

Report of Independent Auditors

The Board of Directors
Board of Church Extension of
Disciples of Christ, Inc.

We have audited the accompanying statements of financial position of Board of Church Extension of Disciples of Christ, Inc. (Church Extension) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of Church Extension'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Church Extension's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Church Extension's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Board of Church Extension of Disciples of Christ, Inc. at December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

March 11, 2009

Board of Church Extension of Disciples of Christ, Inc

Statements of Financial Position

	December 31	
	2008	2007
Assets		
Cash and cash equivalents	\$ 5,027,451	\$ 7,133,060
Investment securities	11,215,869	11,537,945
Restricted investments	2,599,948	2,600,000
Total cash and investments	<u>18,843,268</u>	<u>21,271,005</u>
Accrued interest receivable	1,161,264	1,163,922
Loans to churches, ministers, and church-related organizations, net of allowance	148,511,403	150,016,219
Sundry receivables and other assets	2,059,531	1,688,626
Property and equipment:		
Leasehold improvements	118,326	118,326
Furniture and equipment	780,706	737,035
Computer software	984,563	934,388
	<u>1,883,595</u>	<u>1,789,749</u>
Less allowances for depreciation and amortization	1,619,877	1,520,651
	<u>263,718</u>	<u>269,098</u>
Total assets	<u>\$ 170,839,184</u>	<u>\$ 174,408,870</u>

	December 31	
	2008	2007
Liabilities and net assets		
Investment notes and other obligations	\$ 145,573,798	\$ 145,402,865
New Church Program funds	41,666	19,698
Other liabilities	1,667,634	1,924,919
Benefit obligations	260,055	281,108
	147,543,153	147,628,590
 Net assets:		
Unrestricted net assets:		
Interest-free loan funds	3,755,076	3,750,302
Accessibility low-interest loan funds	755,876	751,656
Memorial, named, and other board-designated funds	10,436,850	10,378,163
General	6,094,801	9,363,224
Total unrestricted net assets	21,042,603	24,243,345
Temporarily restricted net assets	1,378,224	1,658,095
Permanently restricted net assets	875,204	878,840
Total net assets	23,296,031	26,780,280
Total liabilities and net assets	\$ 170,839,184	\$ 174,408,870

See accompanying notes.

Board of Church Extension of Disciples of Christ, Inc.

Statements of Activities

	Year Ended December 31		
	2008	2007	2006
Income:			
Interest on loans	\$ 11,045,678	\$ 10,709,077	\$ 9,766,134
Interest and dividends on investments	695,176	999,303	924,694
Church Finance Council (Disciples Mission Fund)	82,949	80,817	86,818
Fees, services, and other operating income	549,280	380,130	271,073
Net assets released from restrictions	941,870	991,288	828,499
	13,314,953	13,160,615	11,877,218
Expenses:			
Interest on investment notes and other obligations	6,918,312	7,358,373	6,210,298
Salaries and employee benefits	3,524,473	3,485,327	3,205,868
Travel	307,872	400,934	336,529
Grants	15,992	38,248	56,220
Headquarters expense	1,703,752	1,706,079	1,601,940
Provision for possible loan losses	90,000	84,000	84,000
New Church Ministry	514,893	412,809	348,136
	13,075,294	13,485,770	11,842,991
Income (loss) from operations	239,659	(325,155)	34,227
Net (loss) gain on investment securities	(3,442,034)	(262,395)	478,536
(Loss) income before gifts	(3,202,375)	(587,550)	512,763
Unrestricted gift income (loss):			
Regional capital	1,366	1,400	1,568
Bequests, annuities, and other gifts	267	198,360	403,535
	1,633	199,760	405,103
Total unrestricted (loss) income	(3,200,742)	(387,790)	917,866
Temporarily restricted gift and investment income	661,999	1,520,185	534,449
Net assets released from restrictions	(941,870)	(991,288)	(828,499)
Change in temporarily restricted net assets	(279,871)	528,897	(294,050)
Permanently restricted gift and investment (loss) income	(3,636)	3,846	10,514
Change in permanently restricted net assets	(3,636)	3,846	10,514
Change in total net assets	(3,484,249)	144,953	634,330
Beginning total net assets	26,780,280	26,635,327	26,000,997
Ending total net assets	\$ 23,296,031	\$ 26,780,280	\$ 26,635,327

See accompanying notes.

Board of Church Extension of Disciples of Christ, Inc.

Statements of Cash Flows

	Year Ended December 31		
	2008	2007	2006
Operating activities			
Change in total net assets	\$ (3,484,249)	\$ 144,953	\$ 634,330
Adjustments to reconcile change in total net assets to net cash (used in) provided by operating activities:			
Provision for possible loan losses	90,000	84,000	84,000
Depreciation and amortization	99,226	79,027	52,043
Amortization of premium, less accretion of discount on investments	2,996	(49,368)	(35,573)
Net unrealized loss (gain) on investment securities	3,472,471	421,272	(432,906)
Changes in operating assets and liabilities:			
Accrued interest receivable	2,658	(151,355)	(285,249)
Sundry receivable and other assets	(370,905)	53,273	(60,147)
New Church Program funds	21,968	(12,197)	(30,524)
Other liabilities and benefit obligations	(278,338)	(16,588)	22,893
Net cash (used in) provided by operating activities	(444,173)	553,017	(51,133)
Investing activities			
Proceeds from sale of investment securities	13,087,349	15,455,462	15,754,555
Purchases of investment securities	(16,240,688)	(13,181,818)	(11,370,299)
Principal collected on loans	23,657,160	20,451,152	17,548,811
Loan funds advanced	(22,242,344)	(20,312,964)	(28,542,851)
Purchase of property and equipment	(93,846)	(135,132)	(113,836)
Net cash (used in) provided by investing activities	(1,832,369)	2,276,700	(6,723,620)
Financing activities			
Borrowing on line of credit	2,800,000	-	6,475,000
Repayment of line of credit	(2,800,000)	-	(6,975,000)
Sales of investment notes	29,388,368	19,918,861	31,731,664
Redemptions of investment notes	(29,217,435)	(17,688,376)	(23,460,289)
Net cash provided by financing activities	170,933	2,230,485	7,771,375
(Decrease) increase in cash and cash equivalents	(2,105,609)	5,060,202	996,622
Cash and cash equivalents at beginning of year	7,133,060	2,072,858	1,076,236
Cash and cash equivalents at end of year	\$ 5,027,451	\$ 7,133,060	\$ 2,072,858
Interest paid	\$ 2,839,481	\$ 2,908,294	\$ 2,647,713

See accompanying notes.

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements

December 31, 2008 and 2007, and for each of the Three Years in the
Period Ended December 31, 2008

1. Significant Accounting Policies

Business

Board of Church Extension of Disciples of Christ, Inc. (Church Extension) is a not-for-profit corporation affiliated through its common religious purposes with the Christian Church (Disciples of Christ). Church Extension is engaged primarily in assisting congregations and units of the Church in planning and financing their capital expansion projects. Church Extension is also engaged in providing resources to assist in establishing new congregations. Church Extension's primary means of obtaining the funds necessary to conduct its operations is through the receipt of proceeds from the sale of its investment obligations, primarily in the form of term and demand notes. Church Extension believes that nearly all funds raised by issuance of its debt obligations are from members and units of the Christian Church (Disciples of Christ).

Cash Equivalents

Church Extension considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investment securities, including permanently restricted investments, are carried at fair value when quoted market prices are available. Investment securities for which quoted market prices are not available are valued by the investment manager of the fund based on fair value of the underlying assets. Realized gains and losses on investment securities are based on the amortized cost of the specific security.

Restricted investments support a guarantee related to certain third-party financing arrangements and are discussed in Note 11.

The Board of Directors is responsible for setting and altering Church Extension's investment policies. The Treasurer and Assistant Treasurer of Church Extension are responsible for directing the investments in accordance with those policies.

Loans

Interest income on interest-bearing loans is computed daily based upon the principal amount of the loans outstanding prior to payments received.

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Church Extension evaluates loans for impairment on a case-by-case basis. The allowance for possible loan losses is maintained at a level considered adequate by management to provide for potential losses in the loan portfolio. Management considers numerous factors in estimating possible loan losses including current economic conditions, prior loan loss and delinquency experience, and the composition of the loan portfolio. Additional amounts are added to the loan loss reserve to maintain an appropriate reserve as a percentage of the outstanding loan balance as deemed necessary. These additions to the loan loss reserve are recorded as an operational expense.

Based on the nature of Church Extension's relationship to its borrowers and its desire to work with a borrower to meet its obligation without foreclosure, historical loan losses have been minimal. In situations where a loan loss is deemed to be imminent despite Church Extension's best efforts to avoid foreclosure, the amount due in excess of the available collateral on the loan is charged off to the loan loss reserve. Any future recoveries are added back to the reserve.

Loans are deemed to be delinquent once monthly payments are more than 90 days past due.

Direct costs and income related to loan origination are recorded as incurred in the statements of activities.

Property and Equipment

Property and equipment are recorded on the basis of cost. Depreciation and amortization are computed by the straight-line method over the respective useful lives ranging from three to ten years.

Gift Income

Gifts qualifying as unconditional promises to give are recognized as assets and gift income when granted. Otherwise, gift income is recognized in the year of receipt.

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Church Extension has been designated as the beneficiary of certain charitable gift annuities and remainder trusts. At the time the gift is made, Church Extension recognizes the net present value of the portion of the gift due to Church Extension at the time of the donor's death. Such calculations utilize actuarial assumptions as to the expected life of the donor as well as the current interest rate. The net present value of the gift is included in sundry receivables and other assets in the statements of financial position and as unrestricted gift income within the statements of activities when received. Changes in the fair values of the underlying annuity investments are recognized as unrestricted gift income (loss) within the statements of activities as they occur.

Net Assets

Net assets are allocated to and accounted for in individual categories based upon the purposes for which they are intended. Unrestricted net assets have no donor-imposed restrictions placed upon them. However, Church Extension has designated certain unrestricted net assets for specific purposes. Temporarily restricted net assets include assets whose use by Church Extension is limited by donor-imposed stipulations that either expire by passage of time or can be met and removed by actions of Church Extension pursuant to those stipulations. Permanently restricted net assets include assets whose use is limited by donor-imposed restrictions which stipulate that resources be maintained permanently but permits Church Extension to expend part or all of the income, or other economic benefits, derived from the donated assets.

Income Taxes

Church Extension is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

1. Significant Accounting Policies (continued)

Reclassifications

Certain board-restricted funds as of December 31, 2007, and the related changes in those funds for the two years in the period ending December 31, 2007, were displayed as temporarily restricted net assets and permanently restricted net assets. Because restrictions were not made at the direction of the donor, these funds must be presented as unrestricted net assets. Unrestricted net assets, temporarily restricted net assets, and restricted net assets as of December 31, 2007, and the related 2007 and 2006 activity have been reclassified to conform to the 2008 presentation.

2. Investment Securities

Investment securities at December 31 are summarized as follows:

	<u>2008</u>	
	<u>Cost or Amortized Cost</u>	<u>Fair Value</u>
Common stocks	\$ 62,786	\$ 47,060
Corporate bonds and notes	3,193,012	3,261,059
Certificates of deposit and commercial paper	607,632	607,632
Pooled investment funds with related party:		
Debt/equity securities	9,411,731	7,300,118
	<u>\$ 13,275,161</u>	<u>\$ 11,215,869</u>
Restricted investments (<i>Note 11</i>):		
Certificates of deposit and corporate notes	<u>\$ 2,600,000</u>	<u>\$ 2,599,948</u>

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

2. Investment Securities (continued)

	2007	
	Cost or Amortized Cost	Fair Value
Common stocks	\$ 87,376	\$ 508,710
Corporate bonds and notes	1,012,066	1,100,821
Certificates of deposit and commercial paper	799,997	799,977
Pooled investment funds with related party:		
Debt/equity securities	8,056,349	9,128,437
	<u>\$ 9,955,788</u>	<u>\$ 11,537,945</u>
Restricted investments (<i>Note 11</i>):		
U.S. Government agency certificates of deposit and corporate notes	<u>\$ 2,593,132</u>	<u>\$ 2,600,000</u>

Investments restricted subject to gift agreement terms (included in pooled investment funds) totaled \$1,115,969 at fair value at December 31, 2007. A liability of \$1,416,679 was also recorded related to this restricted gift at December 31, 2007. The remaining assets associated with this gift were \$317,530 at December 31, 2007, and were included in investment securities of Church Extension. During 2008, the assets of this gift agreement were released for use by the beneficiary.

Net gain (loss) on investment securities for the years ended December 31 consisted of:

	2008	2007	2006
Realized gains on equity securities	\$ 30,437	\$ 158,877	\$ 45,630
Net unrealized gains (losses) on securities:			
Unrealized gains	–	191,092	432,906
Unrealized losses	(3,472,471)	(612,364)	–
	<u>\$ (3,442,034)</u>	<u>\$ (262,395)</u>	<u>\$ 478,536</u>

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

2. Investment Securities (continued)

Net unrealized gains (losses) on investment securities is exclusive of \$9,343 and \$55,595 of unrealized gains in 2007 and 2006, respectively, related to investments restricted subject to gift agreements discussed above.

3. Fair Value

Effective January 1, 2008, Church Extension adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS No. 157). This statement defines fair value, establishes a consistent framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 requires, among other things, Church Extension's valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs.

SFAS No. 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Church Extension's market assumptions.

In accordance with SFAS No. 157, these two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Model-derived valuations in which one or more significant inputs or significant drivers are unobservable.

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

3. Fair Value (continued)

This hierarchy requires the use of observable market data when available. The following table presents the hierarchy level for each of Church Extension's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2008.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment securities	\$1,133,119	\$ 2,782,632	\$ 7,300,118	\$ 11,215,869
Restricted investments	1,378,930	1,221,018	–	2,599,948
Total assets	<u>\$ 2,512,049</u>	<u>\$ 4,003,650</u>	<u>\$ 7,300,118</u>	<u>\$ 13,815,817</u>

The method used to fair value Church Extension's investments is fully explained in Note 1.

Church Extension's investment securities that measured at fair value on a recurring basis using significant Level 3 inputs as of December 31, 2008, consisted of investments in a private investment fund. The following table summarizes Church Extension's fair value measurement's using significant Level 3 inputs, and changes therein, for the year ended December 31, 2008:

Balance as of December 31, 2007	\$ 9,128,437
Purchases	1,355,382
Unrealized losses	(3,183,701)
Balance as of December 31, 2008	<u>\$ 7,300,118</u>

4. Loans

At December 31, loans receivable consisted of the following:

	<u>2008</u>	<u>2007</u>
Mortgage loans:		
Interest bearing	\$ 147,187,472	\$ 148,784,293
Noninterest bearing	1,794,177	1,776,787
	<u>148,981,649</u>	150,561,080
Unsecured loans	1,133,214	968,599
	<u>150,114,863</u>	151,529,679
Less allowance for possible loan losses	1,603,460	1,513,460
	<u>\$ 148,511,403</u>	<u>\$ 150,016,219</u>

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

4. Loans (continued)

There were 42 and 40 loans with aggregate principal balances of \$11,439,015 and \$10,500,483 at December 31, 2008 and 2007, respectively, with payments delinquent for over 90 days. There were no loans on nonaccrual status at December 31, 2008 and 2007. However, there are three loans with aggregate principal balances of \$335,171, which were transferred during 2008 to interest-free status using funds available for emergency situations from the Interest Free Loan Fund.

Nonperforming loans were less than ½ of 1% at December 31, 2008, and immaterial at December 31, 2007.

Contractual loan maturities at December 31, 2008, are: 2009, \$2,441,889; 2010, \$490,444; 2011, \$747,499; 2012, \$3,034,837; 2013, \$2,498,023; and thereafter, \$140,902,171. An interest rate adjustment for loans is performed every one to three years to reflect the current market interest rate. At December 31, 2008, Church Extension had loan commitments outstanding of approximately \$2,837,717.

The carrying value of loans approximates their fair value due to the frequency of the interest rate resets.

5. Investment Notes and Other Obligations

Investment notes and other obligations at December 31 consisted of the following:

	<u>2008</u>	<u>2007</u>
Investment notes (payable from 180 days up to five years, interest at 2% – 8%)	\$ 101,999,114	\$ 103,552,385
Demand accounts (interest at 2% – 5.575%)	17,255,680	14,847,230
	<u>119,254,794</u>	<u>118,399,615</u>
Investment notes relating to loans (generally five-year maturity, interest at 2% – 6.5%)	12,697,759	13,319,804
	<u>131,952,553</u>	<u>131,719,419</u>
Investment balances due affiliated Church units (interest at 0.1% – 6.65%)	13,621,245	13,683,446
	<u>\$ 145,573,798</u>	<u>\$ 145,402,865</u>

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

5. Investment Notes and Other Obligations (continued)

Maturities of investment notes and other obligations at December 31, 2008, are: 2009, \$77,729,880; 2010, \$43,971,799; 2011, \$14,757,896; 2012, \$3,433,642; 2013, \$5,541,143; and thereafter, \$139,238. Over the past 5 years, reinvestment of Church Extension's investment notes has averaged 62% per year.

Interest compounded on investment notes was approximately \$4,079,000 and \$4,450,000 during 2008 and 2007, respectively. Church Extension's effective interest rate at December 31, 2008, was approximately 4.27%

The fair value of investment notes and other obligations approximated cost.

Church Extension adheres to guidelines established by the North American Securities Administrators Association (NASAA) in the statement of policy regarding church extension fund securities related to the general offering of the notes to investors. The statement of policy provides financial guidelines to states and provinces related to the selling of these notes. The guidelines require Church Extension to maintain a liquidity ratio (cash, cash equivalents, investments, and unused portions of lines of credit to outstanding investment notes) of at least 8% (with lines of credit not exceeding 2%), a capital adequacy ratio (unrestricted net assets to total assets) of at least 5%, and limits senior secured debt to a maximum of 10% of total assets. As of December 31, 2008, Church Extension is in compliance with the guideline requirements.

6. Bank Notes Payable

Church Extension has available an unsecured line of credit in the amount of \$7,000,000 which is payable on demand. There were no borrowings outstanding at December 31, 2008 and 2007. Borrowings would bear interest at the borrower's choice of the bank's prime or at a floating rate equal to 30-day LIBOR plus 175 basis points, which was 2.198% and 6.595% at December 31, 2008 and 2007, respectively.

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

7. Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

	<u>2008</u>	<u>2007</u>
New Congregation Ministry	\$ (115,926)	\$ (152,347)
New Congregation Ministry – Coaching Program	895,142	1,188,558
Annuity/life income trust agreements	599,008	621,884
	<u>\$ 1,378,224</u>	<u>\$ 1,658,095</u>

Permanently restricted net assets as of December 31 are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Annuity/life income trust agreements	<u>\$ 875,204</u>	<u>\$ 878,840</u>

8. Endowment

Church Extension’s endowment consists of approximately 25 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment Net Asset Composition by Type of Fund as of December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ –	\$ 592,990	\$ 855,101	\$ 1,448,091
Board-designated endowment funds	1,403,746	–	–	1,403,746
Total funds	<u>\$ 1,403,746</u>	<u>\$ 592,990</u>	<u>\$ 855,101</u>	<u>\$ 2,851,837</u>

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

8. Endowment (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 584,653	\$ 851,379	\$ 1,436,032
Board-designated endowment funds	1,782,249	-	-	1,782,249
Total funds	<u>\$ 1,782,249</u>	<u>\$ 584,653</u>	<u>\$ 851,379</u>	<u>\$ 3,218,281</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, at December 31, 2007	\$ 1,782,249	\$ 584,653	\$ 851,379	\$ 3,218,281
Investment return:				
Investment income	78,616	28,581	40,803	148,000
Net depreciation (realized and unrealized)	(617,638)	-	-	(617,638)
Total investment return	<u>(539,022)</u>	<u>28,581</u>	<u>40,803</u>	<u>(469,638)</u>
Contributions	238,199	3,534	100	241,833
Appropriation of endowment assets for expenditure	<u>(77,680)</u>	<u>(23,778)</u>	<u>(37,181)</u>	<u>(138,639)</u>
Endowment net assets, at December 31, 2008	<u>\$ 1,403,746</u>	<u>\$ 592,990</u>	<u>\$ 855,101</u>	<u>\$ 2,851,837</u>

9. Related Parties

Church Extension provides services, makes loans, and sells investment obligations to certain units of the Christian Church (Disciples of Christ) with which its officers and Board of Directors are affiliated. These transactions are in the normal course of business and on the same terms, including interest rates and collateral, as those available to others.

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

9. Related Parties (continued)

Electronic data processing services for various units of the Christian Church are provided by Discipledata, Inc. (DDI), a for-profit cooperative. An officer of Church Extension is currently a member of the Board of Directors of DDI. Church Extension purchases data processing services from DDI at rates and terms comparable with those available to other customers of DDI. Data processing expenses were \$442,305, \$438,855, and \$398,207 for 2008, 2007, and 2006, respectively.

As of December 31, 2008 and 2007, Church Extension had approximately \$9,492,430 and \$9,468,570, respectively, of investment notes held by Christian Church Foundation. As of December 31, 2008 and 2007, Church Extension has invested \$9,411,731 and \$8,056,349, respectively, in pooled investment funds of Christian Church Foundation, which have a fair value of \$7,300,118 and \$9,128,437, respectively.

Church Extension leases its primary office space from a related unit of the Christian Church. Office space occupancy costs expensed were \$258,290, \$250,940, and \$242,726 in 2008, 2007, and 2006, respectively. Minimum lease payments at December 31, 2008, are; 2009, \$184,115; 2010, \$184,115; 2011, \$184,115; 2012, \$194,786; 2013, \$205,457; and thereafter, \$533,899.

10. Retirement Benefits

Church Extension participates in a noncontributory, trustee retirement plan provided by the Pension Fund of the Christian Church (Disciples of Christ) which covers substantially all employees of Church Extension. Payments to the plan are based upon a fixed percentage of participants' salaries and are actuarially determined to provide adequate funding for benefits defined in the plan. No liability exists under the plan for past service costs. The amounts charged to expense (which were equal to the payments made to the plan) were \$342,463, \$340,048, and \$308,828 in 2008, 2007, and 2006, respectively.

Board of Church Extension of Disciples of Christ, Inc.

Notes to Financial Statements (continued)

10. Retirement Benefits (continued)

Church Extension also sponsors a defined-benefit health care plan that provides postretirement medical benefits to certain retirees who, at the time of their retirement, met the then-existing eligibility requirements. No other retirees or current employees are (or will be) eligible for benefits under the plan. The plan limits the amount of annual benefits payable to the eligible retirees. In 2008, 2007, and 2006, Church Extension paid benefits under the plan of \$31,751, \$34,664, and \$33,320, respectively. Expense recognized of \$10,698, \$18,148, and \$18,591 in 2008, 2007, and 2006, respectively, principally represents interest expense accreted on the liability. Church Extension has recorded a benefit obligation of \$260,055 and \$281,108 at December 31, 2008 and 2007, respectively.

11. Third-Party Financing Arrangement

Church Extension has established a financing arrangement with a commercial bank to facilitate the extension of loans which exceed Church Extension's policy limits. Under the arrangement, Church Extension establishes a trust indenture through which adjustable rate taxable and tax-exempt securities are issued, the proceeds of which are used to fund the loans. In turn, Church Extension's rights under the loans are pledged and assigned to the trust. As a consequence, Church Extension is released from all further obligations under the adjustable rate taxable securities in addition to relinquishment of any rights under the loans. Church Extension continues to act as administrator of the loans through the collection of principal and interest. During 2006, two such transactions were executed with loans and borrowings issued of \$15.2 million. Because of the legal isolation of the assets and the liabilities, neither the loans nor the investment notes are included in Church Extension's financial statements in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, as well as the American Institute of Certified Public Accountants' Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*.

Church Extension provided a guarantee to support the above loans along with a third loan in the amount of \$2.6 million. The guarantee is supported by collateral on deposit with the commercial bank. Such funds are classified as restricted investments on the statements of financial position. In accordance with Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, Church Extension records the fair value of the guarantee as a liability. Such liability is not material at December 31, 2008 and 2007. In the event a member church defaults on loan repayments, the collateral provided by Church Extension is subject to loss.