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WILLIAM A. MUNDELL
CHAIRMAN

JIM IRVIN
COMMISSIONER

MARC SPITZER
COMMISSIONER

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ARIZONA CORPORATION COMMISSION
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MEMORANDUM

TO: Chairman William A. Mundell
Commissioner Jim Irvin
Commissioner Marc Spitzer

FROM: Mark Sendrow *MS*
Director of Securities

DATE: July 3, 2002

RE: Proposed Amendment to Rule A.A.C. R14-4-116
Docket No. RS-00000A-02-0304

cc: Brian C. McNeil, Executive Secretary

OPEN MEETING ITEM

7/18/02

Arizona Corporation Commission

DOCKETED

JUL - 5 2002

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The Securities Division (the "Division") is seeking permission from the Commissioners to publish a Notice of Proposed Rulemaking concerning A.A.C. R14-4-116 ("rule 116"). The rule identifies the North American Securities Administrators Association ("NASAA") Statements of Policy used by the Division as its standard of review in certain securities registrations.

The Division proposes amending rule 116 to add the NASAA Guidelines for General Obligation Financing by Religious Denominations and the NASAA Statement of Policy Regarding Church Bonds (collectively the "NASAA statements of policy"). The NASAA Guidelines for General Obligation Financing by Religious Denominations will be the standard of review for debt issued by a denomination for the purpose of funding projects of various affiliated churches or related religious organizations. The Statement of Policy Regarding Church Bonds will be the standard of review for debt issued by individual religious entities to fund projects associated with the individual entity.

States coordinate in the drafting of NASAA statements of policy and adopt them in order to facilitate uniformity among the states regarding the standards imposed on applicants for registration of securities. The Division believes that the proposed adoption of these two NASAA statements of policy will benefit both the industry and potential investors by providing appropriate and consistent registration standards.

Attached is a copy of the proposed order, the proposed amendment to rule 116, and copies of the NASAA statements of policy. The Division has solicited the informal advice and comments of the securities section of the Arizona State Bar, members of securities industry

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organizations, and the Division's staff regarding the proposed amendment. During the drafting of the statements of policy by NASAA, input was sought and incorporated from the industry and state securities regulators, including Arizona.

The Division recommends that a Notice of Proposed Rulemaking be sent to the secretary of state's office and public comment regarding the amendment be obtained.

Originator: Sharleen A. Day
Asst. AG Assigned: Moira McCarthy

BEFORE THE ARIZONA CORPORATION COMMISSION

1 WILLIAM A. MUNDELL
2 Chairman
3 JIM IRVIN
4 Commissioner
5 MARC SPITZER
6 Commissioner

OPEN MEETING ITEM

7/18/02

7 In the matter of)
8)
9 PROPOSED RULEMAKING)
10 TO AMEND RULE 116 LISTING NASAA)
11 STATEMENTS OF POLICY AS)
12 REGISTRATION STANDARDS)
13 _____)

DOCKET NO. RS-00000A-02-0304

DECISION NO. _____

ORDER

14 Open Meeting
15 July 18, 2002
16 Phoenix, AZ

17 BY THE COMMISSION:

INTRODUCTION

18 The Securities Division (the "Division") of the Arizona Corporation Commission (the
19 "Commission") has forwarded to the Commission a proposal recommending that the Commission
20 amend A.A.C. R14-4-116 ("rule 116") of the Arizona Administrative Code rules governing the
21 administration of the securities statutes.

FINDINGS

22 1. Rule 116 identifies the North American Securities Administrators Association
23 ("NASAA") Statements of Policy used by the Division in its review of certain applications for
24 registration under A.R.S. § 44-1891.

25 2. The Division recommends amending rule 116 to add the NASAA Guidelines for
26 General Obligation Financing by Religious Denominations and the NASAA Statement of Policy
Regarding Church Bonds.

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IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
Executive Secretary of the Arizona Corporation
Commission, have hereunto set my hand and caused
the official seal of the Commission to be affixed at
the Capitol, in the City of Phoenix, this _____ day of
_____, 2002.

BRIAN C. McNEIL
Executive Secretary

DISSENT
(sad)

This document is available in alternative formats by contacting Shelly M. Hood, Executive
Assistance to the Executive Secretary, voice phone number 602-542-3931, E-mail
shood@cc.state.az.us.

OPEN MEETING ITEM

7/18/02

R14-4-116. NASAA Statements of Policy

- A. ~~Unless otherwise provided in A.R.S. Title 44, Chapter 12, Article 7, Securities or~~ transactions that fall within one or more of the following North American Securities Administrators Association (NASAA) statements of policy shall comply with the requirements of those statements of policy to qualify for registration or renewal under A.R.S. Title 44, Chapter 12, Article 7. This Section shall not apply to the registration of securities under A.R.S. § 44-1901.
1. Statement of policy regarding loans and other material affiliated transactions, amended November 18, 1997.
 2. Registration of asset-backed securities, adopted October 25, 1995.
 3. NASAA mortgage program guidelines, adopted September 10, 1996.
 4. Registration of commodity pool programs, adopted on September 21, 1983, effective January 1, 1984; amended and adopted August 30, 1990.
 5. Equipment programs, adopted on November 20, 1986, effective January 1, 1987, amended April 22, 1988, and October 24, 1991.
 6. Registration of oil and gas programs, adopted on September 22, 1976, amended October 12, 1977, October 31, 1979, April 23, 1983, July 1, 1984, September 3, 1987, September 14, 1989, and October 24, 1991.
 7. Statement of policy regarding real estate investment trusts, revised and adopted on September 29, 1993.
 8. Real estate programs, last revised September 29, 1993.
 9. Statement of policy regarding unequal voting rights, adopted and effective October 24, 1991.
 10. Omnibus Guidelines, adopted on March 29, 1992.
 11. Guidelines for general obligation financing by religious denominations, adopted April 17, 1994.
 12. Statement of policy regarding church bonds, adopted April 14, 2002.
- B. The statements of policy listed in subsection (A) are incorporated by reference. The incorporated statements of policy do not contain later editions or amendments, ~~made after the effective date of this Section.~~ The statements of policy are published in *NASAA Reports* by Commerce Clearing House, Inc., 4025 West Peterson Avenue, Chicago, Illinois 60646. Copies are also available from NASAA, 10 G Street, N.E., Suite 710, Washington, D.C. 20002, and at the Office of the Secretary of State and the Commission.

STATEMENT OF POLICY REGARDING

OPEN MEETING ITEM

CHURCH BONDS

7/18/02

Adopted April 14, 2002

I. INTRODUCTION. The North American Securities Administrators Association, Inc. ("NASAA") has determined that the following Statement of Policy ("SOP") for offerings of CHURCH BONDS is consistent with public INVESTOR protection and is in the public interest. Under this SOP, the term "CHURCH" includes worship facilities or religious organizations identified by other terms such as "Synagogue", "Mosque" or "Parish". Other terms are defined under I.B. and capitalized throughout this SOP.

A. Application.

1. The standards contained in this SOP apply to the offer and sale of CHURCH BONDS, the proceeds of which primarily finance or refinance the purchase, construction or improvement of CHURCH property, buildings, related educational facilities or related capital expenditures of a single CHURCH that is organized as a NOT-FOR-PROFIT ORGANIZATION. Except as provided by V.A.2., CHURCH BONDS issued under this SOP shall constitute a first mortgage lien on the CHURCH property that shall be pledged as collateral to secure the CHURCH BONDS.
2. It is intended that this SOP may be applied by an ADMINISTRATOR in any STATE, whether required as a condition for exemption from securities registration or for registration of the CHURCH BONDS.
3. The ADMINISTRATOR may allow waivers or exceptions from certain standards under this SOP, if good cause is shown, or may require different or additional standards based on provisions of statutes or regulations of a STATE. For example, the ADMINISTRATOR may allow a waiver of some or all provisions of this SOP for CHURCH BONDS offered and sold in an INTERNAL OFFERING and/or an offering limited to a specified amount, or some standards may be modified or waived for offerings of CHURCH BONDS under a firm underwriting agreement.
4. This SOP does not apply to "Church Extension Funds", which are the subject of a separate SOP entitled *General Obligation Financing By Religious Denominations* that was adopted by the North American Securities Administrators Association, Inc. on April 17, 1994.
5. The ADMINISTRATOR may apply this SOP by analogy to similar offerings of debt securities by other types of NOT-FOR-PROFIT ORGANIZATIONS.

B. Definitions.

1. **ADJUSTED INCREASE IN UNRESTRICTED NET ASSETS** – The amount of increase in UNRESTRICTED NET ASSETS that is available for SINKING FUND payments based on the "Increase in UNRESTRICTED NET ASSETS" as reported in the Statement of Activities of the ISSUER and adjusted on a pro forma basis to reflect the elimination or addition of the following items reported in the Statement of Activities of the ISSUER:
 - a. Depreciation and amortization expenses;
 - b. Interest expense;

- c. Rent expense for facilities to be replaced or discontinued;
- d. Contributions received for the building project or purpose of the offering of CHURCH BONDS and classified as temporarily restricted for such use, less any amount reclassified to UNRESTRICTED NET ASSETS;
- e. Unusual or infrequent revenues or expenses; and
- f. Gains or losses from incidental or nonoperating transactions.

This amount is similar to pro forma earnings in an earnings to fixed charges comparison for a business enterprise. "Pro forma" adjustments and information shall be based on actual historical information and must not be confused with or include any projected or forecasted information.

2. ADMINISTRATOR - The official or agency responsible for administering and enforcing the securities laws and regulations of a STATE.
3. ADVERTISING - All information and promotional materials, including, but not limited to, magazine or newsletter advertisements, brochures, video tapes, fliers, CHURCH bulletin inserts, mailers and Internet information posted by the ISSUER, the UNDERWRITER or a BROKER-DEALER, that are used in addition to an OFFERING CIRCULAR to solicit INVESTORS.
4. AUDITED FINANCIAL STATEMENTS - Financial statements that have been audited and reported upon by independent Certified Public Accountants in accordance with generally accepted auditing standards of the American Institute of Certified Public Accountants.
5. BONDHOLDERS - PERSONS who own and hold CHURCH BONDS outstanding under the TRUST INDENTURE or have rights to receive payments of interest and principal as beneficial owners of CHURCH BONDS issued in book-entry form and outstanding under the TRUST INDENTURE.
6. BROKER-DEALER - Any PERSON meeting the definition of this term under the securities laws of the STATES where CHURCH BONDS are offered for sale.
7. CHURCH - A building used for worship or religious activities of a religious group or organization, or the religious group or organization that uses the building. The term includes worship facilities or religious organizations identified by other terms such as "Synagogue", "Mosque" or "Parish".
8. CHURCH BONDS - Debt securities or other evidences of indebtedness of the ISSUER that obligate the ISSUER to repay a stated principal amount and to pay interest to BONDHOLDERS. The securities may be issued in series with various specified maturity dates and interest rates.
9. CONFLICT OF INTEREST - An event, transaction, or other circumstance that may reasonably be deemed to impair the independence or fiduciary capacity of the TRUSTEE in the fulfillment of its obligations and commitments under the TRUST INDENTURE. This term also pertains to conflicts among the interests of the ISSUER, its officers, directors or trustees, and MEMBERS.
10. DEBT-SERVICE RATIO - The ratio determined by dividing the amount of the ADJUSTED INCREASE IN UNRESTRICTED NET ASSETS by the sum of the annualized amount of SINKING FUND payments required to repay all outstanding CHURCH BONDS based on STRAIGHT LINE AMORTIZATION plus annual payments required on other long term debt that will remain outstanding after issuance of the CHURCH BONDS.

11. **DEFAULT** - Any failure by the ISSUER to fulfill any one or more of its obligations or commitments under the TRUST INDENTURE which continues for thirty (30) days or more without being cured or waived, including, but not limited to, a failure to make a scheduled payment of principal or interest to BONDHOLDERS.
12. **ESCROW AGENT** - The PERSON, independent of the ISSUER and UNDERWRITER, that is a STATE or federally regulated financial institution or trust company organized under the laws of the United States or any STATE, and whose primary responsibility is to receive, maintain and control proceeds from subscriptions for CHURCH BONDS for impoundment in an escrow account in accordance with provisions of an ESCROW AGREEMENT.
13. **ESCROW AGREEMENT** - A contractual agreement among the ISSUER, UNDERWRITER, if any, and an ESCROW AGENT that specifies provisions for:
 - a. Impoundment of proceeds from subscriptions for CHURCH BONDS until the minimum proceeds required for the purpose of financing are received and deposited in an escrow account maintained and controlled by the ESCROW AGENT, or until a specified time period has expired; and
 - b. Distribution of proceeds to the ISSUER for use in accordance with purposes disclosed in the OFFERING CIRCULAR or to INVESTORS if the minimum required proceeds are not obtained or if other conditions for release of proceeds from the escrow account are not met.
14. **GAAP** - Generally Accepted Accounting Principles in the United States as established by the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB), Accounting Research Bulletins (ARB) and American Institute of Certified Public Accountants (AICPA). The *AICPA AUDIT AND ACCOUNTING GUIDE FOR NOT-FOR-PROFIT ORGANIZATIONS* provides guidance on specific GAAP for NOT-FOR-PROFIT ORGANIZATIONS.
15. **INTERNAL OFFERING** - An offering of CHURCH BONDS that is made only to MEMBERS of an ISSUER.
16. **INVESTORS** - PERSONS who purchase or subscribe to purchase CHURCH BONDS from the ISSUER or UNDERWRITER.
17. **ISSUER** - A NOT-FOR-PROFIT ORGANIZATION operating as a CHURCH that offers, sells and issues CHURCH BONDS.
18. **LIMITED GRADUATED PAYMENTS** - A method of scheduling SINKING FUND payments so that payments during the first few years of the term for repayment are lower than payments in later years, such that payments gradually increase from year to year over the term that CHURCH BONDS are to be outstanding. The lowest payment must be at least sufficient to pay the interest on the aggregate CHURCH BONDS issued. The highest payment must not exceed the payment amount determined by STRAIGHT-LINE AMORTIZATION by more than ten percent (10%), using the same number of years for computation of payments.
19. **MEMBER** - An individual who regularly attends or supports activities, meetings, programs or services of the ISSUER and has reasonable access to financial and organizational records of the ISSUER such that the individual can be reasonably familiar with the ISSUER's activities and financial position.

20. NET ASSETS (as defined by GAAP) – The excess or deficiency of assets over liabilities, classified according to the existence or absence of donor-imposed restrictions (See UNRESTRICTED NET ASSETS).
21. NOT-FOR-PROFIT ORGANIZATION – An entity as described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended, that possesses the following characteristics that distinguish it from a business enterprise: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises.
22. OFFERING CIRCULAR - The disclosure document that provides material information about the ISSUER and the offering of CHURCH BONDS. The disclosure document may also be identified as a “prospectus”.
23. PAYING AGENT – The TRUSTEE or other PERSON, independent of the ISSUER, that collects SINKING FUND payments and distributes payments of principal and interest on the CHURCH BONDS to BONDHOLDERS according to provisions of the TRUST INDENTURE. Unless otherwise allowed by STATE law or the ADMINISTRATOR, the PAYING AGENT shall be a financial institution or trust company, other than an individual, that is domiciled in the United States, regulated and subject to regular compliance examinations by a STATE or federal agency in the United States and independent of the UNDERWRITER.
24. PERSON - An individual, a corporation, a limited liability company, a partnership, an association, organization, a government or a political subdivision of a government, or other legal entity.
25. SERVICE AGENT – The TRUSTEE or other PERSON, independent of the ISSUER, that is designated under the TRUST INDENTURE to monitor compliance with provisions of the TRUST INDENTURE and maintain records of transactions required or authorized by the TRUST INDENTURE. Unless otherwise allowed by STATE law or the ADMINISTRATOR, the PERSON acting as the SERVICE AGENT shall be regulated and subject to examination by a STATE or federal agency in the United States and independent of the UNDERWRITER.
26. SINKING FUND – An account by any name that is required by the TRUST INDENTURE and administered by the TRUSTEE or PAYING AGENT for the purpose of receiving and accumulating payments from the ISSUER in amounts sufficient to meet all required interest payments and principal repayments during the term that any CHURCH BONDS are outstanding according to an amortization schedule specified or required by the TRUST INDENTURE.
27. STATE – A state, commonwealth or the District of Columbia in the United States, or Puerto Rico. For the limited purposes of this SOP, the term may also refer to a province of Canada or an agency of Mexico.
28. STRAIGHT-LINE AMORTIZATION – A method of scheduling SINKING FUND payments so that all payments are substantially equal.
29. SUCCESSIVE BOND ISSUE – Any issuance of a new series of CHURCH BONDS by an ISSUER following an issuance by that same ISSUER of CHURCH BONDS that remain outstanding after the new issue, including a new series of CHURCH BONDS issued under an amendment to the original TRUST INDENTURE.

30. TRUSTEE – The PERSON, independent of the ISSUER and UNDERWRITER, that is domiciled within the United States, regulated and subject to examination by a STATE or federal agency in the United States, and whose primary responsibility with respect to an offering of CHURCH BONDS is representing the interests of BONDHOLDERS through administration and enforcement of the TRUST INDENTURE. The TRUSTEE may serve as the PAYING AGENT and/or SERVICE AGENT pursuant to the TRUST INDENTURE, if qualified in accordance with definitions under I.B.23. and/or I.B.25.
31. TRUST INDENTURE – The governing document that: defines responsibilities of the TRUSTEE for protecting the interests of BONDHOLDERS and assets of the ISSUER which secure the CHURCH BONDS; provides that the CHURCH BONDS constitute a first lien on the real property pledged as collateral by the ISSUER, except as allowed under V.A.2.; and specifies the rights of BONDHOLDERS and responsibilities of the ISSUER in relation to the issuance and repayment of the CHURCH BONDS.
32. UNDERWRITER – The BROKER-DEALER that enters a contractual agreement with the ISSUER to offer and sell CHURCH BONDS on behalf of the ISSUER to INVESTORS, and subject to requirements of each STATE, is registered with the ADMINISTRATORS in STATES where the CHURCH BONDS are offered and sold. The underwriting agreement between the BROKER-DEALER and the ISSUER may specify either a “firm” underwriting in which the BROKER-DEALER agrees to purchase all of the CHURCH BONDS in an offering for resale to INVESTORS, or a “best efforts” underwriting without an obligation to purchase and resell all of the CHURCH BONDS.
33. UNRESTRICTED NET ASSETS – The part of NET ASSETS of a NOT-FOR-PROFIT ORGANIZATION that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

II. QUALIFICATION, LICENSING AND MARKETING REQUIREMENTS

A. Qualification Requirements.

1. The ISSUER or UNDERWRITER 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 CHURCH BONDS in each STATE, whether by registration, exemption or otherwise, as required by the securities laws and regulations of each STATE.
2. Some ADMINISTRATORS will require certain assurances or representations by the ISSUER or UNDERWRITER and the offering will not be authorized until or unless assurances have been provided and the ADMINISTRATOR has issued a notice of “no objection” to a claim of exemption or an order of registration or exemption for the CHURCH BONDS. Required assurances may include an understanding that: the offering is not authorized until a notice or order has been issued by the ADMINISTRATOR; material changes in the offering may require suspension of sales activity until an amended filing is authorized by the ADMINISTRATOR; or confirmation that the OFFERING CIRCULAR will be delivered to prospective INVESTORS before sales of any CHURCH BONDS.
3. Subject to the requirements of individual STATES, copies of the following documents should be filed with the ADMINISTRATOR for exemption or registration of the CHURCH BONDS:
 - a. The OFFERING CIRCULAR prepared in accordance with VII. that contains financial statements as required by IV.A. and any proposed ADVERTISING that will be used in conjunction with the OFFERING CIRCULAR;

- b. The ISSUER's articles of incorporation and amendments thereto, and bylaws or other similar governing documents if the ISSUER is not a corporation;
- c. The documents which provide evidence of the authorizations required under III.C. for issuance of the CHURCH BONDS;
- d. An opinion of legal counsel attesting to: the authority of the ISSUER to offer and sell the CHURCH BONDS; the status of the ISSUER as a NOT-FOR-PROFIT ORGANIZATION; and whether after the sale, the CHURCH BONDS will be valid, binding obligations of the ISSUER in accordance with the ISSUER's governing documents;
- e. A specimen of the proposed CHURCH BONDS or the book entry form of bond;
- f. The TRUST INDENTURE;
- g. The ESCROW AGREEMENT, if not included within the TRUST INDENTURE, unless the UNDERWRITER and ISSUER have entered a firm underwriting agreement;
- h. The subscription agreement or similar document that specifies the terms of the purchase of CHURCH BONDS by the INVESTORS;
- i. The underwriting agreement if an UNDERWRITER will offer and sell the CHURCH BONDS;
- j. An undertaking to file the appraisal report or alternative evidence of the value of properties securing the CHURCH BONDS as required under IV.E. if requested by the ADMINISTRATOR;
- k. An undertaking to file the environmental site assessment report, if applicable and disclosed in summary form under VII.I.2., if requested by the ADMINISTRATOR;
- l. An undertaking to provide the ISSUER's annual financial statements to the TRUSTEE as required by IV.A.5. within 120 days after the end of each fiscal year until all CHURCH BONDS have been repaid ;
- m. Written consents of the independent Certified Public Accountants, appraiser, legal counsel and if applicable, the environmental consultant of the ISSUER, for inclusion or reference of their reports or opinions in the OFFERING CIRCULAR or documents filed with the ADMINISTRATOR;
- n. A consent to service of process on Form U-2; and
- o. Any other documents that may be required or requested by the ADMINISTRATOR.

B. Fees and Commissions.

PERSONS receiving payment of any direct or indirect underwriting, sales or similar fees or commissions in connection with the offering of CHURCH BONDS must be registered as a BROKER-DEALER or agent in the STATES where CHURCH BONDS are sold, unless otherwise allowed under the securities laws and regulations of a particular STATE. Unless otherwise allowed by the ADMINISTRATOR, total fees, commissions and other direct or indirect compensation or expense reimbursements to the UNDERWRITER and other PERSONS in connection with offers and sales of the CHURCH BONDS shall not exceed 15 percent of the aggregate amount of CHURCH BONDS sold by or on behalf of the ISSUER.

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 CHURCH BONDS. Therefore, it is necessary to check with the ADMINISTRATOR in each STATE where the CHURCH BONDS will be offered to determine whether registration is required and whether certain suitability standards may be required.

2. Waivers or Exemptions.

If a STATE's securities laws or regulations allow, the ADMINISTRATOR may consider waiving:

- a. Testing requirements for agents of the ISSUER;
- b. BROKER-DEALER registration requirements for the ISSUER; and/or
- c. Agent registration requirements with respect to officers, directors or other employees of the ISSUER ("Agents"), who represent the ISSUER in effecting or attempting to effect offers and sales of CHURCH BONDS, provided, however, the Agents:
 - i. Receive no compensation or similar remuneration either directly or indirectly in connection with the offer and sale of the CHURCH BONDS;
 - ii. Perform significant functions for the ISSUER other than the sale of CHURCH BONDS; and
 - iii. Represent only the ISSUER in effecting or attempting to effect offers and sales of securities.

D. ADVERTISING.

1. General Standards.

Subject to the requirements of individual STATES, an ISSUER may use ADVERTISING that complies with the following standards:

- a. ADVERTISING shall include 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 not include statements, data or information that:
 - i. Is inconsistent with the statements, data or information disclosed in the OFFERING CIRCULAR;
 - ii. When read in connection with the OFFERING CIRCULAR renders either the OFFERING CIRCULAR or ADVERTISING materially misleading; or
 - iii. Tends to overemphasize particular aspects of the offering or the ISSUER.

2. Filing.

Subject to the requirements of individual STATES,

- a. Proposed ADVERTISING shall be filed with the ADMINISTRATOR at least 5 business days prior to use, or as required under II.A.3.a., except no filing is required for "Tombstone" advertisements with limited information about the ISSUER and proposed offering of CHURCH BONDS. Such limited information may include: the name and address of the ISSUER; the amount and terms of the CHURCH BONDS; the purpose of the offering; and the name, address and contact information for the UNDERWRITER or

other PERSONS who may be contacted regarding the offering. The limited "Tombstone" advertisement shall include a statement as required by II.D.1.a., and should also state that interested INVESTORS should request and carefully read the OFFERING CIRCULAR before making their investment decision.

- b. ADVERTISING, filed pursuant to II.D.2.a. above, that is subsequently materially changed or modified during the applicable offering period, except as provided in II.D.2.c. below, shall be filed with the ADMINISTRATOR at least 5 business days prior to use. The changes and modifications shall be clearly marked, and the ADVERTISING changes and modifications shall comply with II.D.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.
 - d. If it is not possible to specify interest rates in advertisements 5 business days prior to use of the advertisements, the interest rate information shall be filed concurrently with its use.
3. Use of Advertising.

Subject to the requirements of individual STATES and II.D.2., advertising shall not be used by the ISSUER or UNDERWRITER before the proposed offering of CHURCH BONDS has become registered or authorized for exemption, as applicable, in the STATES where the CHURCH BONDS will be offered.

III. ORGANIZATION AND STRUCTURAL STANDARDS

A. Organization and Structure.

The ISSUER shall be a NOT-FOR-PROFIT ORGANIZATION, validly organized and existing under the laws of a STATE, that operates exclusively for religious purposes and qualifies as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

B. Exemption from Federal Registration.

The CHURCH BONDS must be exempt from registration pursuant to the provisions of Section 3(a)(4) of the Securities Act of 1933, as amended.

C. Authorizations.

The issuance of CHURCH BONDS shall be authorized by appropriate resolution(s) of the board of directors or trustees and, if required or provided by the bylaws or other governing documents of the ISSUER, by appropriate evidence of approval by the MEMBERS. The board members shall be responsible for determining that the extent of CHURCH BONDS to be issued is reasonable and feasible in relation to the financial and operational circumstances of the ISSUER.

D. Rank or Priority of CHURCH BONDS.

The CHURCH BONDS shall be senior or equal in rank and priority with other debt securities or obligations of the ISSUER, except as the ADMINISTRATOR may allow for CHURCH BONDS issued to MEMBERS as provided under V.A.2.

IV. FINANCIAL STANDARDS

A. Financial Statements of the ISSUER.

1. AUDITED FINANCIAL STATEMENTS of the ISSUER are required for its most recent fiscal year preceding the proposed offering of CHURCH BONDS, except as provided by IV.A.2. and IV.A.4. The AUDITED FINANCIAL STATEMENTS of the ISSUER shall include all financial statements and notes required by GAAP as follows:

- a. Statement of Financial Position (Balance Sheet);
- b. Statement of Activities (Revenues, Expenses and Changes in NET ASSETS);
- c. Statement of Cash Flows; and
- d. Notes to the Financial Statements to explain accounting policies and provide other disclosures required by GAAP for NOT-FOR-PROFIT ORGANIZATIONS.

Unless an exception is allowed by the ADMINISTRATOR under IV.A.6., the audit report shall include an unqualified opinion that indicates the financial statements are presented fairly, in all material respects, in conformity with GAAP, but the audit report shall not include an explanatory paragraph regarding the ISSUER's ability to continue as a "going concern".

2. The financial statements and notes listed under Section IV.A.1. for the last fiscal year of the ISSUER may be Reviewed by independent Certified Public Accountants in accordance with standards of the AICPA rather than Audited, if the total long term debt of the ISSUER to be outstanding after the proposed offering of CHURCH BONDS does not exceed \$1,000,000 and the ISSUER otherwise complies with financial standards of this SOP. Unless an exception is allowed by the ADMINISTRATOR under IV.A.6., the Review report shall not be modified for a departure from GAAP.
3. The OFFERING CIRCULAR shall include the ISSUER's financial statements for its last three fiscal years and interim financial statements, if applicable, since the end of its last fiscal year. Interim financial statements shall be for a period that ended within 120 days of the date of filing for registration or exemption of the CHURCH BONDS. No interim financial statements shall be required if the filing occurs within 120 days after the end of the ISSUER's last fiscal year. The financial statements for the two years before the most recent fiscal year of the ISSUER and any interim period may be unaudited, but the unaudited financial statements should be presented in conformity with GAAP in the same format as the audited or reviewed financial statements for the ISSUER's last fiscal year, unless the ADMINISTRATOR allows an exception under IV.A.6.
4. The ADMINISTRATOR may consider allowing financial statements and notes listed under IV.A.1. for the last fiscal year of the ISSUER to be compiled by independent Certified Public Accountants, rather than Audited or Reviewed, if sales of CHURCH BONDS are limited to an INTERNAL OFFERING and the total long term debt of the ISSUER after the offering will not exceed \$500,000. However, the compiled financial statements are still required to conform with GAAP for NOT-FOR-PROFIT ORGANIZATIONS in order to provide full and fair disclosure of financial information, unless the ADMINISTRATOR allows an exception under IV.A.6.
5. The ISSUER shall provide its annual financial statements to BONDHOLDERS or the ADMINISTRATOR upon request in future years while any CHURCH BONDS are outstanding. The ISSUER's annual financial statements shall be at least reviewed by independent Certified Public Accountants except as follows: if compiled financial statements are allowed by the ADMINISTRATOR under IV.A.4. for an INTERNAL OFFERING and the total long term debt of the ISSUER does not exceed \$500,000 as of the date of the financial statements, then the annual financial statements of the ISSUER may be compiled by Certified Public Accountants. The ISSUER shall provide its annual financial statements to the TRUSTEE within 120 days after the end of each fiscal year until all CHURCH BONDS have been repaid.

6. The ADMINISTRATOR may allow a departure from GAAP and a qualified or modified report of independent Certified Public Accountants under IV.A. with respect to the value of property and equipment reported in the ISSUER's financial statements if all of the following conditions are met:
 - a. The departure is thoroughly disclosed in the financial statements of the ISSUER and emphasized as a risk factor in the OFFERING CIRCULAR;
 - b. If material and relevant to IV.D., the ISSUER complies with the appraisal and appraiser requirements of IV.E.1. and IV.E.2. and the appraised values and appraisal methods are thoroughly disclosed in the OFFERING CIRCULAR; and
 - c. The ISSUER otherwise demonstrates satisfactory compliance with this section IV.

The ADMINISTRATOR may consider allowing other departures from GAAP in the ISSUER's unaudited financial statements for the two years before its most recent fiscal year if such departures are thoroughly explained in the notes to the financial statements and the ISSUER can demonstrate that the departures do not materially affect the ISSUER's compliance with IV.B.

B. Feasibility of the Offering - ISSUER's Ability to Repay Debt

1. An ISSUER should offer and sell no more CHURCH BONDS than it can reasonably expect to repay, when due, in the ordinary course of its operations. Therefore, the ISSUER must demonstrate its ability to make required SINKING FUND payments based on the standards or information specified under IV.B.3.

The ADMINISTRATOR may disallow the registration or exemption of CHURCH BONDS if information or standards specified under IV.B.3. indicate an inability of the ISSUER to timely make the required SINKING FUND payments. If the ISSUER cannot reasonably demonstrate its ability to make SINKING FUND payments, the amount of CHURCH BONDS offered should be reduced to a feasible level.

2. The OFFERING CIRCULAR shall disclose the ISSUER's ADJUSTED INCREASE IN UNRESTRICTED NET ASSETS for its last fiscal year in comparison with the annualized SINKING FUND payments required to repay all outstanding CHURCH BONDS based on STRAIGHT LINE AMORTIZATION plus payments required on other debt that will remain outstanding. This disclosure should be in tabular form, should reconcile to the ISSUER's financial statements for its last fiscal year and include explanations of adjustments to the Increase in UNRESTRICTED NET ASSETS as specified by I.B.1.

To facilitate understanding and analysis, the tabular disclosure should present the comparison of ADJUSTED INCREASE IN UNRESTRICTED NET ASSETS to annual SINKING FUND payments in ratio form as the DEBT-SERVICE RATIO. If the DEBT-SERVICE RATIO is less than one to one (1:1), that fact should be explained and emphasized as a risk factor in the OFFERING CIRCULAR.

A schedule showing the computation and amounts of the SINKING FUND payments based on STRAIGHT LINE AMORTIZATION and simple interest shall be filed with the ADMINISTRATOR in support of the disclosures required by this section.

3. While the DEBT-SERVICE RATIO specified under IV.B.2. will be considered the most significant standard for determination of an ISSUER's ability to repay the CHURCH BONDS, the ADMINISTRATOR shall consider all of the following standards or types of

information in determining whether the ISSUER can reasonably be expected to repay the CHURCH BONDS, when due, in the ordinary course of its operations:

- a. Whether the ISSUER's DEBT-SERVICE RATIO as described by IV.B.2. is at least one to one (1:1);
- b. Whether the ISSUER's DEBT-SERVICE RATIO, when annualized based on its interim financial statements, reflects a higher or lower ratio than the ratio under a. above;
- c. Whether the annualized SINKING FUND payments required to repay all outstanding CHURCH BONDS based on STRAIGHT LINE AMORTIZATION plus annual payments required to repay other long term debt will not exceed forty percent (40%) of the ISSUER's total revenues for its last fiscal year as reported in its financial statements required under IV.A.;
- d. Whether the total long term debt of the ISSUER upon completion of the proposed offering of CHURCH BONDS will not exceed four (4) times the ISSUER's total revenues for its last fiscal year as reported in its financial statements required under IV.A.; and
- e. Any other information material to determining the ISSUER's ability to repay the CHURCH BONDS when due, in the ordinary course of its operations. Such material information may include without limitation:
 - i. Information provided by the ISSUER from its financial statements or records to demonstrate its ability to sufficiently reduce certain discretionary expenses in order to ensure that SINKING FUND payments can be made when due;
 - ii. Trends in growth or decline in CHURCH membership or attendance and factors that influence such trends;
 - iii. Trends in growth or decline in contributions of members and attendees of the CHURCH or other information specified under VII.D.5. and
 - iv. Other material information relevant to the ISSUER's ability to repay the CHURCH BONDS.

In the overall analysis of the ISSUER's ability to repay the CHURCH BONDS, an ADMINISTRATOR may place emphasis on certain standards or other types of information outlined above and may not necessarily require all standards to be met.

4. The ADMINISTRATOR may limit the amount of "promises to give" or "pledge" revenues related to "building fund" campaigns that can be included in the ADJUSTED INCREASE IN UNRESTRICTED NET ASSETS if: the ISSUER cannot sufficiently demonstrate that promises to give or contributions receivable will be collected; or the pledge or building fund revenues constitute an unusually substantial portion of total revenues in relation to recent historical trends of the ISSUER.

C. Construction Costs and Completion.

The ISSUER shall obtain a fixed price contract, guaranteed maximum price contract, completion bond or some other form of assurance acceptable to the ADMINISTRATOR to demonstrate that the construction project can be satisfactorily completed with the proposed proceeds from the CHURCH BONDS and funds available from other sources. The ADMINISTRATOR may allow a "Cost Plus" contract if the contract is supported by firm bids from subcontractors. If funds from sources other than the ISSUER or the CHURCH BONDS are necessary for completion of

construction, then evidence of existence and appropriate control over use of the funds shall be provided to the ADMINISTRATOR.

The ADMINISTRATOR may require evidence of the financial and performance viability of the construction contractor. If the ISSUER intends to manage its own construction project as general contractor, the ADMINISTRATOR will ordinarily require the ISSUER to provide evidence to demonstrate its ability to successfully manage a construction project.

D. Debt to Value Ratio.

The total outstanding debt of the ISSUER under the TRUST INDENTURE after completion of the offering of CHURCH BONDS should not exceed 75% of the value of the property that will secure the CHURCH BONDS under the TRUST INDENTURE as determined according to IV.E. The ADMINISTRATOR may allow a higher debt to value ratio if the ISSUER's pro forma DEBT-SERVICE RATIO based on its last fiscal year as disclosed in accordance with IV.B.2. is greater than one to one (1:1).

E. Appraisal and Appraiser Requirements.

1. Appraisal Requirements.

- a. Unless the alternative provisions of IV.E.3. are complied with, an appraisal report shall be obtained by the ISSUER as independent evidence of the value of property that will secure the CHURCH BONDS under the TRUST INDENTURE.
- b. The appraisal report shall include determination of the value of the property, which may include the value of any planned improvements, if applicable, and make allowance in its value determination for physical depreciation, functional obsolescence and external obsolescence.
- c. Unless thoroughly explained and justified by the appraiser in the appraisal report, the value of special-use CHURCH buildings shall be based on the cost approach, with appropriate adjustments for physical and market-based depreciation and other relevant factors. The value of property to be acquired or improvements to be constructed and financed by the CHURCH BONDS shall be stated at the lower of appraised value or the actual cost to be recorded by the ISSUER in conformity with GAAP based on the purchase agreement or construction contract, except when it can be justified to the satisfaction of the ADMINISTRATOR that the higher of the two amounts is appropriate.
- d. The value of land owned by the ISSUER may be based on the market value approach.

2. Appraiser Requirements.

The appraisal report shall be prepared by an appraiser licensed to do business as an appraiser in the STATE where the property of the ISSUER is located, if applicable, with such professional certification or standards as required by that STATE. The ADMINISTRATOR may prescribe additional or alternative required credentials of the appraiser if the STATE where the property is located does not license or regulate appraisers or as otherwise deemed necessary by an ADMINISTRATOR.

3. Alternative Valuation Method.

The ADMINISTRATOR may allow the value of the property that will secure the CHURCH BONDS under the TRUST INDENTURE to be based upon the actual cost of properties acquired or to be acquired by the ISSUER as an alternative to an appraisal report of an

appraiser under IV.E.1. and IV.E.2. For property already owned by the ISSUER, the value shall be the net book value of the property based on cost, less depreciation as reported in its AUDITED FINANCIAL STATEMENTS as of the end of its last fiscal year. For property to be constructed or acquired by the ISSUER, the value shall be the actual cost to the ISSUER under a fixed-price contract or purchase agreement with a guaranteed maximum price. Costs of items being acquired or incurred that are not included in the construction contract or purchase agreement, but will be capitalized as a part of the property and equipment that will secure the CHURCH BONDS and will be recorded at actual cost in conformity with GAAP in the ISSUER's financial statements, may be included under this alternative valuation method. Under this alternative method of property valuation, the ADMINISTRATOR may specify other conditions or limitations.

F. Impoundment of Proceeds in Escrow Account.

1. If the CHURCH BONDS are not subject to a firm underwriting agreement, the proceeds from sales of the CHURCH BONDS shall be deposited and held in an escrow account in accordance with requirements of an ESCROW AGREEMENT until:
 - a. A specified minimum amount of proceeds has been deposited so that the ISSUER can accomplish the primary purpose of its financing plan or complete specified stages of a construction project as disclosed in the "Use of Proceeds" section of the OFFERING CIRCULAR and a mortgage can be recorded to secure the CHURCH BONDS sold; or
 - b. A specified date when the offering will terminate and proceeds together with a pro rata share of interest earned on the proceeds in the escrow account will be returned to INVESTORS if the minimum required proceeds have not been deposited.

The minimum proceeds specified in the ESCROW AGREEMENT must be reasonable and acceptable to the ADMINISTRATOR with respect to the proposed uses of proceeds disclosed in the OFFERING CIRCULAR and the adequacy of collateral to secure the CHURCH BONDS.

2. The terms and procedures for the escrow account and responsibilities of the ESCROW AGENT shall be specified in an ESCROW AGREEMENT which shall be included in documents filed with the ADMINISTRATOR for registration or exemption of the CHURCH BONDS. Offering proceeds shall not be commingled with other funds, whether of the ISSUER, UNDERWRITER or some third party. Escrowed funds shall not be disbursed by the ESCROW AGENT to the ISSUER until the requirements under IV.F.1. are met, and the ESCROW AGREEMENT shall contain language to that effect. The proposed offering period and date for determining whether minimum required funds have been received in the escrow account shall be specified in the ESCROW AGREEMENT.
3. If proceeds from other financing or the sale of other property of the ISSUER are required in combination with the minimum proceeds from the CHURCH BONDS in order to accomplish the purpose of the ISSUER's overall financing plan, proceeds from the CHURCH BONDS shall not be released from escrow until proceeds from other financing and/or sales of property or evidence of a binding commitment for financing executed by a financial institution have been received. The ESCROW AGREEMENT shall contain this provision as a condition for release of proceeds by the ESCROW AGENT.
4. If the minimum proceeds are not obtained or the proposed project or acquisition to be financed by the proceeds cannot otherwise be accomplished, the ESCROW AGREEMENT must specify that 100% of INVESTORS' funds will be repaid directly to INVESTORS by the ESCROW AGENT by first class mail with a pro rata share of the interest earned on the

funds on deposit in the escrow account and without deduction for any expenses of the offering or escrow account.

5. The ADMINISTRATOR may allow the TRUSTEE under the TRUST INDENTURE to serve as the ESCROW AGENT and the ESCROW AGREEMENT to be incorporated within the TRUST INDENTURE.
6. The ADMINISTRATOR may allow a waiver or modification of requirements under this section, if good cause is shown, or may require different or additional standards based on provisions of statutes or regulations of a STATE.

V. TRUST INDENTURE STANDARDS

A. General.

1. The CHURCH BONDS shall be secured by a TRUST INDENTURE that obligates the ISSUER to make all required SINKING FUND payments and, to the extent required under V.A.2., to pledge properties owned or to be acquired by the ISSUER to secure the CHURCH BONDS.
2. The TRUST INDENTURE shall provide that the CHURCH BONDS constitute a first lien on the properties pledged by the ISSUER unless the ADMINISTRATOR allows a subordinate form of lien or rank for the CHURCH BONDS sold to MEMBERS.
3. The TRUST INDENTURE must:
 - a. Provide for a TRUSTEE that meets the Qualifications specified under VI. below;
 - b. Limit total debt as provided under IV.D. above;
 - c. Limit future offerings of CHURCH BONDS by the ISSUER and other encumbrances on the same properties which secure outstanding CHURCH BONDS in accordance with standards under IV.B. and IV.D. so that such offerings and encumbrances will not impair the ability of the ISSUER to repay the outstanding CHURCH BONDS;
 - d. Provide appropriate insurance coverage;
 - e. Provide for the maintenance of the properties pledged to secure the CHURCH BONDS; and
 - f. Protect the rights of the BONDHOLDERS.

B. Duties of TRUSTEE.

The TRUST INDENTURE shall provide that the TRUSTEE will:

1. Notify all BONDHOLDERS and the ADMINISTRATOR of any material DEFAULT known by the TRUSTEE to exist, if not cured within thirty (30) days of the TRUSTEE'S learning of such DEFAULT. A material DEFAULT shall include, but is not limited to, a failure to make a scheduled payment of principal and interest to BONDHOLDERS when due;
2. In the case of a DEFAULT, exercise the rights and powers vested in the TRUSTEE by the TRUST INDENTURE in accordance with the TRUSTEE'S fiduciary duty to the BONDHOLDERS;
3. Maintain all documents and records provided to the TRUSTEE under the TRUST INDENTURE; and
4. Examine all reports or other instruments furnished to the TRUSTEE under the TRUST INDENTURE and determine, based on the information provided and the standards set forth in the TRUST INDENTURE, whether those reports and other instruments conform to the requirements of the TRUST INDENTURE.

C. Responsibility of TRUSTEE.

The TRUST INDENTURE shall not contain any provisions relieving the TRUSTEE from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that the TRUST INDENTURE may provide that:

1. The TRUSTEE shall not be liable except in connection with the performance of such duties as are specifically set out in the TRUST INDENTURE;
2. The TRUSTEE may rely, as to the truth of the statements and the correctness of the opinions or statements expressed therein, in the absence of bad faith on the part of the TRUSTEE, upon certificates, opinions or reports conforming to the requirements of the TRUST INDENTURE; and
3. The TRUSTEE shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of a majority of the BONDHOLDERS relating to the time, method, and place of conducting any proceedings for any remedy available to the TRUSTEE, or exercising any trust or power conferred upon the TRUSTEE under the TRUST INDENTURE.

D. Removal or Termination of TRUSTEE.

1. The TRUST INDENTURE shall provide for the removal or termination of the TRUSTEE for cause.
2. The TRUST INDENTURE shall provide that BONDHOLDERS holding a majority in principal amount of that series of CHURCH BONDS to which the TRUST INDENTURE applies may remove or terminate the TRUSTEE in cases where:
 - a. The TRUSTEE fails to pursue a remedy available under the TRUST INDENTURE for a DEFAULT by the ISSUER within a reasonable time after: (i) the TRUSTEE becomes aware of such DEFAULT, or (ii) the BONDHOLDERS direct the TRUSTEE in writing to pursue such remedy; or
 - b. The TRUSTEE fails to cure a CONFLICT OF INTEREST within a reasonable time after: (i) the TRUSTEE becomes aware of such CONFLICT OF INTEREST, or (ii) the BONDHOLDERS direct the TRUSTEE in writing to cure the CONFLICT OF INTEREST.
 - c. For the purposes of this paragraph, a "reasonable time" shall be a period of time not exceeding ninety (90) days.
3. The TRUST INDENTURE shall specify a reasonable procedure for replacing the TRUSTEE if removed or terminated.

E. Remedy of DEFAULT.

1. The TRUST INDENTURE shall authorize the TRUSTEE in the event of a DEFAULT to recover judgment against the ISSUER for the whole amount of principal and interest remaining unpaid on the CHURCH BONDS or to administer another appropriate remedy specified by the TRUST INDENTURE that would serve the best interests of BONDHOLDERS.
2. The TRUST INDENTURE shall empower holders of a majority of the principal amount of CHURCH BONDS outstanding to:
 - a. Direct the time, method, and place of conducting any proceeding for any remedy available to the TRUSTEE, or to exercise any power conferred upon the TRUSTEE under the TRUST INDENTURE; and

- b. Consent to the waiver of any DEFAULT on behalf of the BONDHOLDERS, provided that any such consent shall not modify the TRUST INDENTURE to change the outstanding principal amount, interest rates or maturity dates of any of the CHURCH BONDS.

F. PAYING AGENT AND SERVICE AGENT.

1. The TRUST INDENTURE shall provide for weekly or monthly payments to the PAYING AGENT for deposit in a SINKING FUND in amounts sufficient to service the payments of principal and interest on the CHURCH BONDS. The TRUST INDENTURE shall specify SINKING FUND payments based on STRAIGHT-LINE AMORTIZATION or LIMITED GRADUATED PAYMENTS. Payments more than 10% greater than payments based on STRAIGHT-LINE AMORTIZATION will not be deemed feasible in relation to the requirements of IV.B. The TRUST INDENTURE may provide for payments of interest only for a period that should not exceed 18 months during a construction project financed by proceeds of the CHURCH BONDS.
2. The TRUST INDENTURE must require the PAYING AGENT or SERVICE AGENT immediately to report to the TRUSTEE any failure by the ISSUER to cure a DEFAULT, including a failure to make a SINKING FUND payment when due, within thirty (30) days of the occurrence thereof.
3. The TRUSTEE may serve as the PAYING AGENT and SERVICE AGENT if specified by the TRUST INDENTURE.

G. Communications Among BONDHOLDERS.

The TRUST INDENTURE shall require the TRUSTEE, within five (5) business days of receiving a written request from one or more BONDHOLDERS, to send information or correspondence, on behalf of the BONDHOLDERS requesting such communication, to all BONDHOLDERS. The communication to BONDHOLDERS must be provided in a form that is accessible by all BONDHOLDERS and clearly legible in typeface no smaller than 10 points. The TRUSTEE may require reasonable reimbursement of actual costs incurred to provide communications among BONDHOLDERS prior to sending the requested communications. The TRUSTEE shall not be required to send information or correspondence on behalf of any BONDHOLDERS requesting such communication if the TRUSTEE believes the information is untrue, misleading or defamatory.

H. Reports by ISSUER.

1. The TRUST INDENTURE shall require the ISSUER annually to provide the TRUSTEE with a copy of the ISSUER'S financial statements as required by IV.A.5 and a certificate from the ISSUER'S principal executive officer or principal financial officer as to his or her knowledge of the ISSUER'S compliance with all conditions and covenants of the TRUST INDENTURE. The ISSUER'S failure to provide its financial statements or certificate according to this requirement shall constitute a covenant DEFAULT, if the failure is not cured within 30 days after a written demand by the TRUSTEE is sent to the ISSUER, and the TRUSTEE shall report such failure to the BONDHOLDERS as required by V.I.1.a.
2. The TRUST INDENTURE shall require the ISSUER to provide the TRUSTEE the certificate or opinion of the appraiser as to the fair value of the properties subject to the lien securing the

CHURCH BONDS at the inception of the TRUST INDENTURE, unless the value is established under the alternative valuation provision of IV.E.3.

I. Reports by TRUSTEE or SERVICE AGENT.

1. The TRUST INDENTURE shall require the TRUSTEE to transmit to BONDHOLDERS, within 180 days after the end of the ISSUER's fiscal year, a brief report with respect to any of the following events which may have occurred within the previous 12 months:
 - a. The failure of the ISSUER to provide its financial statements to the TRUSTEE as required by V.H.1.;
 - b. Any change in the TRUSTEE's qualifications under VI., including, but not limited to, the creation of any CONFLICT OF INTEREST under VI.C.;
 - c. Any material release of the properties pledged by the ISSUER that secure the CHURCH BONDS under the TRUST INDENTURE or any other material change to the lien status of the CHURCH BONDS under the TRUST INDENTURE;
 - d. Any additional issuance of CHURCH BONDS by the ISSUER; and
 - e. Any action taken by the TRUSTEE in the performance of its duties under the TRUST INDENTURE, which, in the opinion of the TRUSTEE, materially affects the CHURCH BONDS, including, but not limited to, any remedy sought by the TRUSTEE to address any material DEFAULT.

If none of these events has occurred during the previous 12 months, the TRUSTEE is not required to transmit a report under this section to BONDHOLDERS. If a report is required for any such events, the TRUSTEE shall simultaneously send a report to the UNDERWRITER of the CHURCH BONDS under the TRUST INDENTURE and to the ADMINISTRATORS in all STATES where the CHURCH BONDS were sold.

2. The TRUST INDENTURE shall require the SERVICE AGENT to maintain and, at least semi-annually, to update the list of current BONDHOLDERS based on information provided by BONDHOLDERS and provide the list to the TRUSTEE and PAYING AGENT. If the TRUSTEE serves as SERVICE AGENT, then the TRUSTEE shall be responsible for maintaining and updating the list of BONDHOLDERS. If the CHURCH BONDS are issued in book-entry form, the BROKER-DEALER or PERSON that maintains the book-entry records for beneficial owners of CHURCH BONDS shall be responsible for maintaining and updating such records.

VI. TRUSTEE QUALIFICATIONS

A. General Qualifications.

1. Unless otherwise provided or allowed by STATE law or the ADMINISTRATOR, the PERSON acting as TRUSTEE shall be a financial institution or trust company other than an individual that is organized and doing business under the laws of the United States or of any STATE. The ISSUER and the TRUSTEE shall ordinarily be authorized to appoint one or more individuals as co-trustee or ancillary trustee to act in a STATE where the TRUSTEE would not be otherwise qualified to act or when it is beneficial to the interests of the BONDHOLDERS to do so. If applicable, the TRUST INDENTURE shall specify the authority for appointment of such co-trustees and the qualifications, obligations and duties of co-trustees within the STATES where they will act.

2. The TRUSTEE shall be licensed or authorized under the laws of the STATE where it is incorporated or domiciled to provide trust services or exercise corporate trust powers and shall be subject to supervision and examination by the appropriate authorities in that STATE.

B. Experience.

The TRUSTEE or one or more of its officers must have at least three (3) years' experience relevant to the administration and servicing of CHURCH BONDS, other types of bond issues, trust accounts or similar fiduciary responsibilities.

C. Conflicts of Interest.

1. The TRUSTEE may not be an affiliate of the ISSUER, UNDERWRITER or any BROKER-DEALER or similar entity engaged to act in connection with the offering of CHURCH BONDS.
2. The TRUSTEE may not have received within the last five (5) years and may not receive during the term of the TRUST INDENTURE more than five percent (5%) of its total revenue from all sources, including TRUSTEE'S fees, from the ISSUER.
3. Neither the TRUSTEE nor the PAYING AGENT shall make payments of fees or reimbursements to the UNDERWRITER from the SINKING FUND. All compensation and expenses of the UNDERWRITER or any BROKER-DEALER in connection with the offering and sales of CHURCH BONDS shall either be paid from proceeds upon completion of the offering and release of proceeds from the escrow account, if applicable, or directly by the ISSUER, subject to the limitation for all compensation and expenses under II.B.
4. If the TRUSTEE acts as TRUSTEE for a SUCCESSIVE BOND ISSUE by the same ISSUER, the TRUST INDENTURE and any amendment to the TRUST INDENTURE that secures any bond issue of that ISSUER for which the TRUSTEE in the SUCCESSIVE BOND ISSUE serves as TRUSTEE must provide the same rights and protections for all BONDHOLDERS.

VII. OFFERING CIRCULAR

INVESTORS shall receive adequate material information in order to make informed investment decisions, and the ISSUER must provide INVESTORS with a complete OFFERING CIRCULAR prior to their purchase of CHURCH BONDS.

The OFFERING CIRCULAR must be written in clearly understandable language and disclose all relevant and material information that affects or would affect an INVESTOR's decision to purchase the CHURCH BONDS. THE INFORMATION OUTLINED BELOW IS PROVIDED AS A GUIDE, BUT IS NOT INTENDED TO BE ALL-INCLUSIVE AND THE ISSUER MUST INCLUDE OTHER INFORMATION NOT SPECIFICALLY LISTED THAT WOULD BE IMPORTANT FOR AN INVESTOR'S UNDERSTANDING OF THE ISSUER AND THE CHURCH BONDS.

The following information must be included in the OFFERING CIRCULAR unless the ISSUER can demonstrate to the ADMINISTRATOR that a particular type of information is not applicable or material to an understanding of the ISSUER or the CHURCH BONDS. Disclosure of additional types of information not listed below may be requested by the ADMINISTRATOR.

A. COVER PAGE

1. Name of the ISSUER.
2. Principal address and telephone number of the ISSUER.
3. The title of the CHURCH BONDS offered.

4. The total amount of the offering, the estimated offering expenses and the net proceeds of the offering to the ISSUER.
5. A brief description of the CHURCH BONDS including type(s) and rate(s) of interest, payment dates, denominations available, offering price and maturity dates. A tabular disclosure should be included to provide a concise summary and comparison of the terms and types of bonds, such as serial bonds, compound interest bonds and simple interest bonds.
6. A statement that the offering is subject to certain risks and the page number(s) in the OFFERING CIRCULAR where the risk factors are disclosed.
7. Name, address and telephone number of the TRUSTEE.
8. Name, address and telephone number of the PAYING AGENT.
9. Name, address and telephone number of the principal UNDERWRITER or BROKER-DEALER assisting with the offering of the CHURCH BONDS and statements as to any market-making intentions of the UNDERWRITER.
10. The proposed termination date of the offering and the ISSUER's right to extend the offering, if any.
11. Minimum amount of sales necessary to complete the offering, if any.
12. Date of the OFFERING CIRCULAR.
13. Any legends that are required by applicable STATE laws, rules or regulations, or are deemed to be appropriate by the ADMINISTRATOR. The following are model legends:

IN MAKING AN INVESTMENT DECISION, YOU MUST RELY ON YOUR OWN EXAMINATION OF THE CHURCH AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS OFFERING CIRCULAR, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN MADE BY THE ISSUER.

For filings in some STATES, it may be necessary to add a legend to describe statutory rescission rights that are available to INVESTORS.

14. Disclose any limitations or conditions of sales to INVESTORS in any STATE.

The "cover page" may extend to the next page inside the OFFERING CIRCULAR if necessary in order to present all information specified above.

A table of contents should follow the cover page or it may be placed on the back of the last page to outline and provide page number references for the various sections and subtitles in the OFFERING CIRCULAR.

B. SUMMARY

A summary of narrative and financial information that highlights the key aspects and risks of the CHURCH BONDS and the financial and operational characteristics of the ISSUER should be presented concisely in the OFFERING CIRCULAR following the cover page or risk factor section. The Summary section should include the disclosure of the ISSUER's proposed use of proceeds, its debt-service ability as required under IV.B.2. and a summary in tabular form of the proposed compensation and fees to be paid to each PERSON in connection with the CHURCH BONDS, including compensation and fees to be paid during the offering period and compensations and fees to be paid during the period in which the bonds are to be outstanding.

C. RISK FACTORS

1. Format and Use of Risk Factors.

- a. Risk factors should immediately follow the Cover or the Summary. Consistent with investor protection, a comprehensive listing of the material risks to the potential INVESTOR in the offering should be located at the forefront of the OFFERING CIRCULAR. Potential INVESTORS often focus on the forepart of the document. When comparing potential investment opportunities, consistency in format of complex disclosure documents further assists the INVESTOR.
- b. The Risk factor section is a list identifying the material risks associated with the offering. The risk factor section should **not** be a comprehensive discussion of the risks and counterbalancing considerations. Like the summary section, the risk factor section is a summary of the material disclosures that are discussed and analyzed in more detail in the appropriate, related sections of the body of the OFFERING CIRCULAR. Consistent with this purpose, most risk factors will not be comprehensive discussions of the issues. The risk factor section itself should be limited in length. In order to emphasize the nature of the disclosures as risks, no ameliorative statements should appear in the risk factors.
- c. The risk factors that identify risks the potential INVESTOR is likely to find most significant should appear at or close to the beginning of the list.
- d. A caption shall precede each risk factor and shall appear in off-set or emphasized type. As a listing of the material risks of the CHURCH BONDS, captions should stand out to the eye of the reader. *Italicized*, **bold-face**, or underlined type assists the reader to quickly comprehend the scope and nature of the particular risk factors, and permits the reader to focus further on the risk factors of most interest to that reader. For the same reason, ISSUERS should avoid lengthy captions.

2. Risk Factor Content.

- a. Each caption should succinctly identify the risky element of the factor. The caption should avoid the use of general, boiler-plate language. As a topic sentence to the factor, the caption can further streamline and shorten the factor.
- b. Specific cross-references point the reader to complete discussions of the issue. Risk factors should not merely repeat *verbatim* disclosure appearing elsewhere in the disclosure document. Where appropriate, the risk factor should be a two or three sentence summary with a cross reference to the discussion appearing elsewhere in the OFFERING CIRCULAR. In some cases, there may be no need to repeat the risk factor in the body of the OFFERING CIRCULAR. Potential INVESTORS often focus interest on disclosure that is of most interest to them, and cross-references assist the potential INVESTOR in locating this disclosure.
- c. Eliminate general, boiler-plate risk factors that could apply to any type of securities offering. Include only risks that are material to the particular offering, the particular ISSUER, or specific to CHURCH BONDS.

3. Specific Risk Factors for CHURCH BONDS.

The ISSUER must describe to the INVESTORS the risks of investing in the CHURCH BONDS. Particular care must be taken with respect to risks associated with the financial condition of the ISSUER. Statements to the effect that little or no risk is involved in buying CHURCH BONDS are prohibited, and such statements by most ISSUERS will be regarded as material misrepresentations. It is important that the ISSUER concisely describe all of the relevant and material risks which may include, if applicable, the following:

- a. **No Assurance of Sufficient Voluntary Contributions and NET ASSETS.** This risk factor should include a concise discussion of the ISSUER's financial condition, its operations and any other information relevant to the ISSUER's ability to make SINKING FUND PAYMENTS. The discussion should include a description of the ISSUER's principal sources of revenues for repayment of the CHURCH BONDS and the potential fluctuations in these sources. For instance, if contributions are the primary source of revenues, this risk factor should disclose that there are no assurances that membership will increase or remain stable or that per capita contributions will increase or will remain stable, and that a failure to achieve the amount of expected contributions would adversely affect the ISSUER's ability to repay the CHURCH BONDS.

If increased revenues are expected from increased membership upon completion of the facility which is to be constructed from the proceeds of the CHURCH BONDS, a statement must be included that there can be no assurance that this will be the case.

- b. **No Assurance that CHURCH Property Could be Sold for Appraised Value.** There should be disclosure of the risk that in the event of DEFAULT, the ISSUER's property may not sell for its appraised value if the appraised value of the CHURCH property is based on its value as a special purpose property and the fact that a very limited market would exist for CHURCH property. If the appraised value of the collateral is based upon future construction, the ISSUER must disclose that fact and include a discussion of the risks associated with the failure to complete the construction as anticipated, including that the value of the property may be diminished and that the ISSUER's ability to repay the CHURCH BONDS may be adversely affected. If no appraisal report was obtained by the ISSUER, that fact should be emphasized in the risk factors.
- c. **Transfers are Restricted and No Rating or Public Market is Expected.** If any restrictions are to be placed on the transfer of the CHURCH BONDS, a statement describing such restrictions should be included and its impact on the liquidity of the bonds discussed. The fact that the CHURCH BONDS will not be rated by any nationally-recognized statistical rating organization should be disclosed. If no public market will develop, or is likely to develop, for the repurchase and resale of the CHURCH BONDS, that fact should be stated clearly with explanation of the illiquid nature of CHURCH BONDS. If the ISSUER does not permit early redemption, a statement should be included that INVESTORS should only purchase the CHURCH BONDS if they intend to hold them for the full term thereof.
- d. **The Loss of the Pastor's Services Could Adversely Affect the CHURCH.** If it is likely that the debt-service ability of the ISSUER would be impaired by the loss of services of the current Pastor or other influential leader of the ISSUER, that risk should be disclosed.
- e. **Potential Conflicts and/or Delays in Construction May Occur.** A description of the affiliation, if any, between the ISSUER and the contractor or any subcontractor should be included. In addition, a statement should be included as to possible delays in completion due to shortages of materials, possible strikes, act of nature, delays in obtaining necessary building permits or architectural certificates, environmental regulations or fuel or energy shortages.
- f. **Risks of Refinancing Existing Debt.** If any portion of the proceeds from the offering is to be used to refinance existing indebtedness, any negative aspects of the refinancing must be disclosed as a risk factor. A statement of the reasons for the need to refinance

the previous indebtedness and the possible effect of such refinancing on the current project must also be included.

- g. Outcomes of Pending Litigation May Adversely Affect Financial Position.** Disclosures of risks must be included in relation to any material pending litigation or contingent liabilities affecting the ISSUER, the ISSUER's officers (or others in similar capacities) and the ISSUER's leadership, including contingent liabilities for the offer or sale of unregistered securities or potential liabilities before any administrative bodies.
- h. Additional Debt Could Adversely Affect Debt-Service Ability.** If the TRUST INDENTURE permits the ISSUER to further encumber the properties securing the CHURCH BONDS through the issuance and sale of additional obligations at some future date, risks associated with an increased debt-to-property ratio and additional SINKING FUND payments must be described.
- i. Financial Statements Have Not Been Audited.** If the OFFERING CIRCULAR contains Financial Statements of the ISSUER that have been Reviewed or Compiled, as provided under IV.A.2. or IV.A.4., rather than Audited by independent Certified Public Accountants for the preceding fiscal year, this fact and the risks associated with unaudited financial statements should be prominently disclosed, and the type of service and report provided by the independent accountants should be explained. The fact that financial statements for other years and interim periods have been neither Reviewed nor Audited should also be emphasized as a risk. The explanation of the risk should indicate that there can be no assurance that unaudited financial statements are presented fairly in conformity with generally accepted accounting principles.
- j. No Environmental Assessment Was Conducted.** If an environmental assessment was not conducted, the risks associated with failing to do so must be identified and discussed, including the ISSUER's ability to complete the project and the fact that potential costs associated with the discovery of an adverse environmental condition could be substantial. It will be considered materially misleading for an ISSUER to represent that it is not aware of any material environmental conditions related to the project without first conducting minimal due diligence. Any environmental issues that could impair the bondholders' collateral value must be disclosed and discussed as to the risks, including the potential for substantial costs associated with cleanup. If the ISSUER is aware of any environmental condition related to the property securing the repayment of the CHURCH BONDS that could be material to an INVESTOR in making an investment decision, then the ISSUER shall make such disclosure as a risk factor.
- k. Limited Involvement of Independent Directors or Trustees.** If the ISSUER is controlled, or primarily controlled, by one leader, or a group of affiliated leaders, without independent directors or trustees, the risks relating to the lack of independent oversight must be disclosed and discussed.
- l. Lack of Income Tax Benefits or Possible Adverse Tax Effects.** The fact that investment in CHURCH BONDS does not provide tax benefits to INVESTORS and that interest income is taxable as ordinary income should be emphasized. Also, the possible adverse effects of changes in tax laws or the ISSUER's loss of tax-exempt status should be disclosed as a risk.
- m. Special Risks of Investment in the CHURCH BONDS.** Although this risk factor should ordinarily not apply if the ISSUER complies with this SOP, any special risks relating to insurance, encumbrances, title to the properties or other aspects affecting the INVESTOR's security or the ISSUER's financial condition must be disclosed.

THE RISK FACTORS LISTED AND DESCRIBED ABOVE ARE EXAMPLES OF SOME TYPES OF RISKS THAT MAY GENERALLY BE ASSOCIATED WITH CHURCH BONDS AND ARE PRESENTED AS A GUIDE. HOWEVER, THE EXAMPLE RISK FACTORS SHOULD NOT BE PRESENTED WITHOUT MODIFICATION AS NECESSARY FOR THE PARTICULAR CIRCUMSTANCES OF THE ISSUER AND ITS OFFERING OF CHURCH BONDS. THE ISSUER SHOULD INCLUDE ANY SPECIAL RISKS ASSOCIATED WITH THE SPECIFIC OFFERING AND MUST TAKE CARE TO BE SURE THAT ALL RISKS OR NEGATIVE ASPECTS OF WHICH IT IS AWARE ARE DESCRIBED.

D. HISTORY AND OPERATIONS

1. Provide a brief description of the ISSUER, including the name, address of principal office, STATE of organization, date of organization, type of legal entity (corporation, unincorporated association, etc.) and religious purposes of the ISSUER.
2. Provide a brief history of the ISSUER and its denominational affiliation, if any.
3. Provide a brief description of the accreditation of the ISSUER, if any, and the entities regulating the ISSUER, if any.
4. Provide a brief description of the current operations and functions of the ISSUER, including its religious purposes, principal activities and fiscal policies.
5. Provide a summary of the number of MEMBERS, including individuals who regularly attend or support activities or services of the ISSUER, and a comparison of the growth or contraction of such membership or attendance over the past three years. Disclose information in tabular form that demonstrates operating trends such as the average CHURCH attendance, number of families that regularly contribute, the average monthly contribution and the average CHURCH school attendance. If applicable, substantial contributions from one or a few MEMBERS should be described and a risk factor added to emphasize that such contributions may not be received in future years.

E. PRIOR BORROWING EXPERIENCE

Provide a brief summary and description of the ISSUER's material past borrowing experiences and the results and current status of the loans and/or debt securities. The summary should disclose the amounts of payments made on the loans or bond offerings and should include a description of any DEFAULTS, deficient or late payments of principal or interest, and whether any proceeds from refinancing or additional offerings were necessary to repay any prior indebtedness. This disclosure is required for the five years immediately preceding the proposed offering of CHURCH BONDS.

F. USE OF PROCEEDS

1. The ISSUER's OFFERING CIRCULAR shall disclose, in a tabular form, for both the minimum and maximum amounts of proceeds, if applicable, the percentages and dollar amounts of the following:
 - a. The gross proceeds to be received from sales of CHURCH BONDS;
 - b. A description of all direct and indirect offering expenses that will be paid from the gross proceeds if at least the minimum required proceeds are obtained or the offering is sold under a firm underwriting agreement;
 - c. The estimated net proceeds that will be available to the ISSUER;
 - d. An itemized listing of the purposes for which the net proceeds are to be used by the ISSUER;

- e. The amount of net proceeds to be used for each itemized purpose; and
 - f. The order or priority in which the proceeds will be used for the stated purposes.
2. Additionally, the ISSUER's OFFERING CIRCULAR shall disclose:
- a. The amounts of any funds to be raised from other sources to achieve the stated purposes of the offering, the sources of any such funds, whether the sources are firm or contingent and an explanation of any contingencies;
 - b. If any part of the proceeds is to be used to acquire any property other than in the ordinary course of the ISSUER's operations or mission, the names and addresses of the vendors, the purchase price, the names of any PERSONS who have received commissions in connection with the acquisition, and the amounts of any such commissions and any other expense in connection with the acquisition (including the cost of borrowing money to finance the acquisition);
 - c. If any part of the proceeds is to be used to acquire property in the future, the acquisition criteria used by the ISSUER to determine whether or not to acquire such property; and
 - d. The amount of any proceeds to be used to repay existing debt of the ISSUER.
3. The ISSUER must demonstrate that the offering proceeds together with all other sources of funding currently available to the ISSUER and specifically dedicated to the project are sufficient to accomplish the purposes of the offering of CHURCH BONDS. The OFFERING CIRCULAR shall disclose provisions for any impoundment of proceeds in any escrow account under an ESCROW AGREEMENT required by any ADMINISTRATOR in any STATE as provided under IV.F.

If applicable, the OFFERING CIRCULAR shall disclose that proceeds from INVESTORS in certain identified STATES that require escrow will be impounded in an escrow account and controlled by an ESCROW AGENT until the funds are released for use by the ISSUER, whereas proceeds from INVESTORS in other STATES that do not require impoundment in an escrow account could be subject to greater risk. This fact, if applicable, shall be disclosed in the risk factor section of the OFFERING CIRCULAR.

4. If alternative or additional financing is to be obtained to reach the minimum financing required for the project, the OFFERING CIRCULAR must disclose the terms of the alternative or additional financing and the potential effect on the INVESTOR, both as to the obtaining, and the failure to obtain, the alternative or additional financing, and as to the seniority of the CHURCH BONDS relative to any debt incurred by means of alternative or additional financing. The OFFERING CIRCULAR must disclose if officers, directors or other similar leaders of the ISSUER have the right to purchase CHURCH BONDS for the purpose of meeting the escrow requirements. However, the ADMINISTRATOR may disallow exemption or registration of the CHURCH BONDS if terms or effects of alternative or additional financing are deemed unfair to INVESTORS or not feasible with respect to IV.B.

G. CAPITALIZATION AND SUMMARY FINANCIAL INFORMATION

1. Capitalization.

The OFFERING CIRCULAR shall provide a tabular disclosure of the ISSUER's current and proposed capitalization based on its most recent Statement of Financial Position and the effects of the proposed offering of CHURCH BONDS. The tabular disclosure should show all long-term debt and NET ASSETS of the ISSUER as reported in its financial statements and as adjusted for application of the net proceeds from sales of the CHURCH BONDS.

2. Selected or Summary Financial Information.

The OFFERING CIRCULAR should disclose in tabular form selected financial information from financial statements of the ISSUER for all periods required under IV.A. to show significant balances and trends in its financial position and activities. At a minimum, the tabular disclosure should include Summary Statements of Activities with presentation of the major types of revenues and expenses of the ISSUER and the amounts of items specified under I.B.1. for determining and disclosing the ADJUSTED INCREASE IN UNRESTRICTED NET ASSETS.

3. The ISSUER should also provide a brief discussion and analysis of the selected or summary financial information in the OFFERING CIRCULAR, including discussion of significant trends or events reflected in the financial information.

H. DESCRIPTION OF THE ISSUER'S PRINCIPAL PROPERTIES

1. Describe all principal real properties of the ISSUER and any liens or encumbrances on the properties.
2. Describe the proposed property to be acquired or project to be constructed from the proceeds of the CHURCH BONDS and the proposed use of the property or project.
3. List all liens and encumbrances of record on the property or project, or to be created on the property or project.
4. Describe the principal terms of any material agreements or contracts for acquisition or construction of any property to be financed by the proceeds of this offering.
5. The value of properties securing the CHURCH BONDS shall be disclosed based on the appraisal, appraiser or, if allowed by the ADMINISTRATOR, alternative valuation requirements of IV.E. This disclosure should include a concise summary of the appraisal report and the appraiser's approach to valuation or the alternative valuation information from financial statements of the ISSUER.

I. ENVIRONMENTAL ASSESSMENT

1. With respect to property securing the repayment of the CHURCH BONDS, if an environmental site assessment has not been performed on behalf of the ISSUER or its representatives by an environmental consultant licensed to do business in the STATE where the property is located, then the ISSUER shall not opine as to the environmental condition of the property securing the CHURCH BONDS. However, the ISSUER shall disclose as a risk factor in the OFFERING CIRCULAR that the environmental condition of the property securing the CHURCH Bond issue is unknown and that it is possible that such property contains hazardous chemicals, materials or substances that could negatively impact the value of the property securing the bond issue. If the ISSUER is aware of any material environmental condition related to the property securing the repayment of the CHURCH BONDS, then the ISSUER shall disclose such information as required by VII.C.3.j.
2. With respect to property securing the repayment of the CHURCH BONDS, if an environmental site assessment has been performed on behalf of the ISSUER or its representatives by an environmental consultant licensed to do business in the STATE where the property is located, and if the environmental site assessment reveals a material environmental condition that could impact the value of the property securing the CHURCH BONDS, then the ISSUER shall disclose the fact that the environmental site assessment has been conducted and provide a summary disclosure, prepared by the environmental consultant, of the environmental site report in the OFFERING CIRCULAR. The

OFFERING CIRCULAR shall also disclose that a copy of the environmental site assessment report will be provided to INVESTORS upon request.

J. DESCRIPTION OF THE TERMS OF THE CHURCH BONDS

1. Provide a description of the type and amount of the CHURCH BONDS and disclose the interest rates, the method and relevant dates for computation and accrual of interest for determination of SINKING FUND payments, the payment dates and amounts of SINKING FUND payments, and the PAYING AGENT. The amounts, maturity dates and interest rates of the CHURCH BONDS should be disclosed in tabular form.
2. Describe the collateral that will secure payment of the CHURCH BONDS.
3. Disclose whether the sale of additional CHURCH BONDS may be secured by the same collateral.
4. If guarantees of SINKING FUND payments are made by MEMBERS of the ISSUER or otherwise, information describing the ability of the guarantor to satisfy the liability must be furnished, including AUDITED FINANCIAL STATEMENTS of the guarantor(s). A description of the guarantee agreement between the ISSUER and the guarantor should also be included. The word "guarantee" should not be used to describe the obligation of the ISSUER to repay the indebtedness, and it is appropriate only if there is a secondary obligation by another entity. The guarantee, in and of itself, may involve the offering of a second security, which may require registration if not exempt.
5. Describe other terms of the CHURCH BONDS as applicable, including the ISSUER's right to early redemption of principal, the basis upon which redemption may be made, and any applicable penalties. The ISSUER or INVESTOR's right to extend the maturity date, if available, should also be described.
6. Describe whether any consideration for the purchase of CHURCH BONDS other than cash will be acceptable.
7. Describe whether the CHURCH BONDS will be negotiable or transferable and any restrictions or limitations on transferability.
8. Describe the ranking and priority of the CHURCH BONDS in relation to other indebtedness of the ISSUER.
9. Provide a summary disclosure of the principal provisions of the TRUST INDENTURE, describing the TRUSTEE, PAYING AGENT, events of DEFAULT, covenants, restrictions upon subsequent issues, rights of the ISSUER and TRUSTEE to modify the TRUST INDENTURE, and rights of BONDHOLDERS.

K. PLAN OF DISTRIBUTION

1. Describe the method and manner in which the CHURCH BONDS will be offered and sold to INVESTORS, including the methods of solicitation and subscription.
2. List the names of responsible officials of the ISSUER who will offer and sell the CHURCH BONDS or will answer questions regarding the CHURCH BONDS or ISSUER, and provide information about the UNDERWRITER and any BROKER-DEALERS that will offer and sell the CHURCH BONDS. Include a description of the compensation to be paid to the UNDERWRITERS or agents of the ISSUER for providing their services in connection with the offering.

3. Disclose any fees paid to "finders" or "advisers" in connection with the distribution of CHURCH BONDS, their names and the services rendered by such PERSONS.
4. Describe any underwriting or selling agreement between the UNDERWRITER and the ISSUER, including whether such agreement is on a "best efforts" or "firm commitment" basis, whether such arrangements are "exclusive" or "nonexclusive" and whether there are provisions for indemnification of the ISSUER or UNDERWRITER for losses sustained as a result of claims based upon violations of applicable securities laws. Any indemnity provisions pertaining to the TRUSTEE, ESCROW AGENT, SERVICING AGENT or PAYING AGENT shall also be disclosed. The ADMINISTRATOR may prohibit indemnification for claims due to ordinary negligence of the UNDERWRITER, ISSUER, TRUSTEE, ESCROW AGENT, SERVICING AGENT or PAYING AGENT, and if so, this fact should be disclosed in the OFFERING CIRCULAR. The OFFERING CIRCULAR shall disclose any indemnification provisions for any PERSONS against liability under securities laws in connection with the offering of CHURCH BONDS along with a statement to indicate that the ADMINISTRATOR may deem such indemnification provisions to be against public policy and unenforceable.
5. Describe the responsibilities of the UNDERWRITER, the ISSUER, and the membership of the ISSUER under the terms of any underwriting agreement.
6. Disclose all past, present and anticipated future dealings with UNDERWRITERS, investment advisers, or financing organizations participating in this offering, including the aggregate remuneration received by such entities. Also disclose whether any executive officer, director or similar leader of the ISSUER is in any way affiliated with the UNDERWRITER or financing organization participating in this offering or with any executive personnel of such organization.
7. Disclose any payments from the TRUSTEE, PAYING AGENT, or SERVICE AGENT to the UNDERWRITER or BROKER-DEALERS participating in the offering of CHURCH BONDS and explain the nature and purpose of such payments.

L. LITIGATION AND OTHER MATERIAL TRANSACTIONS

1. Describe any pending or threatened material legal proceeding or proceedings known to be contemplated by governmental authorities, administrative bodies or other PERSONS, to which the ISSUER and/or its leaders, officers, directors or trustees are or may be a party, or to which any of the ISSUER's property is or may be subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought.
2. Disclose any disciplinary actions or legal proceedings related to securities or other material financial matters involving the ISSUER or any of its officers, directors, trustees or agents of the ISSUER within 5 years of the offering, including civil judgments, STATE or federal regulatory actions and other judicial actions.
3. Fully disclose any ISSUER transactions which may materially affect this offering or an INVESTOR's investment decision, and which are not otherwise described above. The OFFERING CIRCULAR shall disclose material related party transactions that occurred during periods for which financial statements are required under IV.A., including, but not limited to, loans from the ISSUER to any of its pastors or other leaders, loans among the leaders and pastors, and loans from MEMBERS to pastors or leaders.

M. TAX ASPECTS

Describe the general federal and STATE income tax aspects of ownership of the CHURCH BONDS and disclose that interest on the CHURCH BONDS will be taxable as ordinary income to BONDHOLDERS and income tax may be due regardless of whether the interest is paid out or accrued for later payment.

N. CHURCH LEADERSHIP

1. Describe the organizational structure of the ISSUER, including how the members of the legal governing body and CHURCH leaders, including any pastor with management responsibility, are chosen and replaced.
2. List responsible CHURCH officers (i.e., pastors with management responsibility, chairpersons of the legal governing body, board of trustees, or other similar authority) and disclose their management or leadership responsibilities, their biographical histories, and their terms of office.
3. Disclose if any pastor, officer, director, trustee or similar leader of the ISSUER has, during the past 5 years, been convicted in any criminal proceeding (other than for traffic violations and other similar infractions), or is the subject of any pending criminal proceeding, or was the subject of any order, judgment or decree of any court or administrative or regulatory body enjoining or prohibiting such PERSON from any activity associated with the offer or sale of securities.
4. State all direct and indirect remuneration paid by the ISSUER to its pastors with management responsibility, and officers, directors or trustees, or similar leaders with management responsibility for the preceding fiscal year in the aggregate, and individually for the three (3) most highly compensated individuals if their compensation exceeds \$50,000. Indirect remuneration includes pension or retirement plans, insurance, other similar benefits or the use of the ISSUER's assets for personal purposes.
5. Describe any material written employment contracts or material CONFLICTS OF INTEREST with any PERSON described in this section.
6. Describe any direct or indirect remuneration to be received by pastors, officers, directors or trustees, or similar leaders of the ISSUER in connection with the offering.

O. FINANCIAL STATEMENTS

Financial statements of the ISSUER as required or allowed by IV.A. shall be included as an integral part of the OFFERING CIRCULAR.

P. INVESTOR REPORTS

The OFFERING CIRCULAR shall disclose that financial statements of the ISSUER will be available to BONDHOLDERS annually upon request, as required by IV.A.5. and that the TRUST INDENTURE may require the TRUSTEE to provide information to BONDHOLDERS as required by V.B., V.G. or V.I.

Q. REPORTS OR OPINIONS OF PROFESSIONALS

The OFFERING CIRCULAR shall identify and describe the following services and reports or opinions, as applicable:

1. The opinion of legal counsel as required by II.A.3.d.
2. The Certified Public Accountant(s) who audited or reviewed financial statements of the ISSUER according to requirements of IV.A.
3. The appraiser(s) who prepared any appraisals and reports in compliance with IV.E.2.
4. The environmental consultant(s) who prepared any environmental site assessment and report as disclosed under requirements of VII.I.2.

All professionals should be independent of the ISSUER, UNDERWRITER and TRUSTEE unless the ADMINISTRATOR allows an exception for good cause. Any lack of independence must be disclosed in the OFFERING CIRCULAR.

CROSS REFERENCE SHEET

General Instructions

1. A Cross Reference Sheet, which is substantially equivalent to the form that accompanies this SOP, should be completed and submitted with the application for registration or exemption.
2. Cross references should be provided in applicable columns of the Cross Reference Sheet by inserting page numbers, Exhibit numbers or other responses that demonstrate compliance with the listed sections and subsections of the SOP. For example, some standards of the SOP require disclosure in the OFFERING CIRCULAR and/or provisions in the TRUST INDENTURE, while some standards require filing an Exhibit or supplemental information with the application for registration or exemption. Sections or subsections which are not applicable for a particular offering should be noted as such or explained in a footnote to the Cross Reference Sheet.
3. Provisions of the offering of CHURCH BONDS or documents filed by the ISSUER which vary from requirements of the SOP must be explained by footnote. Footnotes should be numbered sequentially in the column for "Footnotes - See General Instruction 3" and presented on an attachment to the Cross Reference Sheet. Requests for waivers or exceptions from standards should be thoroughly explained and justified in a letter to the ADMINISTRATOR and filed with the application for registration or exemption.

| OFFERING CIRCULAR Page Number | TRUST INDENTURE Page Number | EXHIBIT or Filing Reference | Footnotes - See General Instruction 3 |
|---|--------------------------------|-----------------------------|---------------------------------------|
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| 2. Appraiser credentials. | | | |
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| F. Impoundment of Proceeds in Escrow Account. | | | |
| 1. Minimum proceeds specified. | | | |
| 2. ESCROW AGREEMENT and ESCROW AGENT. | | | |
| 3. Provisions for other financing or sale proceeds. | | | |
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| 5. TRUSTEE as ESCROW AGENT. | | | |
| 6. Good cause for waiver or modified requirements. | | | |
| V. TRUST INDENTURE STANDARDS | | | |
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| B. Duties of TRUSTEE to be specified under the TRUST INDENTURE. | | | |
| C. Responsibility of TRUSTEE with respect to liability for performance of duties and actions or inaction under the TRUST INDENTURE. | | | |
| D. Removal or Termination of TRUSTEE. Provisions to be specified under the TRUST INDENTURE. | | | |
| E. Remedy of DEFAULT. Remedy provisions to be specified under the TRUST INDENTURE. | | | |
| F. PAYING AGENT and SERVICE AGENT. Provisions for SINKING FUND payments based on STRAIGHT LINE AMORTIZATION or LIMITED GRADUATED PAYMENTS and reporting of any DEFAULTS to TRUSTEE. | | | |
| G. Communications Among BONDHOLDERS. Provision for communications upon written request. | | | |
| H. Reports by ISSUER. Provisions to require: | | | |
| 1. Financial statements as required under IV.A.5. | | | |
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Footnotes -
See General
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| V. | | | | |
| I. Reports by TRUSTEE or SERVICE AGENT. | | | | |
| Provisions to require report for specified events. | | | | |
| VI. TRUSTEE QUALIFICATIONS. | | | | |
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| B. Experience of TRUSTEE or its officers. | | | | |
| C. Conflicts of Interest. Representations or evidence that specified conflicts of TRUSTEE do not exist. | | | | |
| VII. OFFERING CIRCULAR | | | | |
| A. COVER PAGE with specified disclosures and legends. | | | | |
| B. SUMMARY with specified summary information. | | | | |
| C. RISK FACTORS in specified format and content. | | | | |
| D. HISTORY AND OPERATIONS as specified. | | | | |
| E. PRIOR BORROWING EXPERIENCE | | | | |
| F. USE OF PROCEEDS with disclosure of: | | | | |
| 1. Specific uses of proceeds in tabular form. | | | | |
| 2. Disclosure of other information if applicable. | | | | |
| 3. Demonstration of sufficient minimum proceeds and disclosure of impoundment of proceeds in escrow. | | | | |
| 4. Disclosure of alternative or additional financing. | | | | |
| G. CAPITALIZATION AND SUMMARY FINANCIAL INFORMATION as specified. | | | | |
| H. DESCRIPTION OF PRINCIPAL PROPERTIES | | | | |
| I. ENVIRONMENTAL ASSESSMENT as specified. | | | | |
| J. DESCRIPTION OF THE TERMS OF THE CHURCH BONDS and TRUST INDENTURE. | | | | |
| K. PLAN OF DISTRIBUTION as specified. | | | | |
| L. LITIGATION AND OTHER MATERIAL TRANSACTIONS involving ISSUER and officers. | | | | |
| M. TAX ASPECTS | | | | |
| N. CHURCH LEADERSHIP information as specified. | | | | |
| O. FINANCIAL STATEMENTS required by IV.A. | | | | |
| P. INVESTOR REPORTS as specified. | | | | |
| Q. REPORTS OR OPINIONS OF PROFESSIONALS | | | | |

GUIDELINES FOR GENERAL OBLIGATION FINANCING BY RELIGIOUS DENOMINATIONS

Adopted by the NASAA Membership on April 17, 1994.

[¶ 1951]

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.

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-

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.,

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 I.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.

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.*

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.

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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