3,354	484
Lodging	5,691	184,118	-	140
Travel	83,296	16,831	886	6,108
Supplies	3,108	2,961	162	1,788
Postage and shipping	1,481	159	80	65
Publicity	14,038	-	412	886
Utilities	4,372	-	-	-
Telephone	7,015	-	-	1,301
Automobile expenses	1,061	-	-	-
Insurance	30,165	-	-	111
Repairs and maintenance	268	-	-	904
Hospitality	81	-	-	-
Dues and subscriptions	707	165	-	-
Depreciation	-	-	-	-
Donations and grants	13,811	-	-	-
Honoraria	-	3,400	-	-
Professional services	-	-	-	-
Consulting	-	-	-	-
Other	24	-	757	-
	$ 6,805,366	212,220	5,651	57,505

Retirement Facilities	Administration	Development	2005 Total	2004 Total (Memo Only)
-	264,210	68,892	4,401,262	4,284,310
-	13,120	2,057	17,428	15,966
-	4,493	-	112,104	(12,874)
-	76,540	21,698	373,293	361,777
-	-	-	12,311	16,373
-	-	-	2,182,209	2,180,659
-	5,828	-	7,008	6,551
-	1,626	1,237	7,209	18,243
-	-	-	25,873	27,915
-	3,772	2,951	22,117	19,676
-	1,361	1,580	192,890	167,875
248	12,282	6,525	126,176	110,765
150	9,458	1,739	19,366	18,518
-	23,890	2,820	28,495	35,616
-	55,597	7,279	78,212	60,337
9,547	4,368	1,133	19,420	19,362
-	7,452	1,713	17,481	15,864
-	3,430	858	5,349	10,030
11,450	26,594	266	68,586	64,521
21,749	20,252	5,435	48,608	23,438
-	1,049	286	1,416	1,205
-	4,838	1,064	6,774	4,523
19,106	29,943	-	49,049	45,407
-	75	-	13,886	9,263
-	-	-	3,400	3,150
-	22,076	-	22,076	22,004
-	-	10,750	10,750	11,087
3,871	693	1,202	6,547	6,791
66,121	592,947	139,485	7,879,295	7,548,352

VILLAGE MISSIONS

Statements of Cash Flows
Years Ended June 30, 2005 and 2004

		2005	2004
Cash flows from operating activities:			
Increase in net assets	$	48,966	348,113
Adjustments to reconcile increase in net assets to net cash provided by in operating activities:			
Depreciation		49,049	45,407
Net change in deferred pension costs and minimum pension liability		11,611	(95,772)
Loss on valuation of investments		4,951	36,438
Changes in assets and liabilities:			
Accrued interest receivable		(4,329)	7,011
Accounts receivable		(9,266)	(3,295)
Receivable from benefit plan		333,443	(137,867)
Prepaid expenses		(24,109)	46,917
Accounts payable		(21,673)	20,483
Accrued expenses		(2,823)	(16,174)
Net cash provided by operating activities		385,820	251,261
Cash flows from investing activities:			
Purchases of marketable securities and investments		(557,421)	(1,003,957)
Proceeds from the sale of marketable securities		561,512	713,751
Payments received on notes receivable		1,508	68,468
Purchase of equipment and improvements		(37,663)	(34,189)
Net cash used by investing activities		(32,064)	(255,927)
Net increase (decrease) in cash		353,756	(4,666)
Cash, beginning		2,057,022	2,061,688
Cash, ending	$	2,410,778	2,057,022

Notes to Financial Statements
June 30, 2005 and 2004

(1) *Summary of Significant Accounting Policies*

Nature of Activities
Village Missions (the Ministry) is a tax-exempt, nonprofit organization under section 501(c)(3) of the Internal Revenue Code and was incorporated in 1948. Its purpose is to establish, support, and direct missionaries in towns and villages where there is either no church or no evangelical witness. The Ministry is supported primarily through donations from churches, affiliated organizations, and the general public. The accompanying financial statements include contributions for salaries and related salary expense for ministers of local churches for which the Ministry has overall management and budgetary control. Other local church revenue and expense and foreign organizations, not under common control, have not been included in the accompanying financial statements.

As of June 30, 2005, the Ministry has in place 202 missionaries in 205 fields in 30 different states.

Contributions
In accordance with Statement of Financial Accounting Standards No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are reported as temporarily restricted support and are then reclassified to unrestricted net assets at the time of compliance with the donor designation. Contributions are recognized when the donor makes a promise to give to the Ministry that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Field Salary Contributions and Expenses
The Ministry records as income and expense the amount of wages paid directly to missionaries by the local church that the missionary serves, up to $1,550 per month ($1,500 in 2004). The Ministry is not obligated to pay wages in excess of $1,550 per month. This results in recognition of only the amounts that the Ministry may be liable to incur. Effective July 1, 2005, the monthly wage was increased to $1,600.

Donated Services
Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Ministry.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Ministry's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Notes to Financial Statements, continued
June 30, 2005 and 2004

(1) *Summary of Significant Accounting Policies, continued*

Cash

The Ministry maintains its cash in bank deposit accounts that, at times, may exceed insured limits. The Ministry's main depository accounts are privately insured by American Share Insurance up to $250,000 per account, and are not federally insured. The Ministry has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Cash at June 30 consists of the following:

	2005	2004
Cash on deposit and on hand, including sweep account	$ 89,532	267,211
Money market accounts, bearing interest from .25% - 3.25% in 2005 (1.0% - 1.73% in 2004)	138,576	86,564
Certificates of deposit, bearing interest from 1.5% - 5.5% (1.50% - 5.75% in 2004)	2,164,133	1,684,710
Deposits held in trust	18,537	18,537
	2,410,778	2,057,022
Less temporarily and permanently restricted net assets	291,913	254,659
	$ 2,118,865	1,802,363

Investments

The Ministry follows SFAS Statement No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations,* which requires that investments in marketable securities with readily determinable fair values and all investments in debt securities be recorded at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities and changes in net assets.

Land, Buildings, and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Ministry reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Ministry reclassifies temporarily restricted net assets to unrestricted net assets at that time.

All acquisitions of property and equipment in excess of $1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost, or if donated, at the estimated fair value at the date of donation. Depreciation is computed using primarily the straight-line method over useful lives between 3 and 40 years.

Notes to Financial Statements, continued
June 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, continued

Functional Allocation of Expenses
The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Comparative Financial Information
The 2004 total columns on the Statements of Activities and Changes in Net Assets and Statements of Functional Expenses are captioned "Memo Only" to indicate that they are presented only to facilitate financial analysis.

The Statements of Activities and Changes in Net Assets include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Ministry's financial statements for the year ended June 30, 2004, from which the summarized information was derived.

(2) Investments

Investments at June 30 are as follows:

	2005	2004
US Government Treasury bills and other agency obligations, at fair value	$ 498,863	514,489
Mutual funds, at fair value	107,991	101,407
Other, at cost	30,000	30,000
Donated property held for investment, at estimated value	57,571	57,571
	$ 694,425	703,467

Investment return, including interest earned on cash deposits, is summarized as follows:

	2005	2004
Interest and dividend income	$ 94,079	79,934
Net unrealized loss	(4,951)	(36,438)
	$ 89,128	43,496

(3) *Land, Buildings, and Equipment*

At June 30, land, buildings, and equipment, at cost, consisted of:

	2005	2004
Land	$ 38,083	37,783
Buildings and improvements	894,201	867,443
Furniture and equipment	221,711	255,029
Data processing equipment and programming	38,570	37,805
Transportation equipment	6,546	15,593
	1,199,111	1,213,653
Less accumulated depreciation	551,045	554,201
	$ 648,066	659,452

(4) *Retirement Plan*

General

Substantially all of the personnel and representatives of the Ministry are covered by a contributory, defined benefit pension plan (the Plan). The benefits are based on years of service. The Ministry follows the provisions of SFAS No. 132, *Employers' Disclosures about Pensions and Other Post-retirement Benefits.*

Employees contribute $30 per month with the balance funded by the Ministry. The Ministry's contributions to the Plan are funded at the discretion of the board of directors. Contributions are intended to provide benefits not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The annual measurement date for the Plan is April 1. The liabilities and assets are calculated at April 1, 2005, and assets are adjusted for known contributions received between April 1, 2005 and June 30, 2005.

Obligations and Funded Status

The components of the net periodic pension cost for the years ended June 30 were as follows:

	2005	2004
Service cost of the current period	$ 68,465	55,047
Interest cost on projected benefit obligation	418,612	411,924
Expected return on plan assets	(475,466)	(493,791)
Net amortization of prior service cost and transition liability	-	11,128
Net periodic pension cost (credit)	$ 11,611	(15,692)

(4) *Retirement Plans, continued*

Disclosure of Funded Status

The following table sets forth the Plan's funded status for the fiscal years ended June 30:

	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 7,796,997	7,340,465
Service cost	68,465	55,047
Interest cost	418,612	411,924
Plan participant contributions	72,390	73,560
Actuarial loss	36,049	270,928
Benefits paid	(391,276)	(354,927)
Benefit obligation at end of year	$ 8,001,237	7,796,997
Change in Plan assets:		
Fair value of Plan assets at beginning of year	$ 8,039,813	7,716,809
Actual return on Plan assets	(72,922)	524,291
Employer contributions	-	80,080
Plan participant contributions	72,390	73,560
Benefits paid	(391,276)	(354,927)
Fair value of Plan assets at end of year	$ 7,648,005	8,039,813
Reconciliation of funded status:		
Funded status, overfunded (underfunded)	$(353,232)	242,816
Unrecognized net actuarial loss	969,244	384,807
Net deferred benefit cost	$ 616,012	627,623
Additional minimum liability disclosures:		
Accrued benefit liability	$(353,332)	-
Deferred pension cost	-	-
Minimum pension liability	969,244	-
	$ 616,012	-

As required by generally accepted accounting principles, the following have been recorded on the accompanying statements of financial position.

Deferred pension costs – prior service cost, net of unrecognized actuarial loss	$ -	384,807
Prepaid (Accrued) pension costs	$(353,232)	242,816
Minimum pension liability – unrecognized net loss	$ 969,244	-

(4) *Retirement Plans, continued*

Assumptions
The weighted-average assumptions used to determine benefit obligations:

	2005	2004
Discount rate	5.50%	5.50%

The weighted-average assumptions used to determine net periodic benefit cost:

	2005	2004
Discount rates	5.50%	5.75%
Expected long-term rate of return on assets	6.00%	6.50%

The Ministry's expected rate of return on plan assets is determined as follows:
Historical returns for multiple asset classes were analyzed to develop a risk free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the Plan.

Amortization of prior service cost is computed using the straight-line method over the average remaining service period of employees expected to receive benefits under the Plan.

Plan Assets
The assets of the Plan are invested in the General Investment Account at The Principal Financial Group, and are 100% allocated to debt securities.

The Ministry's investment strategy is to preserve the capital invested. Accordingly, the Ministry's plan assets are invested primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset backed securities, and U.S. government and agency-backed securities.

Cash Flow:
Estimated Contributions
The Ministry expects to contribute $165,000 to the Plan during the measurement year from April 1, 2005 to March 31, 2006.

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2006	$ 395,000
2007	405,000
2008	446,000
2009	481,000
2010	508,000
Years 2011 - 2015	2,861,000

Notes to Financial Statements, continued
June 30, 2005 and 2004

(5) *Employee Medical Benefit Plan*

The Ministry sponsors a self-insured medical plan covering substantially all full-time active employees. The Plan provides health, life, and disability benefits. Through June 30, 2004, the Ministry contracted with Sunlife of Canada for stop-loss protection of $80,000 for each participant per occurrence and aggregate stop-loss protection. Effective July 1, 2004, stop-loss protection of $100,000 for each participant per occurrence and aggregate stop-loss protection is provided by Madison National, L.I.C. Life and disability insurance is provided through Sunlife of Canada.

Contributions to the Plan are made by the churches sponsoring the missionaries, by employees, and by the Ministry. Contributions to the Plan for the period from July 1, 2004 to June 30, 2005 were $800 per month per employee ($750 from July 1, 2003 to June 30, 2004).

The premiums collected and expenses paid for benefits and claims administration are for the benefit of and on behalf of the missionaries and, are held and accounted for separately from the other assets of the Ministry through a trust. As such, the Ministry has excluded the activity and balances from the Ministry's financial statements for the years ended June 30, 2005 and 2004.

(6) *Related Party Transactions*

The Ministry is related by common programs and activities with the Stonecroft Ministries, Inc. (Stonecroft).

Stonecroft provides printing and other administrative services to the Ministry, and the Ministry was charged $1,307 for the year ended June 30, 2005 ($37,823 in 2004) for these services. In addition, for the year ended June 30, 2005, the Ministry received direct contributions from Stonecroft in the amount of $1,076,179 ($1,063,308 in 2004).

For fiscal year 2006, it is expected that Stonecroft will significantly reduce or eliminate their direct contribution to the Ministry.

The Ministry is related by common directors to Creative Evangelism, Inc. (CEI), a religious nonprofit organization supporting Christian evangelism among children. Under an agreement with CEI, the Ministry may from time to time provide administrative support to CEI.

(7) *Contributions*

Contributions by source for the years ended June 30 consisted of:

	2005	2004
Churches	$ 3,967,683	3,941,994
Stonecroft Ministries, restricted for Missionary supplements	514,999	508,557
Stonecroft Ministries, restricted for Christmas gifts	561,180	554,751
Designated gifts	1,883,548	1,780,853
Missionaries	584,525	608,570
Estates	250	137,487
Grants	23,000	67,100
Individuals and other	251,601	211,477
	$ 7,786,786	7,810,789