VILLAGE MISSIONS

Financial Statements and Supplemental Information

June 30, 2007 and 2006

VILLAGE MISSIONS

Contents

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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, 2007, and the related statements of activities, changes in net assets, 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, 2006 financial statements, and in our report dated September 1, 2006, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Village Missions as of June 30, 2007, the activities and changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included in the accompanying schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

AKT LLP

Salem, Oregon
October 31, 2007

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VILLAGE MISSIONS

Statements of Financial Position
June 30, 2007 and 2006

Assets		2007	2006
Cash	$	2,128,473	2,268,157
Investments		849,584	818,195
Accrued interest receivable		10,014	14,078
Accounts receivable, net of allowance for doubtful accounts of zero		20,999	9,875
Notes receivable		6,000	10,000
Prepaid expenses		114,803	75,513
Land, buildings, and equipment, net		684,985	641,205
	$	3,814,858	3,837,023
Liabilities and Net Assets			
Accounts payable	$	69,496	53,359
Accrued expenses		357,163	336,963
Accrued pension costs		402,653	344,294
Payable to benefit plan		114,815	68,953
Total liabilities		944,127	803,569
Net assets:			
Unrestricted:			
Designated:			
New fields fund		829	302
Retirement projects		1,178,075	1,397,297
Education, benefits, and other		31,043	26,798
Investment in land, building, and equipment		684,985	641,205
Undesignated operating reserve		1,878,609	1,822,280
Unrecognized net actuarial loss		(1,205,593)	(1,099,503)
Total unrestricted		2,567,948	2,788,379
Temporarily restricted:			
Designated fields		154,532	70,290
Conference gifts		5,322	39,550
Employee benefits		69,899	68,488
Funds held in trust		24,564	21,751
Other		13,622	10,152
Total temporarily restricted		267,939	210,231
Permanently restricted - education fund		34,844	34,844
Total net assets		2,870,731	3,033,454
	$	3,814,858	3,837,023

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, 2007 and 2006

		Unrestricted	Temporarily Restricted
Support and revenue:			
Support:			
Contributions	$	2,776,073	2,300,885
Field salary contributions		2,667,725	-
Total support		5,443,798	2,300,885
Revenue:			
Retirement facility rent		39,153	-
Interest and dividends		113,209	1,989
Gain (loss) on valuation and sale of assets		45,343	2,609
Other income		3,302	-
Satisfaction of donor restrictions		2,247,775	(2,247,775)
Total support and revenue		7,892,580	57,708
Expenses:			
Rural ministry program		6,798,877	-
Conferences		195,272	-
Candidate school		4,447	-
Leadership development		74,113	-
Retirement facilities		50,308	-
Administration		641,522	-
Development		242,382	-
Total expenses		8,006,921	-
Increase (decrease) in net assets		(114,341)	57,708
Pension related charges other than net periodic pension costs		(106,090)	-
Net assets, beginning		2,788,379	210,231
Net assets, ending	$	2,567,948	267,939

Permanently Restricted	2007 Total	2006 Total (Memo Only)
-	5,076,958	4,855,281
-	2,667,725	2,729,165
-	7,744,683	7,584,446
-	39,153	36,958
-	115,198	117,536
-	47,952	(25,162)
-	3,302	1,613
-	-	-
-	7,950,288	7,715,391
-	6,798,877	6,621,249
-	195,272	178,946
-	4,447	11,062
-	74,113	63,607
-	50,308	54,128
-	641,522	594,877
-	242,382	143,364
-	8,006,921	7,667,233
-	(56,633)	48,158
-	(106,090)	(130,259)
34,844	3,033,454	3,115,555
34,844	2,870,731	3,033,454

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

VILLAGE MISSIONS

Statements of Cash Flows

Years Ended June 30, 2007 and 2006

		2007	2006
Cash flows from operating activities:			
Increase (decrease) in net assets	$	(56,633)	48,158
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by in operating activities:			
Depreciation		50,948	49,906
Increase in net actuarial loss		(106,090)	(130,259)
(Gain) loss on investments and other assets		(37,972)	39,105
Changes in assets and liabilities:			
Accrued interest receivable		4,064	(2,450)
Accounts receivable		(11,124)	6,272
Payable to benefit plan		45,862	53,857
Prepaid expenses		(39,290)	(1,486)
Accounts payable		16,137	(15,671)
Accrued expenses		20,200	28,073
Accrued pension costs		58,359	(8,938)
Net cash provided (used) by operating activities		(55,539)	66,567
Cash flows from investing activities:			
Purchases of marketable securities and investments		(216,554)	(523,636)
Return of principal from marketable securities		223,137	360,761
Payments received on notes receivable		4,000	847
Issuance of notes receivable		-	(4,115)
Purchase of equipment and improvements		(94,728)	(43,045)
Net cash used by investing activities		(84,145)	(209,188)
Net decrease in cash		(139,684)	(142,621)
Cash, beginning		2,268,157	2,410,778
Cash, ending	$	2,128,473	2,268,157

(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, 2007, the Ministry has in place 197 missionaries in 199 fields in 33 different states.

Contributions
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 $ 1,600 per month. The Ministry is not obligated to pay wages in excess of $1,600 per month. This results in recognition of only the amounts that the Ministry may be liable to incur.

Donated Services
Donated services are recognized as contributions 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.

(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:

		2007	2006
Cash on deposit and on hand, including sweep account	$	164,641	218,655
Money market accounts, bearing interest from 3.15% - 4.51% in 2007 (2.39% - 4.57% in 2006)		311,186	83,163
Certificates of Deposit, bearing interest from 3.7% - 5.2% in 2007 (2.3% - 4.85% in 2006)		1,578,687	1,944,602
Cash in escrow		50,000	-
Deposits held in trust		23,959	21,737
		2,128,473	2,268,157
Less temporarily and permanently restricted net assets		302,783	245,075
	$	1,825,690	2,023,082

In 2007, the Town of New Gloucester required the Ministry to deposit in escrow $50,000 as security for the Ministry's obligation to complete required improvements in accordance with the plans and conditions as approved by the local planning board for the New Gloucester retirement community project (See notes 3 and 9).

Investments
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.

(1) Summary of Significant Accounting Policies, continued

Land, Buildings, and Equipment, continued
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.

Comparative Financial Information
The 2006 total column on the Statements of Activities and Changes in Net Assets is captioned “Memo Only” to indicate that the information is 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, 2006, from which the summarized information was derived.

(2) Investments

Investments at June 30 are as follows:

		2007	2006
US Government Treasury bills and other agency obligations, at fair value	$	544,292	559,057
Mutual Funds, at fair value		223,506	177,352
Other, at cost		30,000	30,000
Donated property held for investment, at estimated value		51,786	51,786
	$	849,584	818,195

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

Interest and dividend income	$	115,198	117,522
Net unrealized gain (loss)		37,972	(39,105)
	$	153,170	78,417

(3) Land, Buildings, and Equipment

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

		2007	2006
Land	$	120,370	37,783
Buildings and improvements		902,107	900,363
Furniture and equipment		221,469	220,012
Data processing equipment and programming		38,570	38,570
Transportation equipment		9,417	6,546
Property under development		25,328	27,895
		1,317,261	1,231,169
Less accumulated depreciation		632,276	589,964
	$	684,985	641,205

(4) Retirement Plans

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. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

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, 2007, and assets are adjusted for known contributions received between April 1, 2007 and June 30, 2007.

Adoption of SFAS No. 158
The Ministry adopted the recognition and disclosure provisions of FASB Statement 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R)*, as of June 30, 2007. SFAS No. 158 requires that the funded status of the defined benefit pension plan to be fully recognized in the statement of financial position as the difference between the fair value of plan assets and the projected benefit obligation. Prior to the adoption of SFAS No. 158, the Ministry was recognizing the funded status of its pension plan in accordance with the provisions of SFAS No. 132 which required employers to recognize the funded status of defined benefit plans in the statement of financial position and recognize changes in the funded status through changes in unrestricted net assets. The Ministry's fiscal year ended June 30, 2006 recognition policy is consistent with that of SFAS No. 158 and, as such, no incremental effects of applying the recognition provisions of SFAS No. 158 were identified as requiring disclosure.

(4) Retirement Plans, continued

Adoption of SFAS No. 158, continued
The Ministry will be required to adopt the measurement date provisions of FASB Statement 158 for the fiscal year ending June 30, 2008, which will require the measurement of the fair value plan assets and benefit obligations as of the date of the Ministry's fiscal year-end statement of financial position.

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

	2007	2006
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 7,889,232	8,001,237
Service cost	75,679	71,710
Interest cost	442,131	429,454
Plan participant contributions	69,480	72,450
Actuarial (gain)/loss	60,824	(248,477)
Benefits paid	(418,372)	(437,142)
Projected benefit obligation at end of year	8,118,974	7,889,232
Change in plan assets:		
Fair value of plan assets at beginning of year	7,544,938	7,648,005
Actual return on plan assets	364,949	55,625
Employer contributions	155,326	206,000
Plan participant contributions	69,480	72,450
Benefits paid	(418,372)	(437,142)
Fair value of plan assets at end of year	7,716,321	7,544,938
Funded status at end of year (underfunded)	$ (402,653)	(344,294)

Amounts recognized in the statements of financial position consist of:

	2007	2006
Accrued pension costs	$ (402,653)	(344,294)
Unrecognized net actuarial loss	$ 1,205,593	1,099,503

(4) Retirement Plans, continued

Amounts recognized in the statements of activities and changes in net assets consist of:

		2007	2006
Net loss	$	139,594	148,155
Amortization of net (loss)		(33,504)	(17,896)
Total recognized in changes in unrestricted net assets		106,090	130,259
Net periodic pension cost		107,595	66,803
	$	213,685	197,062

The estimated net loss for the Plan that will be amortized from changes in unrestricted net assets into net periodic benefit cost over the next fiscal year is $38,260.

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

Assumptions
The following assumptions were used in accounting for the Ministry's pension plan:

	2007	2006
The weighted-average assumptions used to determine benefit obligations:		
Discount rate	5.75%	5.75%
The weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	5.75%	5.50%
Expected long-term rate of return on assets	6.00%	6.00%

The Ministry's expected rate of return on plan assets is determined as follows:

Historical and future expected returns of 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.

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.

No plan assets are expected to be returned to the Ministry during fiscal year 2007-2008.

(4) Retirement Plans, continued

Estimated Contributions:
The Ministry expects to contribute $182,326 to the Plan during the measurement year from April 1, 2007 to March 31, 2008.

Estimated Future Benefit Payments
The following benefits are expected to by paid:

2008	$	440,000
2009		480,000
2010		500,000
2011		510,000
2012		530,000
Years 2013 - 2017		3,150,000

In 2007, the Ministry modified its 403(b) retirement savings plan to include an employer contribution to the Plan on behalf of all benefit-eligible employees who have successfully completed their first year of service. The Ministry will contribute between $5 and $20 per month based on the employee's length of service increasing by $5 for every 5 years of service up to 20 years. Service contributions accrued under the Plan by the Ministry were $7,195 for the year ended June 30, 2007.

(5) Employee Medical Benefit Plan

The Ministry sponsors a self-insured medical plan (the Plan) covering substantially all full-time active employees. The Plan provides health, life, and disability benefits. Effective July 1, 2005, stop-loss protection of $125,000 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, employees, and the Ministry. Contributions to the Plan for the period from January 1, 2007 to June 30, 2007 were $900 per month per employee ($850 from July 1, 2006 to December 31, 2006).

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, 2007 and 2006.

(6) Related Party Transactions

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

In addition, for the year ended June 30, 2007, the Ministry received direct contributions from Stonecroft in the amount of $700,000 ($625,000 in 2006).

(7) Contributions

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

		2007	2006
Churches	$	3,914,934	3,980,999
Stonecroft Ministries, Inc. restricted for missionary supplements		700,000	625,000
Designated gifts		2,300,885	2,195,496
Missionaries		586,219	584,256
Estates		-	49,006
Grants		-	17,000
Individual and other		242,645	132,689
	$	7,744,683	7,584,446

(8) Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. Total net assets and the increase in net assets are unchanged due to these reclassifications.

(9) New Gloucester Retirement Community

In 2007, the Ministry entered into contracts with various contractors for the construction of four homes and related improvements to the property. At June 30, 2007, total commitments remaining under these contracts were $397,208. Costs incurred under these contracts are expected to be paid during the fiscal year ending June 30, 2008.

SUPPLEMENTAL INFORMATION

VILLAGE MISSIONS

Schedule of Functional Expenses

Years Ended June 30, 2007 and 2006

	Rural Ministry Program	Conferences	Candidate School	Leadership Development
Salaries and wages	$ 4,049,295	-	-	46,307
Payroll taxes	2,124	-	-	-
Retirement	107,595	-	-	-
Other employee benefits	274,531	-	-	11,478
Child supplement	4,505	-	-	-
Designated gifts	2,117,330	-	-	-
Meetings and seminars	-	-	-	-
Staff training	2,197	4,050	-	-
Moving	15,073	-	-	-
Food	12,527	700	2,398	849
Lodging	8,240	172,075	-	723
Travel	148,963	12,687	1,162	9,590
Supplies	3,014	3,770	74	3,028
Postage and shipping	1,439	146	79	84
Publicity	10,605	-	102	-
Utilities	4,704	-	-	-
Telephone	8,607	-	-	1,804
Automobile expenses	1,437	-	-	-
Insurance	8,718	-	-	37
Repairs and maintenance	853	-	-	213
Hospitality	-	64	-	-
Dues and subscriptions	648	-	-	-
Depreciation	-	-	-	-
Donations and grants	8,550	-	-	-
Honoraria	-	1,800	-	-
Professional services	722	-	-	-
Consulting	7,200	-	-	-
Other	-	(20)	632	-
	$ 6,798,877	195,272	4,447	74,113

Retirement Facilities	Administration	Development	2007 Total	2006 Total (Memo Only)
-	294,250	79,473	4,469,325	4,463,622
-	14,495	6,127	22,746	19,601
-	3,408	-	111,003	(25,827)
-	82,589	13,665	382,263	419,833
-	-	-	4,505	8,521
-	-	-	2,117,330	1,991,155
-	4,413	-	4,413	6,322
-	4,150	1,896	12,293	16,020
-	-	-	15,073	3,662
-	6,695	4,713	27,882	23,859
-	4,107	1,843	186,988	163,221
201	29,656	14,981	217,240	147,073
52	13,905	5,450	29,293	17,391
-	20,045	11,421	33,214	31,326
-	48,789	35,603	95,099	64,699
11,935	5,305	230	22,174	20,514
-	6,370	3,191	19,972	17,578
-	1,508	182	3,127	4,287
5,418	13,784	74	28,031	80,912
9,193	19,160	6,176	35,595	37,388
-	616	-	680	1,098
35	2,863	2,319	5,865	3,847
19,465	31,483	-	50,948	49,906
-	250	-	8,800	15,902
-	-	-	1,800	7,450
-	30,988	-	31,710	26,489
-	-	54,789	61,989	43,605
4,009	2,693	249	7,563	7,779
50,308	641,522	242,382	8,006,921	7,667,233

VILLAGE MISSIONS

Schedule of Revenues, Expenditures, and Change in Net Assets - Budget to Actual

Year Ended June 30, 2007

	Final Budget	Actual	Variance Over/(Under) Budget
Support and revenue:			
Support:			
Contributions	$ 4,964,000	5,076,958	112,958
Field salary contributions	2,800,000	2,667,725	(132,275)
Total support	7,764,000	7,744,683	(19,317)
Revenue:			
Retirement facility rent	36,720	39,153	2,433
Interest and dividends	101,150	115,198	14,048
Gain (loss) on valuation and sale of assets	-	47,952	47,952
Other income	2,900	3,302	402
Total support and revenue	7,904,770	7,950,288	45,518
Expenses:			
Rural ministry program	6,777,642	6,798,877	21,235
Conferences	202,100	195,272	(6,828)
Candidate school	7,500	4,447	(3,053)
Equipping	67,532	62,879	(4,653)
Recruiting	3,950	11,234	7,284
Retirement facilities	53,400	50,308	(3,092)
Administration	607,606	641,522	33,916
Stewardship	207,712	242,382	34,670
Capital additions - New Gloucester, ME	428,735	80,021	(348,714)
Capital additions - other	22,000	14,863	(7,137)
Total expenses	8,378,177	8,101,805	(276,372)
Net change (budgetary basis)	(473,407)	(151,517)	321,890
Net assets, beginning	3,033,454	3,033,454	-
Net assets, ending	$ 2,560,047	2,881,937	321,890
Reconciliation of Budget Basis to Accrual Basis			
Capital additions - New Gloucester, ME		80,021	
Capital additions - other		14,863	
Pension related charges other than net periodic pension costs		(106,090)	
Net assets, ending (accrual basis)		$ 2,870,731	