

Christian Church Foundation, Inc.

Accountants' Report and Consolidated Financial Statements

December 31, 2008 and 2007

Christian Church Foundation, Inc.

December 31, 2008 and 2007

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Independent Accountants' Report

Board of Directors
Christian Church Foundation, Inc.
Indianapolis, Indiana

We have audited the accompanying consolidated statements of financial position of Christian Church Foundation, Inc. (Foundation) as of December 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Christian Church Foundation, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the Foundation changed its method of recognition of classifications of net assets comprising donor-restricted endowment funds in 2008.

As discussed in Note 8, the Foundation also changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, in 2008.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

BKD, LLP

March 3, 2009

Christian Church Foundation, Inc.
Consolidated Statements of Financial Position
December 31, 2008 and 2007

	<u>2008</u>	<u>2007 adjusted-</u> <u>Note 3</u>
Assets		
Cash and cash equivalents	\$ 577,635	\$ 647,157
Marketable securities and other investments	312,267,361	434,534,035
Property and equipment - net	126,777	91,401
Contributions receivable	1,246,916	1,332,587
Other assets	<u>208,560</u>	<u>180,870</u>
Total assets	<u>\$ 314,427,249</u>	<u>\$ 436,786,050</u>
Liabilities		
Non-endowment funds		
Subject-to-withdrawal funds	\$ 199,744,682	\$ 277,930,881
Liability to income beneficiaries under life-income gifts	17,664,502	18,832,378
Liability to charitable beneficiaries under life-income gifts	3,239,124	7,489,462
Retiree healthcare liability	202,840	307,474
Other liabilities	<u>229,639</u>	<u>158,403</u>
Total non-endowment funds	<u>221,080,787</u>	<u>304,718,598</u>
Endowment funds held for the benefit of others		
Managed for the benefit of the charitable entity donor	7,575,217	9,935,043
Restricted purposes for other charitable beneficiaries	<u>5,891,636</u>	<u>9,654,293</u>
Total endowment funds held for the benefit of others	<u>13,466,853</u>	<u>19,589,336</u>
Total liabilities	<u>234,547,640</u>	<u>324,307,934</u>
Net Assets		
Unrestricted		
Board designated	10,480,819	16,278,101
Other	1,921,156	3,983,830
Temporarily restricted	<u>67,477,634</u>	<u>92,216,185</u>
Total net assets	<u>79,879,609</u>	<u>112,478,116</u>
Total liabilities and net assets	<u>\$ 314,427,249</u>	<u>\$ 436,786,050</u>

Christian Church Foundation, Inc.
Consolidated Statement of Activities
For the Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
Revenue, losses and other support:			
Contributions	\$ 591,015	\$ 7,130,393	\$ 7,721,408
Net investment loss	(5,867,044)	(29,127,165)	(34,994,209)
Income from services provided	<u>2,207,372</u>	<u>—</u>	<u>2,207,372</u>
Total revenue, investment losses, and other support	<u>(3,068,657)</u>	<u>(21,996,772)</u>	<u>(25,065,429)</u>
Net assets released from restrictions:			
For distribution to other ministries	3,294,355	(3,294,355)	0
For Foundation services	813,306	(813,306)	0
Other	<u>24,529</u>	<u>(24,529)</u>	<u>0</u>
Total net assets released from restrictions	<u>4,132,190</u>	<u>(4,132,190)</u>	<u>0</u>
Reclassification for state gift annuity requirements	<u>(1,546,278)</u>	<u>1,546,278</u>	<u>0</u>
Total revenues, net investment activity, and changes in restrictions	(482,745)	(24,582,684)	(25,065,429)
Distributions, other expenses, and changes in actuarial value:			
Program expenses			
Distributions for ministry	3,857,514	—	3,857,514
Scott Foundation grants	245,125	—	245,125
Operating expenses	<u>3,070,496</u>	<u>—</u>	<u>3,070,496</u>
Total program activities	7,173,135	—	7,173,135
Management and general expense	<u>204,076</u>	<u>—</u>	<u>204,076</u>
Total expenses	<u>7,377,211</u>	<u>—</u>	<u>7,377,211</u>
Change in actuarial value of life-income agreements	<u>—</u>	<u>155,867</u>	<u>155,867</u>
Total expense and change in actuarial values	<u>7,377,211</u>	<u>155,867</u>	<u>7,533,078</u>
Change in net assets	(7,859,956)	(24,738,551)	(32,598,507)
Beginning of year net assets	<u>20,261,931</u>	<u>92,216,185</u>	<u>112,478,116</u>
End of year net assets	<u>\$ 12,401,975</u>	<u>\$ 67,477,634</u>	<u>\$ 79,879,609</u>

Christian Church Foundation, Inc.
Consolidated Statement of Activities
For the Year Ended December 31, 2007 – as adjusted

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains and other support:				
Contributions	\$ 2,542,848	\$ 3,556,807	\$ —	\$ 6,099,655
Net investment return	1,188,959	5,591,640	—	6,780,599
Income from services provided	<u>2,370,931</u>	<u>—</u>	<u>—</u>	<u>2,370,931</u>
Total revenue, gains, and other support	<u>6,102,738</u>	<u>9,148,447</u>	<u>—</u>	<u>15,251,185</u>
Net assets released from restrictions:				
For distribution to other ministries	3,174,998	(3,174,998)	—	0
For Foundation services	873,168	(873,168)	—	0
Other	<u>283,240</u>	<u>(283,240)</u>	<u>—</u>	<u>0</u>
Total net assets released from restrictions	<u>4,331,406</u>	<u>(4,331,406)</u>	<u>—</u>	<u>0</u>
Total revenues, net investment activity, and changes in restrictions	10,434,144	4,817,041	—	15,251,185
Distributions, other expenses, and changes in actuarial value:				
Program expenses				
Distributions for ministry	4,829,762	—	—	4,829,762
Scott Foundation grants	245,975	—	—	245,975
Operating expenses	<u>2,917,194</u>	<u>—</u>	<u>—</u>	<u>2,917,194</u>
Total program activities	7,992,931	—	—	7,992,931
Management and general expense	<u>199,067</u>	<u>—</u>	<u>—</u>	<u>199,067</u>
Total expenses	<u>8,191,998</u>	<u>—</u>	<u>—</u>	<u>8,191,998</u>
Change in actuarial value of life-income agreements	<u>—</u>	<u>167,083</u>	<u>—</u>	<u>167,083</u>
Total expense and change in actuarial values	<u>8,191,998</u>	<u>167,083</u>	<u>—</u>	<u>8,359,081</u>
Change in net assets, before reclassifications	2,242,146	4,649,958	—	6,892,104
Change in accounting principle (See Note 3)	<u>(1,801,094)</u>	<u>2,958,120</u>	<u>(1,157,026)</u>	<u>0</u>
Change in net assets	441,051	7,608,078	(1,157,026)	6,892,104
Beginning of year net assets	<u>19,820,879</u>	<u>84,608,107</u>	<u>1,157,026</u>	<u>105,586,012</u>
End of year net assets	<u>\$ 20,261,931</u>	<u>\$ 92,216,185</u>	<u>\$ —</u>	<u>\$ 112,478,116</u>

Christian Church Foundation, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (32,598,507)	\$ 6,892,104
Items not requiring (providing) operating activities cash flow:		
Depreciation	61,336	88,721
Net realized and unrealized (gain)/loss on investments	38,010,790	(3,525,903)
Actuarial loss on life income gift obligations	155,863	167,083
Contributions and investment income received restricted for long-term investments	(9,847,267)	(6,476,277)
Change in other long-term assets and liabilities	(75,809)	(21,381)
Changes in:		
Receivables	35,597	(13,030)
Prepaid expenses	(17,168)	216,083
Contributions receivable	85,672	(507,348)
Accounts payable and accrued expenses	(9,780)	(4,053)
Other assets and liabilities	<u>93,500</u>	<u>75,506</u>
Net cash used in operating activities	<u>(4,105,773)</u>	<u>(3,108,495)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(96,880)	(54,176)
Proceeds from sale of automobile	20,568	16,013
Purchase of investments	(87,159,210)	(91,154,541)
Proceeds from sale of investments	82,049,573	88,194,968
Principal payments received on notes receivable	<u>35,562</u>	<u>29,714</u>
Net cash used in investing activities	<u>(5,150,387)</u>	<u>(2,968,022)</u>
Cash flows from financing activities:		
Payments on annuities and trusts payable	(660,629)	(556,936)
Proceeds from issuance of annuities and trusts payable restricted for long-term investments	931,656	325,174
Proceeds from contributions received restricted for long-term investments	6,198,737	3,231,632
Investment income received restricted for long-term investment	<u>2,716,874</u>	<u>2,919,471</u>
Net cash provided by financing activities	<u>9,186,638</u>	<u>5,919,341</u>
Net decrease in cash and cash equivalents	(69,522)	(157,176)
Cash and cash equivalents at beginning of year	<u>647,157</u>	<u>804,333</u>
Cash and cash equivalents at end of year	<u>\$ 577,635</u>	<u>\$ 647,157</u>

Christian Church Foundation, Inc.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

General and Principles of Consolidation

The Christian Church Foundation, Inc. (Foundation) was incorporated as a not-for-profit organization in November 1961, under the laws of the state of Indiana. The financial statements include the accounts of the Foundation and also the Joint Investment Trust of the Foundation (Trust), and the Oreon E. Scott Foundation.

The Trust, of which the Foundation is Trustee, exists exclusively to receive and to administer cash and property transferred by any congregation, region, general unit, or other institution affiliated with the Christian Church (Disciples of Christ) (Church). Management of the Trust is the responsibility of the Foundation. Separate Statements of Financial Position for the Trust are included as Supplemental Schedules to these financial statements.

The Oreon E. Scott Foundation (Scott Foundation) was established in 1950 to promote religious, charitable, benevolent, scientific, literacy or educational purposes within the United States. In 1974, the Scott Foundation was reformed to bring it under the control of the Christian Church Foundation. U.S. Trust, Bank of America Private Wealth Management serves as the corporate trustee for the Scott Foundation and three individual trustees, elected by the Foundation, are selected from among the presidents of certain General Units of the Church. No Foundation employees are eligible to serve as individual trustees of the Scott Foundation. The Scott Foundation is a grant-making foundation, with annual grants determined based on a majority vote of the individual trustees.

The Foundation seeks to support all of the ministries of the Church by providing opportunities for the stewardship of accumulated resources through planned giving on the part of individuals and through prudent investing and endowment policy development on the part of Church institutions. The Foundation is engaged primarily in educating individuals about planned giving and Church partners about prudent investing, receiving gifts and investments, and distributing funds for support of the many ministries of the Church. Support for the Foundation's operations is primarily received from its investment and fund management services. The Foundation is a donor-directed ministry, which means that most donors either direct or advise the Foundation as to the ministries which will benefit from their gift.

Upon mutual agreement, congregations, regions, general units and other institutions affiliated with the Christian Church (Disciples of Christ) may utilize services offered by the Foundation including bookkeeping, record keeping, electronic data processing and other administrative support.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Christian Church Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Cash and Cash Equivalents

The Foundation reports only its petty cash and bank deposits in federally insured accounts as cash and cash equivalents. Due to the investing nature of the Foundation's operations, short-term, highly liquid investments are treated as investments rather than cash equivalents. The financial institution holding the Foundation's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2009. At December 31, 2008, the Foundation's interest-bearing cash accounts exceeded federally insured limits by approximately \$417,000. Amounts exceeding federally insured limits are determined using bank deposit balances at December 31.

Investments

Investments are carried at fair value. For those investments with no quoted market prices, fair values used were those provided by the managers of the investment funds. These estimated values are subject to uncertainty and, therefore, may differ significantly from the value that would have been used had a market for such investments existed. Such difference could be material. Realized and unrealized gains and losses are reflected in the Consolidated Statement of Activities for those investments that are a part of the Foundation's net assets.

Property and Equipment

Property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost and depreciated on the straight-line method over their estimated useful lives, which range from three to ten years.

Income Taxes

By virtue of its inclusion in the group exemption ruling of the General Assembly of the Christian Church (Disciples of Christ), the Foundation is exempt from federal income taxes under Section 501(c)(3) of the U. S. Internal Revenue Code.

Uncertain Tax Positions

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Foundation has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ended December 31, 2009. The Foundation has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Statement No. 5, *Accounting for Contingencies*.

Christian Church Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Unrestricted Net Assets

Unrestricted net assets represent assets that may be legally expended by the Foundation for charitable purposes chosen by the Foundation. Unrestricted net assets include bequests and other testamentary gifts left to the Foundation without restrictions as well as donor advised funds where the donor has the ability to advise the Foundation on how these charitable gifts should ultimately be expended. The Foundation's Board of Directors has designated that unrestricted net assets held in permanent funds or as donor advised funds may only be expended in accordance with policies established by the Board of Directors or its donor advised fund committee. These board designated funds are separately disclosed as a component of unrestricted net assets in the Consolidated Statement of Financial Position.

Temporarily Restricted Net Assets

Temporarily restricted net assets generally represent endowment gifts that the Foundation has agreed to maintain in perpetuity for the benefit of the Church. Endowment net assets are classified as temporarily restricted if the Foundation has or will have the right to make regular distributions as defined in the Trust because, by definition, these distributions may temporarily erode a portion of the corpus. The Foundation may spend only the income, as defined in the Trust, and not the entire endowment gift. Temporarily restricted net assets also include the estimated charitable residual for charitable gift annuities that will add to endowment funds at the Foundation, gift assets that may be fully expended after an established period of time, or gift assets which are held for an agreed upon charitable purpose.

Permanently Restricted Net Assets

Permanently restricted net assets would represent funds that, either by agreement with the donors or by operation of law, may not be spent.

Contributions

Contributions received without donor stipulations are reported as unrestricted revenue and net assets. Monies received for an immediate specified, directed purpose are disbursed when received and are not recorded as contributions. Contributions received for permanent funds or life-income gifts, the residual of which will create a permanent fund, are reported as temporarily restricted revenue and net assets. Distributions from permanent funds are transferred to unrestricted funds as "net assets released from restrictions" in the period of disbursement.

Christian Church Foundation, Inc.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

Note 2: Financially Interrelated and Affiliated Organizations

The Church includes all those organizations that are listed in the Annual Yearbook and Directory of the Christian Church (Disciples of Christ) (Yearbook). Most of these organizations are individually incorporated with their own Board of Directors. Individual Church entities are generally independent and responsible for their own personnel policies, financial matters, program activities and other corporate matters which are affiliated by the common cause of the Church. All organizations included in the Yearbook are considered ministry partners affiliated with the Foundation.

The General Board, on behalf of the General Assembly of the Christian Church (Disciples of Christ), elects the Board of Directors of the Foundation. Under Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (SFAS 136), the Foundation and the General Assembly of the Christian Church are considered to be financially interrelated organizations.

Note 3: Change in Accounting Principle

In the year ended December 31, 2008, the Foundation adopted the recognition and disclosure provisions of Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). This new standard changes the method of classification of net assets comprising donor-restricted endowment funds when the Foundation is subject to an enacted and effective version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Initial application of FSP FAS 117-1 by reclassification of previously reported net assets at December 31, 2007, resulted in an increase (decrease) in permanently restricted, temporarily restricted and unrestricted net assets of \$(1,157,026), \$2,958,120 and \$(1,801,094), respectively, and had no impact on previously reported total net assets.

Note 4: Endowment

The Foundation's primary ministry is to support the Church in perpetuity by providing opportunities for the stewardship of accumulated resources through planned giving. In conjunction with this ministry, the Foundation maintains approximately 800 named permanent endowment funds that are recorded as a part of the Foundation's net assets. Named permanent endowment funds include both donor-restricted endowment funds and funds designated by the Foundation's board of directors to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's board of directors (Board) has concluded, absent explicit donor stipulations to the contrary, that the Foundation's donor-restricted endowment funds should be governed under Indiana law. Under Indiana law, the Foundation is required to act in good faith to determine the

Christian Church Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

prudent expenditure of accumulation of its endowment funds, giving full consideration to (1) the duration and preservation of the endowment fund, (2) the purposes of the Foundation and the endowment fund, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation and (7) the investment policy of the Foundation. These provisions added to Indiana law in 2007 are consistent with the Foundation's long-standing gift agreements and general practices, through which the Foundation seeks to balance the dual goals of providing maximum funds for ministry while also preserving, over the long-term, the inflation-adjusted value of a donor's gift.

In seeking to balance its dual goals, the Foundation's focus is on the development of an investment and spending policy that, over the long term, will both produce funds for ministry and preserve the gift value. Foundation donors may generally recommend one of three investment mixes for the investment of their gift. To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets diversified asset allocations, each of which places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. Based on 10-year asset class assumptions for each asset mix offered by the Foundation, the predicted long-term return for the Beasley Growth Fund is 8.6%, for the Campbell Multi-Strategy Fund is 9.2% and for the Common Balanced Fund is 7.8%. The Foundation's spending policy, which retains a portion of each year's predicted earnings to offset inflation, is 5% of the monthly average balances for the Campbell and Beasley Funds and 4% of the monthly average balances for the Common Fund.

Both Indiana law and the Foundation's standard gift agreements emphasize the development of a reasonable spending rate and provide for the distribution of funds at that rate, even when the fair value of a fund may have fallen below the original gift amount. Both Indiana law and the Foundation's standard gift agreements emphasize the Foundation's responsibility to steward every dollar held in endowment funds, whether those balances represent the original gift or appreciation on that gift realized over time. The Foundation Board's understanding of both the relevant law and the Foundation's donor agreements is that every dollar held in an endowment fund is equally important (and restricted) for the purposes named by the donor and that the invasion of a gift's corpus (original gift amount) is acceptable only if the appropriation of funds is pursuant to a spending policy that, over the long-term, preserves gift value. Furthermore, the Board understands that the Indiana law does not require that an inflation factor be applied to gifts to make a distinction in the level of restrictions to be applied to funds held in the Foundation's endowment. Because the Foundation has agreed to make regular distributions for ministry even when these distributions may temporarily erode a portion of the gift's original value and because the Foundation believes that both the value of the original gift and any appreciation on the gift is equally restricted for purposes named by the donor, the Foundation records 100% of permanent endowment gifts as temporarily restricted. It is the Foundation's clear practice and commitment that every dollar in its permanent endowment funds will be held and managed to meet the dual goals of fund growth and ministry distributions in perpetuity, in accordance with the donor's instructions.

Christian Church Foundation, Inc.
Notes to Consolidated Financial Statements
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Changes in endowment net assets for the years ended December 31, 2008 and 2007, were:

	2008		
	Board- designated Unrestricted	Temporarily Restricted	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, beginning of year	\$ <u>16,278,101</u>	\$ <u>74,463,564</u>	\$ <u>90,741,665</u>
Investment return:			
Investment income	387,012	1,882,027	2,269,039
Net depreciation	<u>(5,397,655)</u>	<u>(24,645,990)</u>	<u>(30,043,645)</u>
Total invest- ment return	<u>(5,010,643)</u>	<u>(22,763,963)</u>	<u>(27,774,606)</u>
Contributions from outside sources	555,561	6,198,738	6,754,299
Transfers from matured life income gifts	-0-	468,198	468,198
Appropriation of endowment assets for expenditure	<u>(1,342,200)</u>	<u>(3,665,441)</u>	<u>(5,007,641)</u>
Endowment net assets, end of year	\$ <u>10,480,819</u>	\$ <u>54,701,096</u>	\$ <u>65,181,915</u>

Christian Church Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

	2007			Total
	Board- designated Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ <u>16,606,304</u>	\$ <u>66,873,325</u>	\$ <u>1,157,026</u>	\$ <u>84,636,655</u>
Investment return:				
Investment income	519,520	2,020,372	-0-	2,539,892
Net appreciation	<u>559,877</u>	<u>2,242,939</u>	<u>-0-</u>	<u>2,802,816</u>
Total invest- ment return	<u>1,079,397</u>	<u>4,263,311</u>	<u>-0-</u>	<u>5,342,708</u>
Contributions from outside sources	2,496,274	3,225,140	-0-	5,721,414
Transfers from matured life income gifts	-0-	996,144	-0-	996,144
Appropriation of endowment assets for expenditure	(2,102,780)	(3,852,476)	-0-	(5,955,256)
Adjustment to reflect changes in the Indiana law	<u>(1,801,094)</u>	<u>2,958,120</u>	<u>(1,157,026)</u>	<u>-0-</u>
Endowment net assets, end of year	\$ <u>16,278,101</u>	\$ <u>74,463,564</u>	\$ <u>-0-</u>	\$ <u>90,741,665</u>

In excess of 90% of funds held by the Foundation as temporarily restricted are restricted for purposes designated by the donor.

Christian Church Foundation, Inc.
Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Note 5: Functional Allocation of Expenses

The Foundation's ministry is to provide members, congregations, and other ministries of the Church with planned giving and endowment fund education and services. In conjunction with its planned giving education and services, the Foundation offers free seminars to congregations and personal assistance to potential donors who may wish to consider making a planned gift that benefits one or more ministries of the Church. An important part of the Foundation's ministry is to provide donors a place where their gifts will be maintained in perpetuity for the benefit of their chosen ministries. In its endowment fund education and services ministry, the Foundation assists the varied ministries of the Church with the development of endowment fund policies designed to both encourage gifts and prudently invest endowment funds. In this regard, the Foundation offers any Church ministry both counsel on the development of endowment policies and several investing opportunities. The Foundation's investments are offered only to ministries of the Church and are designed to maintain the endowment funds of the Church in a way that honors the dual goals of providing funds for ministry while also growing endowment gifts to keep pace with inflation.

All employees of the Foundation are actively involved in the Program Services of the Foundation, and most are responsible for both Gift Education and Services and Investment Education and Services. As a result of the integrated services provided, the Foundation does not separately account for the costs of its Gift and Investment programs.

In addition to its Program Services, the Foundation maintains payroll, personnel, and financial reporting functions that are primarily administrative in nature. Expenses for these functions, the cost of the Foundation's annual audit, and expenses related to the Foundation's board of directors are reported as management and general expense on the Statement of Activities.

Note 6: Contributions Receivable

Contributions receivable represent gifts pending from donors' estates as well as gifts that were mailed to the Foundation prior to December 31 but received by the Foundation in January of the following year. The Foundation has received or anticipates receipt of all of the recorded contributions receivable within the calendar year following their recording as a receivable.

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Note 7: Marketable Securities and Other Investments

The Foundation's investments and their fair values at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Investments in unrelated parties:		
Short-term investments	\$ 6,602,894	\$ 10,392,793
Stock and stock funds	176,039,481	257,906,270
Bonds and bond funds	86,755,345	135,517,474
Alternative investments	33,192,145	21,028,300
Notes receivable	185,066	220,628
Investments in related party:		
Church Extension	<u>9,492,430</u>	<u>9,468,570</u>
Total	<u>\$ 312,267,361</u>	<u>\$ 434,534,035</u>

At December 31, 2008 and 2007, the fair value of approximately 53% and 49% of the investments were provided by the managers of the funds.

In addition to managing the Foundation's own endowment funds, the Foundation also provides investment services to Disciples congregations, regions, general units, and recognized ministries. Investments in the Trust which are owned by other church partners or are held for their benefit are shown on the Consolidated Statement of Financial Position as subject to withdrawal funds or as endowment funds held for the benefit of others. These funds are invested in the same pooled funds that contain the Foundation's own permanent funds. The net investment return reported on the Consolidated Statement of Activities includes only the investment return from investments which are recorded as a part of the Foundation's net assets.

Net investment return is shown net of the related investment fees, which includes transaction costs and other service fees that may not be separately identifiable from the reported results. Net investment return is reflected in the Consolidated Statement of Activities as unrestricted or temporarily restricted based on the nature of donor agreements or legally imposed restrictions. The components of net investment return, which excludes income on investments for subject-to-withdrawal funds and other funds held for the benefit of others, are as follows:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 3,194,733	\$ 3,509,456
Realized and unrealized gains and losses	(38,010,790)	3,525,903
Separately reported fees	<u>(178,152)</u>	<u>(254,760)</u>
	<u>\$ (34,994,209)</u>	<u>\$ 6,780,599</u>

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Note 8: Disclosures About Fair Value of Assets and Liabilities

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Marketable Securities and Other Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include publically traded stocks, mutual funds, certificates of deposit and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include non-public index funds, mutual funds, and funds of funds. These funds may invest in publically traded domestic and international stocks, debt securities, alternative strategies and real estate investment trusts.

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The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 2008:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 312,267,361	\$ 142,628,483	\$ 169,638,878	\$ 0

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying statements of financial position at amounts other than fair value.

Cash and cash equivalents, contributions receivable, subject-to-withdrawal funds, liabilities to income and charitable beneficiaries under life-income gifts, and endowment funds held for the benefit of others.

The carrying amount approximates fair value.

Note 9: Life Income Gift Agreements

The Foundation administers a charitable gift annuity program on behalf of many of the ministries of the Church. All assets or proceeds from assets received in exchange for a charitable gift annuity are segregated in a separate fund and are not commingled with other Foundation assets. At December 31, 2008 and 2007 the fair value of this fund was \$14.2 and \$20.5 million, respectively. The obligation to pay the annuity amount to annuitants is a general obligation of the Foundation and is estimated using the applicable federal rates (AFRs) at the gift date. Those rates range from 3.2% to 10.2% and at December 31, 2008 and 2007; the obligation was \$11.0 and \$10.6 million respectively. After the obligation to the income beneficiary of a gift annuity is satisfied, the residual value of the charitable gift annuity may establish a permanent fund at the Foundation or be distributed to other charitable organizations selected by the donor. At December 31, 2008 and 2007, the estimated charitable residual value for charitable gift annuities which were intended to be distributed outside the Foundation was \$1.7 and \$5.0 million, respectively. The actuarial value for gifts whose remainder will become a permanent fund of the Foundation is included in net assets of the Foundation.

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Many states require a charity to register and meet state-specific requirements before offering charitable gift annuities in that state. Annually, the Foundation is required to meet certain state-specific requirements surrounding reserves held to meet its obligations to charitable gift annuity income beneficiaries. At December 31, 2008, the Foundation's gift annuity reserves are in excess of the most stringent of these state-specific mandates of \$15.5 million. A reclassification of \$1.5 million was made from unrestricted net assets to temporarily restricted net assets to satisfy gift annuity reserve requirements.

The Foundation also serves as trustee for charitable remainder trusts. These agreements also require periodic payments to income beneficiaries named by the donor. The present value of the liability to income beneficiaries of charitable remainder trusts is included as a part of the "Liability to income beneficiaries under life-income gifts." The obligation is also discounted using the AFR on the gift date. Those rates range from 3.2% to 11.0% and at December 31, 2008 and 2007 that obligation was \$6.6 and \$8.2 million, respectively. The actuarial value of the charitable residual for gifts whose remainder will become a permanent fund of the Foundation is included in the net assets of the Foundation. The present value of the estimated charitable residual of gift instruments which will be distributed to other charitable organizations is shown as "Liability to charitable beneficiaries under life-income gifts." The Foundation revalues these liabilities annually based on actuarial assumptions and the fair value of the underlying investments. At December 31, 2008 and 2007, the estimated charitable residual value for charitable remainder trusts which were intended to be distributed outside the Foundation was \$1.5 and \$2.5 million, respectively.

Note 10: Leases

The Foundation provided, along with certain other affiliated organizations, a guaranty to a lease agreement entered into by Christian Church Services, Inc. As a guarantor for its pro rata share of the liability, the Foundation will sublease operating facilities from Christian Church Services, Inc. under an operating lease arrangement. The lease commenced February 15, 1995 and expires July 14, 2016. The lease also provides an option to extend the lease for two additional five-year terms. Additionally, the lease provides for additional rent to cover certain operating costs, which is calculated annually and added to the base rent. Total lease expense paid for 2008 and 2007 was \$96,539 and \$95,757, respectively.

Future minimum annual base rental payments under this operating lease are as follows:

2009	91,538	2013	102,149
2010	91,538	2014	102,149
2011	91,538	2015	107,185
2012	96,844	2016	<u>56,110</u>
			<u>\$ 739,051</u>

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Note 11: Employee Benefits

Pension Plan

Employees of the Foundation who meet certain eligibility requirements participate in a defined-benefit plan of the Pension Fund of the Christian Church (Disciples of Christ). Contributions are paid monthly to the plan and are 14% of the base salaries of the employees participating in the plan. Pension expense for 2008 and 2007 was \$224,821 and \$212,194, respectively.

Health Care

The Foundation provides health care coverage to employees and certain eligible retirees primarily through its participation in the churchwide health plan, the Christian Church (Disciples of Christ) Health Care Benefit Trust, administered by the Pension Fund of the Christian Church. The Foundation also provides coverage to employees and retirees in certain other health plans on a limited basis. The Foundation continues to fund benefit costs on a pay-as-you-go basis. For 2008 and 2007, the Foundation made benefit payments to the churchwide health plan totaling \$300,651 (\$278,123 for employees and \$22,528 for retirees) and \$266,414 (\$243,909 for employees and \$22,505 for retirees), respectively. Additionally, the Foundation made benefit payments to other health plans totaling \$18,353 (\$15,660 for employees and \$2,693 for retirees) in 2008 and \$9,015 (\$6,322 for employees and \$2,693 for retirees) in 2007.

The accumulated postretirement benefit obligation for retirees is calculated using premium costs rather than claims experience, based on the nature of the churchwide plan. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation for 2008 and 2007 was 7%. For measurement purposes at December 31, 2008 and 2007, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed in the first year and years thereafter.

Note 12: Current Economic Conditions

The Foundation depends on income from services provided in order to fulfill its ministry. These operating revenues are expected to decline as a result of significant market-related declines in the assets under management. The investments and services offered by the Foundation are long-term in nature; therefore the Foundation does not anticipate significant, non-market-related changes in its operating revenues. Adverse market conditions could increase donors' willingness to pursue life-income gifts offered by the Foundation, but could also increase the Foundation's obligations and reduce the ultimate gift values of these contracts. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements are likely to change more dramatically than in stable economic environments.

Supplementary Information

Christian Church Foundation, Inc.
Supplemental Schedule
Statement of Financial Position – Joint Investment Trust (JIT)
December 31, 2008

	<u>Common</u>	<u>Beasley</u>	<u>Campbell</u>	<u>Brown</u>	<u>JIT Total</u>
Assets					
Marketable securities and other investments	<u>125,465,606</u>	<u>101,908,451</u>	<u>40,150,992</u>	<u>5,930,698</u>	<u>273,455,747</u>
Total assets	<u>\$ 125,465,606</u>	<u>\$ 101,908,451</u>	<u>\$ 40,150,992</u>	<u>\$ 5,930,698</u>	<u>\$ 273,455,747</u>
Liabilities					
Non-endowment funds					
Subject-to-withdrawal funds	<u>\$ 101,898,545</u>	<u>\$ 85,180,070</u>	<u>\$ 7,832,516</u>	<u>\$ 5,709,570</u>	<u>\$ 200,620,701</u>
Total non-endowment funds	<u>101,898,545</u>	<u>85,180,070</u>	<u>7,832,516</u>	<u>5,709,570</u>	<u>200,620,701</u>
Endowment funds held for the benefit of others					
Managed for the benefit of the charitable entity donor	3,162,384	3,059,237	989,382	—	7,211,003
Restricted purposes for other charitable beneficiaries	<u>319,119</u>	<u>1,102,993</u>	<u>4,218,777</u>	<u>6,539</u>	<u>5,647,428</u>
Total endowment funds held for the benefit of others	<u>3,481,503</u>	<u>4,162,230</u>	<u>5,208,159</u>	<u>6,539</u>	<u>12,858,431</u>
Total liabilities	<u>105,380,048</u>	<u>89,342,300</u>	<u>13,040,675</u>	<u>5,716,109</u>	<u>213,479,132</u>
Net Assets					
Unrestricted					
Board designated	1,612,245	1,671,999	6,175,027	202,269	9,661,540
Temporarily restricted	18,473,313	10,894,152	20,935,290	12,320	50,315,075
Permanently restricted	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total net assets	<u>20,085,558</u>	<u>12,566,151</u>	<u>27,110,317</u>	<u>214,589</u>	<u>59,976,615</u>
Total liabilities and net assets	<u>\$ 125,465,606</u>	<u>\$ 101,908,451</u>	<u>\$ 40,150,992</u>	<u>\$ 5,930,698</u>	<u>\$ 273,455,747</u>
Unit Value per Share	<u>\$ 178.00</u>	<u>\$ 250.27</u>	<u>\$ 63.71</u>	<u>\$ 119.29</u>	

Christian Church Foundation, Inc.
Supplemental Schedule
Statement of Financial Position – Joint Investment Trust (JIT)
December 31, 2007

	<u>Common</u>	<u>Beasley</u>	<u>Brown</u>	<u>JIT Total</u>
Assets				
Marketable securities and other investments	\$ <u>197,901,800</u>	\$ <u>176,285,746</u>	\$ <u>7,124,289</u>	\$ <u>381,311,835</u>
Total assets	\$ <u>197,901,800</u>	\$ <u>176,285,746</u>	\$ <u>7,124,289</u>	\$ <u>381,311,835</u>
Liabilities				
Non-endowment funds				
Subject-to-withdrawal funds	\$ <u>139,287,225</u>	\$ <u>130,387,816</u>	\$ <u>6,799,322</u>	\$ <u>276,474,363</u>
Total non-endowment funds	<u>139,287,225</u>	<u>130,387,815</u>	<u>6,799,323</u>	<u>276,474,363</u>
Endowment funds held for the benefit of others				
Managed for the benefit of the charitable entity donor	5,009,998	4,754,488	—	9,764,486
Restricted purposes for other charitable beneficiaries	<u>6,876,814</u>	<u>1,932,851</u>	<u>8,148</u>	<u>8,817,813</u>
Total endowment funds held for the benefit of others	<u>11,886,812</u>	<u>6,687,339</u>	<u>8,148</u>	<u>18,582,299</u>
Total liabilities	<u>151,174,037</u>	<u>137,075,155</u>	<u>6,807,470</u>	<u>295,056,662</u>
Net Assets				
Unrestricted				
Board designated	7,330,122	7,184,201	301,515	14,815,838
Temporarily restricted	39,397,641	32,026,390	15,304	71,439,335
Permanently restricted	—	—	—	—
Total net assets	<u>46,727,763</u>	<u>39,210,591</u>	<u>316,819</u>	<u>86,255,173</u>
Total liabilities and net assets	\$ <u>197,901,800</u>	\$ <u>176,285,746</u>	\$ <u>7,124,289</u>	\$ <u>381,311,835</u>
Unit Value per Share	\$ <u>250.87</u>	\$ <u>390.59</u>	\$ <u>148.62</u>	