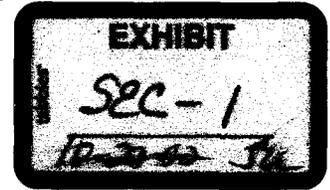




GUIDELINES FOR GENERAL OBLIGATION FINANCING BY RELIGIOUS DENOMINATIONS

Adopted by the NASAA Membership on April 17, 1994.

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I. INTRODUCTION.

A. Application.

1. The standards contained in this Guideline apply to the offer and sale of debt securities in the form of general obligation financing, such as notes, certificates, or similar debt instruments (herein referred to as NOTES) issued by a religious DENOMINATION, or a national or regional unit thereof or other entity affiliated or associated therewith (herein collectively referred to as a "CHURCH EXTENSION FUND" or "CEF"), the proceeds of which primarily finance or refinance the purchase, construction or improvement of church property and/or buildings or related capital expenditures or the operational needs of various affiliated churches and related religious organizations "related organizations" of the DENOMINATION.
2. While offers and sales not conforming to the standards contained herein shall be looked upon with disfavor, if good cause is shown certain standards of the Guideline may be modified or waived by the ADMINISTRATOR.
3. This Guideline is not applicable to single project financing by individual churches or congregations, which is the subject of a separate Statement of Policy entitled "Church Bonds" that was adopted by the North American Securities Administrators Association, Inc. on April 29, 1981.

COMMENT: General obligation financing by a CEF is different in its purposes and operation than the one-time offering of Church Bonds by an individual church or congregation to finance the construction of a single, specific church building or other related capital improvements, in which all of the securities are repaid within a set period of time. CEF NOTES are sold for various terms and at varying interest rates and the offerings are normally continuous in nature to provide an ongoing source of financing to the various affiliated churches and related organizations. In order to maintain the CEF as a permanent resource for the affiliated churches and related organizations, repayments of principal on loans made by the CEF are continuously reinvested in new loans to affiliated churches and related organizations. A CEF normally is a single purpose organization and has no significant operating activities other than raising funds and making capital loans to its affiliated churches and related organizations. Since the CEF is generally incorporated and operated separately from the DENOMINATION and its

affiliated churches and related organizations, assets of the CEF are used primarily for the purpose of financing building projects for affiliated churches and related organizations. To the extent the CEF is a separately incorporated entity, it normally is not liable for any debts arising from other unrelated activities or programs of the DENOMINATION or its affiliated churches and related organizations. The history of most CEFs reflects an absence of delinquency or default in payments on amounts owed under their NOTES. The primary indebtedness of most CEFs consists of the outstanding NOTES. A significant number of INVESTORS reinvest with the CEF when their NOTES mature. Therefore, the establishment of any special repayment provisions, including a sinking fund or trust indenture, for the purpose of making payments on principal or interest due on NOTES, is normally unnecessary and inappropriate in view of the continuous nature of the offerings and the fact that the funds are not designated for specific capital projects.

B. Definitions.

1. ADMINISTRATOR—The official or agency administering the securities law of a state.

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2. **ADVERTISING**—Advertising and promotional materials, including, but not limited to, magazine or newsletter advertisements, brochures, video tapes, fliers church bulletin inserts and mailers, that are used, in addition to OFFERING CIRCULAR, to solicit INVESTORS.
3. **AUDITED FINANCIAL STATEMENTS**—Financial statements prepared in accordance with generally accepted accounting principles applied on a consistent basis, and examined and reported upon by an independent certified public accountant.
4. **CHURCH EXTENSION FUND ("CEF")**—A unit or division of a DENOMINATION or other entity affiliated or associated with a DENOMINATION that offers and sells NOTES primarily to provide funding for loans for construction and other related capital improvements or operating needs to various affiliated church and related religious organizations of the DENOMINATION.
5. **DENOMINATION**—A national or regional religious organization or association that consists of or acts on behalf of its individual affiliated churches as well as the various national or regional administrative and other religious organizations or units affiliated with the DENOMINATION.
6. **DENOMINATIONAL ACCOUNTS**—Demand and short-term obligations and accounts issued by the CEF and held by national, regional or other affiliated units, institutions or organizations of the DENOMINATION, exclusive of demand and short-term NOTES which are generally offered and sold through OFFERING CIRCULARS pursuant to the registration, exemption or qualification process.
7. **INVESTOR(S)**—PERSON(S) who purchase(s) NOTES.
8. **ISSUER**—The CEF that offers and sells NOTES.
9. **LOAN DELINQUENCIES**—Borrower's loan balances on which payments of principal or interest are delinquent ninety (90) days or more whether in default or not.
10. **NET INCOME**—All items of CEF income and revenue, including operating income, gift revenues and gains or losses from investments, less all items of expense, as reflected in the CEF's AUDITED FINANCIAL STATEMENTS.
11. **NET WORTH**—The unrestricted equity or fund balance that represents the difference between assets and liabilities, as reflected in the CEF's AUDITED FINANCIAL STATEMENTS. (Internally restricted funds may be considered unrestricted for this purpose).
12. **NOTES**—Notes, certificates, or similar debt instruments issued by a CEF which represent a general unsecured obligation to repay a specific principal amount, at a stated or variable rate of interest, when due.
13. **OFFERING CIRCULAR**—The disclosure document prepared by the ISSUER.
14. **PERSON**—An individual, a corporation, a limited liability company, a partnership, an association, a joint-stock company, a trust, an unincorporated organization, a government or a political subdivision of a government, or other legal entity.
15. **SEASONED ISSUER**—A CEF that, alone or through a predecessor organization, has been in continuous existence for more than ten (10) years, has offered NOTES for more than ten (10) years, and has paid or otherwise satisfied all uncontested obligations to pay principal and interest on its NOTES in a timely manner.

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16. SENIOR SECURED INDEBTEDNESS—Any debt or debt securities incurred or issued by a CEF and secured by assets of the CEF in such a manner as to have a priority claim against any of the assets of the CEF over and above the NOTES.

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II. QUALIFICATION, LICENSING AND MARKETING REQUIREMENTS.

- A. *Qualification Requirements.* An ISSUER shall take all steps required under applicable state securities law to insure compliance with the registration or exemption provisions in all states in which it intends to offer and sell NOTES. Filing, procedural and review requirements will vary among the states. A CEF shall file such forms and pay such fees and comply with the filing, procedural and review requirements to achieve qualification for the offer and sale of its NOTES in each state, whether by registration, exemption or otherwise, as determined by that state's securities laws, rules and regulations.

COMMENT: It is anticipated that the NOTES will be exempt from federal registration pursuant to Section 3(a)(4) of the Securities Act of 1933, as amended. Individual states have adopted their own securities laws to govern the offer and sale of securities within their respective jurisdictions. NOTES are securities under state securities laws. Many states, however, have adopted laws based upon the Uniform

Securities Act, which contains an exemption from registration for the NOTES that is similar to the exemption contained in the Securities Act of 1933. There are certain states, however, which do not exempt the NOTES from registration. Furthermore, certain other states provide an exemption from registration but require notice filings or administrative approval before the exemption is available.

- B. *No Fees and Commission.* The NOTES shall be offered and sold without the payment of any direct or indirect underwriting, sales or similar fees or commissions.
- C. *Licensing Requirements.*
1. *General Policy.* An ISSUER shall comply with the applicable broker-dealer and agent licensing requirements in each state in which it offers or sells NOTES.
 2. *Waiver.* If a state's securities laws or regulations allow, the ADMINISTRATOR may consider waiving:
 - a. Testing requirements;
 - b. Broker-dealer registration requirements; and/or
 - c. Agent registration requirements with respect to officers, directors or other employees of the CEF ("Agents"), who represent the CEF in effecting or attempting to effect offers and sales of the NOTES, provided, however, the Agents:
 - 1) Receive no commission or similar remuneration in connection with the offer and sale of the NOTES;
 - 2) Perform significant functions for the CEF other than the sale of NOTES; and
 - 3) Represent only the CEF in effecting or attempting to effect offers and sales of securities.

COMMENT: When an ADMINISTRATOR considers waiving certain registration and testing requirements, the following factors may be considered. Agents normally are officers, directors, or employees

of the CEF. The offer and sale of the NOTES are to a limited class of INVESTORS and not to the general public. The communications with prospective INVESTORS by the Agents normally are accom-

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plished at the offices of the CEF through delivery of the OFFERING CIRCULAR and other written communications by means of the U.S. mails or through verbal communications. In connection with

any such waiver, an ADMINISTRATOR may collect such fees as are appropriate and required and shall require such affidavits or documents as are deemed appropriate and necessary.

- D. *Limited Class of INVESTORS.* The NOTES shall be sold to a limited class of INVESTORS. Each ISSUER should define a limited class of INVESTORS that is consistent with its operations and is compatible with the structure, organization and theology of its DENOMINATION. A suggested form of limited class of INVESTORS is:

PERSONS who were, prior to the receipt of the OFFERING CIRCULAR, members of, contributors to (including INVESTORS), or participants in the DENOMINATION, the CEF or in any program, activity or organization which constitutes a part of the DENOMINATION or the CEF, or in other church organizations that have a programmatic relationship with the DENOMINATION or the CEF.

COMMENT: It is recognized that the concept of "membership" or similar nomenclature within the various DENOMINATIONS involves various church structure, organizational and/or theological concepts with which federal and state governmental

entities cannot and should not interfere. Most CEFs presently direct their offering efforts to PERSONS who have some reasonable association or affiliation with the CEF, its affiliated DENOMINATION or its religious programs.

E. *Advertising.*

1. *General Standards.* An ISSUER may use ADVERTISING that complies with the following standards:

- a. ADVERTISING shall set forth a statement to the following effect:

This shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale is not authorized. The offering is made solely by the OFFERING CIRCULAR.

- b. ADVERTISING shall be directed to PERSONS who fall within, or potentially will fall within, the limited class of INVESTORS described in II. D. above.

- c. ADVERTISING shall not set forth statements, data or information that:

(1) Is inconsistent with the statements, data or information set forth in the OFFERING CIRCULAR; or

(2) When read in connection with the OFFERING CIRCULAR renders either the OFFERING CIRCULAR or ADVERTISING misleading or confusing.

2. *Filing.*

- a. If required by state law or by the ADMINISTRATOR, ADVERTISING shall be filed with the ADMINISTRATOR prior to use.

- b. ADVERTISING, filed pursuant to II.E.2.a., above, that is subsequently materially changed or modified during the applicable offering period, except as provided in II.E.2.c.,

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below, shall be filed with the ADMINISTRATOR as a notice filing concurrently with its use, provided that the changes and modifications are clearly marked, and the ADVERTISING changes and modifications comply with II.E.1. above.

- c. ADVERTISING, that has been filed with the ADMINISTRATOR, and which is subsequently changed or modified in a non-material manner, need not be refiled unless it is required by the ADMINISTRATOR.

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III. OPERATIONAL AND STRUCTURAL STANDARDS.

- A. *Organization and Structure.* A CEF shall be an organization that is organized and operates exclusively for religious, charitable or educational purposes and as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.
- B. *Exempt from Federal Registration.* The NOTES offered and sold by a CEF shall be exempt from registration pursuant to the provisions of Section 3(a)(4) of the Securities Act of 1933, as amended.
- C. *General Obligation Securities.* The NOTES offered by a CEF shall be offered under one or more programs of general obligation financing.
1. The NOTES are not specifically secured by particular loans to specific borrowing entities.
 2. The proceeds from the NOTES are deposited to a general fund from which the CEF makes and completes commitments for loans primarily to churches and religious organizations affiliated with the DENOMINATION.
 3. To the extent that a material amount of operating revenues or expenses of the CEF arise out of activities other than general obligation financing programs, appropriate disclosure of such activities shall be made.
 4. In all cases there shall be a separate accounting for the operations of the CEF.
- D. *Limited Senior Secured Indebtedness.* Except as provided in the COMMENT below, NOTES that are offered by a CEF normally shall be of the same rank and priority as its other debt securities and debt obligations.
1. The amount of any SENIOR SECURED INDEBTEDNESS to which the NOTES are or will be subordinated shall not exceed ten percent (10%) of the tangible assets of the CEF.
 2. To the extent that such subordination of the NOTES exists, appropriate disclosure shall be required.

COMMENT: Within the operations of a CEF, SENIOR SECURED INDEBTEDNESS is often in the form of: (1) a mortgage loan incurred for the

purchase of an advance church site or headquarters building and/or (2) a secured operating line of credit with a commercial financial institution.

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IV. FINANCIAL STANDARDS.

- A. *General.* An ISSUER should offer and sell no more NOTES than it can reasonably expect to repay, when due, in the ordinary course of its business. Although each offering must be viewed in the context of the individual facts

and circumstances surrounding each ISSUER and its offering, the following are the financial standards which an ADMINISTRATOR may consider in reviewing a proposed offering.

COMMENTS: To the extent that the AUDITED FINANCIAL STATEMENTS or the other information in the OFFERING CIRCULAR do not disclose sufficient information to evaluate the extent of compliance with the standards in this Guideline, the ISSUER shall furnish supplemental data and information to the ADMINISTRATOR. Further, an ISSUER may be deemed to have complied with the

standards in this Guideline even if it fails to meet one or more of the standards at the time of any one offering period, if: the ISSUER complies with or exceeds the requirements of the remaining standards; and the information and data furnished reflects the ability of the ISSUER to repay its NOTES and other debt obligations when due in the ordinary course of business.

- B. *Capital Adequacy.* At the end of its most recent fiscal year, the ISSUER's NET WORTH shall be positive and at least equal to three percent (3%) of its total assets.

COMMENT: This standard should be evaluated in the light of the financial operating history of the CEF.

- C. *Liquidity Status.* At the end of its most recent fiscal year, the ISSUER's cash, cash equivalent and readily marketable assets shall have market value of at least five percent (5%) of the principal balance of its total outstanding NOTES.

COMMENT: In evaluating compliance with this standard, the ADMINISTRATOR also may consider the ISSUER's other sources of immediately availa-

ble funds, such as a line of credit or other source of credit with a bank or other financial institution.

- D. *Cash Flow Performance.* For each of the ISSUER's three (3) most recent fiscal years and, as estimated, for each of the ISSUER's next two (2) fiscal years, the coverage ratio of available cash as compared to cash redemptions, exclusive of DENOMINATIONAL ACCOUNTS, shall be at least one to one (1:1). In determining the ISSUER's available cash, the ADMINISTRATOR may consider:

1. Cash provided by its normal operating activities;
2. Liquid assets (market value) at the beginning of its fiscal year;
3. Loan principal repayments;
4. Cash generated from the sale of NOTES, exclusive of DENOMINATIONAL ACCOUNTS, except to the extent that year-end redemptions exceed deposits to, or investments in, such DENOMINATIONAL ACCOUNTS during its fiscal year;
5. Funds from other sources; and
6. Loan disbursements.

COMMENT: For the ISSUER's next two (2) fiscal years, projected cash redemptions may be based on the ISSUER's five (5) year historical experience by applying the average percent of actual redemptions compared to maturing obligations each year. For the ISSUER's next two (2) years, projected cash generated from the sale of NOTES may be based on the ISSUER's five (5) year historical experience, by calculating the average amount of cash generated

from its sale of NOTES, exclusive of DENOMINATIONAL ACCOUNTS, for its five (5)-year historical period. Further, in determining the amount of the ISSUER's available cash, the ADMINISTRATOR also may consider any other source of immediately available funds, such as a line of credit or other source of credit with a bank or other financial institution.

- E. *Loan Quality.*

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1. LOAN DELINQUENCIES during the ISSUER's most recent fiscal year, reviewed in light of its historical operating experience, shall not be excessive and shall be at such a level that the overall quality of its loan portfolio will allow the ISSUER:
 - a. To maintain a positive NET WORTH; and
 - b. Receive the timely repayments of sufficient loan principal necessary to meet the liquidity and cash flow requirements as set forth in IV. C. and D. above.
 2. When the LOAN DELINQUENCIES become material, the extent of the LOAN DELINQUENCIES and the quality of the ISSUER's loan portfolio should be disclosed as risk factors in the OFFERING CIRCULAR.
- F. *Profitability.* The ISSUER's NET INCOME, less any non-recurring or extraordinary items, for three (3) of its last five (5) fiscal years shall be positive.
- G. *SEASONED ISSUER Compliance.* A SEASONED ISSUER shall be deemed to comply with the above financial standards in any given fiscal year, if it can show that:
1. It has fulfilled the requirements of the financial standards for at least three (3) out of its five (5) most recent fiscal years;
 2. The average of its five (5) most recent fiscal years reflects compliance with the financial standards; or
 3. The information and data furnished indicates the ability of the SEASONED ISSUER to repay its NOTES and other debt obligations when due in the ordinary course of its business.

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V. ISSUANCE OF NOTES.

An ISSUER that meets the standards of this Guideline shall be entitled to offer and sell its NOTES under the following provisions.

- A. *No Trust Indentures or Sinking Fund Required.* Trust indentures or sinking funds shall not be required in connection with the NOTES.
- B. *Extension or Roll-Over After Notice.* NOTES, upon maturity, may be extended or rolled over under the expressed terms and conditions stated in the OFFERING CIRCULAR, if:
 1. Each INVESTOR is provided with written notification of the maturity and the proposed extension of rollover of the NOTES at least thirty (30) days prior to the NOTES' maturity dates;
 2. Each INVESTOR is or has been provided with the ISSUER's most current OFFERING CIRCULAR; and
 3. The INVESTOR notifies the ISSUER in writing on or prior to the maturity date that the INVESTOR elects not to extend or roll-over the NOTE, the ISSUER promptly shall repay the principal and interest accrued thereon.
- C. *Compound Interest.* NOTES may contain provisions pursuant to which interest payable thereon may be retained and compounded.

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VI. DISCLOSURE

To insure that INVESTORS receive adequate information to make informed investment decisions, the ISSUER must provide INVESTORS with OFFERING CIRCULARS prior to their investments.

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VII. OFFERING CIRCULAR.

The OFFERING CIRCULAR should include a narrative or descriptive form of all of the relevant and material information relating to the ISSUER and the NOTES, and any other material information that affects or would affect an offeree's decision to purchase the NOTES. The following materials and relevant information must be included in the OFFERING CIRCULAR.

A. *Cover Page.*

1. The name of the ISSUER.
2. The ISSUER's principal business address and telephone number.
3. A brief description of the NOTES offered including interest rates and maturity terms available.
4. The total amount of the offering, the estimated offering expenses and the net proceeds of the offering.
5. A statement that the offering is subject to certain risks and the page(s) of the OFFERING CIRCULAR that disclose(s) the risk factors.
6. The limited class of INVESTORS to whom the NOTES will be sold.
7. Any legends that are required by applicable state laws, rules or regulations, or are deemed to be appropriate by the ADMINISTRATOR.
8. The date of the OFFERING CIRCULAR.

COMMENT: An ISSUER may use a national OFFERING CIRCULAR in all states or jurisdictions in which it offers and sells its securities. Disclosure of specific legends or other information may be required by various state laws, rules or ADMINISTRATORS. If there is insufficient space on the front side of the cover page of the OFFERING CIRCULAR

for the information and materials described in VII.A.6 and A.7., above, or when otherwise appropriate, such information and materials may be disclosed on the reverse side of the cover page or on additional pages immediately following the cover page of the OFFERING CIRCULAR.

B. *Specific State Information.*

1. Set forth any required state legends and other information unique to the state required by law or through the state review process.
2. Set forth any limitations on the sale of the NOTES to investors in any state.

C. *History and Operations.*

1. Describe the ISSUER, including the name, address of principal business office, state and date of incorporation, type and nature of the corporation (not-for-profit, tax exempt, etc.).
2. Describe the history of the ISSUER and its denominational affiliation or association.
3. Describe the religious purposes of the ISSUER and the general nature and purposes of its operations.

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4. Describe the nature and extent of the offering of the NOTES and the extent of the ISSUER's offerings on a nationwide basis.
5. Describe the current operation and principal business activities of the ISSUER.

D. *Risk Factors.*

1. The OFFERING CIRCULAR must describe to the INVESTORS the risks of investing in the NOTES.
2. Statements to the effect that little or no risk is involved in purchasing NOTES are prohibited, and such statements by an ISSUER will be regarded as material misrepresentations.
3. An ISSUER must fully describe all of the relevant risks including, if applicable:
 - a. That the NOTES are unsecured general obligations of the ISSUER, and that the INVESTORS will be dependent solely upon the financial condition of the ISSUER for repayment of principal and interest;
 - b. That no sinking fund or trust indenture has been or will be established;
 - c. The ranking and priority of the NOTES in relation to the ISSUER's existing and anticipated future NOTES and indebtedness. (See III.D, above.)
 - d. That no public market exists for the NOTES and that none will develop, and therefore the transferability of the NOTES is limited and restricted.
 - e. The financial condition of the ISSUER, including any relevant information concerning its income or losses from operations and any other information relevant to the ISSUER's ability to make payments of principal and interest on the NOTES when due.
 - f. The ISSUER's policy on the maintenance of liquid funds (reserves).
 - g. The INVESTOR's tax consequences with respect to investments in the NOTES.
 - h. That the ISSUER's loans are made primarily to affiliated churches and related religious organizations, including local churches, whose ability to repay the loans depends primarily upon contributions that they receive from their members.
 - i. The loan policies with respect to the ISSUER's relationship with its affiliated churches and its related religious organizations which distinguish it from commercial lenders.
 - j. The risks involved in future changes in federal or state laws that may affect the ISSUER's ability to continue to sell its NOTES.
 - k. The risks involved in the ISSUER's activities other than its CEF Operations.

- E. *Use of Proceeds.* Describe how the proceeds from the sale of the NOTES are to be used and other material information related thereto.

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- F. *Financing and Operational Activities.* Describe the financing operations and activities of the ISSUER including:
1. A description and summary, in tabular form, of the ISSUER's outstanding NOTES and debt obligations, categorized to the extent necessary to inform an INVESTOR of the nature and type of NOTES and debt obligations that it has sold and incurred. To the extent that the information is not disclosed in the AUDITED FINANCIAL STATEMENTS of the ISSUER or the footnotes attached thereto, the OFFERING CIRCULAR should include the principal amounts due at maturity.
 2. A description of the receipts that the ISSUER received from the sale of its NOTES and the amount of any redemptions that it made on its NOTES in its prior fiscal year.
 3. A description and summary, in tabular form, of the amount and nature of the ISSUER's outstanding loans receivable at the end of its last fiscal year. To the extent that the information is not disclosed in the AUDITED FINANCIAL STATEMENTS of the ISSUER or the footnotes attached thereto, the OFFERING CIRCULAR should include a summary of the maturities of the various outstanding loans receivable of the ISSUER.
 4. A description and summary of the nature and amount of any invested funds which the ISSUER maintains, pending utilization for its loan activities or maintaining a reasonable liquidity, and a description of the policies of the ISSUER with respect to the maintenance of such invested funds.
 5. A description of the ISSUER's direct and indirect non-related CEF revenues and expenses, if a significant percentage of the ISSUER's operating revenues or expenses arise out of its non-related CEF operations.
 6. A description of any other related material financial information of the ISSUER's financial activities and operations that relate to its ability to repay the principal and interest on its outstanding NOTES and other debt securities when due.
- G. *Lending Activities.* Describe the lending activities of the ISSUER such as:
1. The nature and types of its loans receivable;
 2. Its loan policies;
 3. Material loans made to a single borrower;
 4. The nature and extent of any material LOAN DELINQUENCIES for its last three (3) fiscal years; and
 5. The nature and extent of any material loan losses that the ISSUER has incurred within its last three (3) fiscal years.
- H. *Selected Financial Data.*
1. Set forth in tabular form certain selected financial data of the ISSUER's last five fiscal years, including: cash and liquid reserve balances, outstanding NOTES and debt obligations, outstanding loans receivable, fund balance, and NET INCOME (loss).
 2. Include, to the extent relevant and material, any discussion and analysis by management of the ISSUER that will assist INVESTORS in understanding the nature of the operations of the ISSUER and the occurrence of any item of income or loss arising out of its operations.
- I. *Description of NOTES.*

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1. Describe the type and nature of the NOTES and the manner in which the interest thereon will be computed and/or accrued.
2. Describe the terms of the NOTES, including any right to early redemption and any penalties that will be applied thereto.
3. Describe the nature of cash or cash equivalent that will be acceptable for purchase of the NOTES.
4. Describe the restrictions and limitations on transferability of the NOTES.
5. Describe the ranking and priority of the NOTES in relation to other indebtedness of the ISSUER.

J. *Plan of Distribution.*

1. Describe the method and manner in which the NOTES will be offered and sold to INVESTORS, including the methods of solicitation and subscription.
2. State that no underwriting or selling agreements exist, and that no direct or indirect commissions or other remuneration will be paid to any individuals or organizations in connection with the offer and sale of the NOTES.

COMMENT: The NOTES will be offered and sold through officers and/or employees of the ISSUER or other representatives of the DENOMINATION.

- K. *Tax Aspects.* Describe the federal tax aspects of ownership of the NOTES and state that the interest paid or accrued on the NOTES will be taxable as ordinary income to INVESTORS.

L. *Litigation and Other Material Transactions.*

1. Describe all present, pending or threatened material legal proceedings, including those that are known to be contemplated by governmental authorities, administrative bodies, or other PERSONS to which the ISSUER or its property is or may become a party.
2. Include the name of the court or agency in which the proceedings are pending, the date that the proceedings were instituted, the principal parties involved, a description of the factual basis underlying the proceedings and the relief sought.
3. Disclose any transactions that may materially affect the offering or an INVESTOR's investment decision and which are not otherwise mentioned in the OFFERING CIRCULAR.

M. *Management.*

1. Describe the organizational structure of the ISSUER, including how the members of its Board of Directors or other legal governing body are chosen or replaced.
2. Identify all directors and executive officers or persons having similar authority of the ISSUER, and describe the functions they perform for the ISSUER and the dates that their terms of office expire.
3. Disclose if any director or officer of the ISSUER has, during the past ten years, been convicted of any criminal proceeding (other than for traffic violations or other minor misdemeanors), is the subject of any pending criminal proceedings, or was the subject of any order, judgment or decree of any court enjoining such person from any activities associated with the offer or sale of securities.

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4. Disclose all direct and indirect remuneration paid by the ISSUER to its executive officers or directors or persons having similar authority for the ISSUER's last fiscal year in the aggregate and individually, if the remuneration, which includes, but is not limited to, salaries, pensions, retirement plans and the use of the ISSUER's assets for personal purposes, equals or exceeds the amount requiring disclosure as set forth in the rules and regulations of the Securities and Exchange Commission.
5. Describe all material employment contracts, perquisites of employment and conflicts of interests of the ISSUER's officers, directors, or persons having authority.

N. *Financial Statements.*

1. The ISSUER's AUDITED FINANCIAL STATEMENTS shall consist of:
 - a. Statements of assets and liabilities (balance sheet) for its two most recent fiscal years;
 - b. Statements of revenues and expenses (income statement or aggregation of fund balances) for its three most recent fiscal years;
 - c. Statements of cash flows for its three most recent fiscal years;
 - d. A description of any recent changes in its current accounting policies; and
 - e. A copy of the report of the independent certified public accountant shall precede the financial statements.
2. Any material adverse changes in the financial condition of the ISSUER during the offering period shall be promptly disclosed in an appropriate supplement, or an amendment to the OFFERING CIRCULAR, and shall be promptly filed with each ADMINISTRATOR.

- O. *Investor Reports.* The OFFERING CIRCULAR shall state that the ISSUER's current AUDITED FINANCIAL STATEMENTS will be made available to INVESTORS upon written request, and will be mailed to INVESTORS within 120 days of its last fiscal year end.

COMMENTS: This outline is not all inclusive, and individual circumstances surrounding each ISSUER should be taken into account in determining what is material and relevant and what should be disclosed in the OFFERING CIRCULAR. All unique or unusual aspects or features that are material or relevant to the ISSUER, which are not covered by this outline, should be disclosed in the OFFERING CIRCULAR. Any disclosure suggested in the outline that is not material or relevant to the ISSUER's offering or its operations need not be included in the OFFERING CIRCULAR.

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