

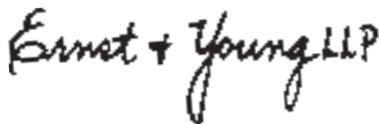
REPORT OF INDEPENDENT AUDITORS

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, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

March 11, 2008

**BOARD OF CHURCH EXTENSION
OF DISCIPLES OF CHRIST, INC.**

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2007	2006
Assets		
Cash and cash equivalents	\$ 7,133,060	\$ 2,072,858
Short-term investments	799,977	2,091,806
Restricted investments	2,600,000	2,600,000
Investment securities	10,737,968	12,091,688
Total cash and investments	21,271,005	18,856,352
Accrued interest receivable	1,163,922	1,012,567
Loans to churches, ministers and church-related organizations, net of allowance	150,016,219	150,238,407
Sundry receivables and other assets	1,688,626	1,741,899
Property and equipment:		
Leasehold improvements	118,326	118,326
Furniture and equipment	737,035	692,096
Computer software	934,388	844,195
	1,789,749	1,654,617
Less allowances for depreciation and amortization	1,520,651	1,441,625
	269,098	212,992
Total assets	\$174,408,870	\$172,062,217
Liabilities and net assets		
Investment notes and other obligations	\$145,402,865	\$143,172,380
New Church Program funds	19,698	31,895
Other liabilities	1,924,919	1,944,514
Benefit obligations	281,108	278,101
	147,628,590	145,426,890
Net assets:		
Unrestricted net assets:		
Interest free loan funds	3,750,302	3,701,782
Accessibility low interest loan funds	751,656	747,373
Memorial, named and other permanent funds	8,595,914	8,507,616
General	9,363,224	9,949,267
Total unrestricted net assets	22,461,096	22,906,038
Temporarily restricted net assets	2,913,979	2,385,082
Permanently restricted net assets	1,405,205	1,344,207
Total net assets	26,780,280	26,635,327
Total liabilities and net assets	\$174,408,870	\$172,062,217

See accompanying notes.

**BOARD OF CHURCH EXTENSION
OF DISCIPLES OF CHRIST, INC.**

STATEMENTS OF ACTIVITIES

	December 31	
	2007	2006
Income:		
Interest on loans	\$ 10,709,077	\$ 9,766,134
Interest and dividends on investments	999,303	924,694
Church Finance Council (Disciples Mission Fund)	80,817	86,818
Fees, services and other operating income	380,130	271,073
Net assets released from restrictions	991,288	828,499
	<u>13,160,615</u>	<u>11,877,218</u>
Expenses:		
Interest on investment notes and other obligations	7,358,373	6,210,298
Salaries and employee benefits	3,485,327	3,205,868
Travel	400,934	336,529
Grants	38,248	56,220
Headquarters expense	1,706,079	1,601,940
Provision for possible loan losses	84,000	84,000
New Church Ministry	412,809	348,136
	<u>13,485,770</u>	<u>11,842,991</u>
(Loss) income from operations	(325,155)	34,227
Net (loss) gain on investment securities	(262,395)	478,536
(Loss) income before gifts	<u>(587,550)</u>	<u>512,763</u>
Unrestricted gift income:		
Regional capital	1,400	1,568
Bequests, annuities and other gifts	141,208	324,104
	<u>142,608</u>	<u>325,672</u>
Total unrestricted (loss) income	<u>(444,942)</u>	<u>838,435</u>
Temporarily restricted gift and investment income	1,520,185	534,449
Net assets released from restrictions	(991,288)	(828,499)
Change in temporarily restricted net assets	528,897	(294,050)
Permanently restricted gift and investment income	60,998	89,945
Change in permanently restricted net assets	60,998	89,945
Change in total net assets	144,953	634,330
Beginning total net assets	26,635,327	26,000,997
Ending total net assets	<u>\$ 26,780,280</u>	<u>\$ 26,635,327</u>

See accompanying notes.

**BOARD OF CHURCH EXTENSION
OF DISCIPLES OF CHRIST, INC.**

STATEMENTS OF CASH FLOWS

	December 31	
	2007	2006
Operating activities		
Change in total net assets	\$ 144,953	\$ 634,330
Adjustments to reconcile change in total net assets to net cash provided by (used in) operating activities:		
Provision for possible loan losses	84,000	84,000
Depreciation and amortization	79,027	52,043
Amortization of premium, less accretion of discount on investments	(49,368)	(35,573)
Net loss (gain) on investment securities	262,395	(478,536)
Changes in operating assets and liabilities:		
Accrued interest receivable	(151,355)	(285,249)
Sundry receivable and other assets	53,273	(60,147)
New Church Program funds	(12,197)	(30,524)
Other liabilities and postretirement benefit obligation	(16,588)	22,893
Net cash provided by (used in) operating activities	394,140	(96,763)
Investing activities		
Proceeds from sale of short-term investments and investment securities	15,614,339	15,800,185
Purchases of short-term investments and investment securities	(13,181,818)	(11,370,299)
Principal collected on loans	20,451,152	17,548,811
Loan funds advanced	(20,312,964)	(28,542,851)
Purchase of property and equipment	(135,132)	(113,836)
Net cash provided by (used in) investing activities	2,435,577	(6,677,990)
Financing activities		
Borrowing on line of credit	-	6,475,000
Repayment of line of credit	-	(6,975,000)
Sales of investment notes	19,918,861	31,731,664
Redemptions of investment notes	(17,688,376)	(23,460,289)
Net cash provided by financing activities	2,230,485	7,771,375
Increase (decrease) in cash and cash equivalents	5,060,202	996,622
Cash and cash equivalents at beginning of year	2,072,858	1,076,236
Cash and cash equivalents at end of year	\$ 7,133,060	\$ 2,072,858
Interest paid	\$ 2,908,294	\$ 2,647,713

See accompanying notes.

**BOARD OF CHURCH EXTENSION
OF DISCIPLES OF CHRIST, INC.**

NOTES TO FINANCIAL STATEMENTS

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

Short-term investments, comprised of those certificates of deposit and commercial paper not classified as cash equivalents, are carried at cost which approximates fair value. Investment securities are carried at fair value as determined by quoted market prices. Certain investment securities for which quoted market prices are not available are carried at cost or established 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.

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.

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, actual loan losses are minimal. In situations where a loan loss is deemed to be imminent despite Church Extension's best efforts to avoid foreclosure, the amount due 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 is recorded on the basis of cost. Depreciation and amortization is 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.

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 other assets in the statements of financial position and as gift income within the statements of activities.

**BOARD OF CHURCH EXTENSION
OF DISCIPLES OF CHRIST**
NOTES TO FINANCIAL STATEMENTS (continued)

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, including permanent funds, 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.

New Accounting Standard

In September 2006, the Financial Accounting Standards Board issued Statement No. 157, *Fair Value Measurement*. This Statement establishes a framework for measuring fair value under generally accepted accounting principles and clarifies the definition of fair value within the framework and expands the disclosures about the use of fair value measurements. Statement 157 is effective for fiscal years beginning after November 15, 2007 and early adoption is permitted. Church Extension has not yet evaluated the effects, if any, this standard will have on its results of activities or financial position upon adoption.

2. Investment Securities

Investment securities at December 31 are summarized as follows:

2007				
	Cost or Amortized Cost	% of Total	Fair Value	% of Total
Common stocks	\$ 87,376	.96%	\$ 508,710	4.74%
Corporate bonds and notes	1,012,066	11.05	1,100,821	10.25
Pooled investment funds:				
Debt/equity securities	8,056,349	87.99	9,128,437	85.01
	\$ 9,155,791	100.00%	\$10,737,968	100.00%
Restricted investments (<i>Note 10</i>):				
Agency and corporate notes	\$ 2,593,132		\$ 2,600,000	
2006				
	Cost or Amortized Cost	% of Total	Fair Value	% of Total
Common stocks	\$ 142,435	1.41%	\$ 1,166,770	9.65%
Corporate bonds and notes	2,226,613	22.07	2,223,029	18.38
Pooled investment funds:				
Debt/equity securities	7,719,860	76.52	8,701,889	71.97
	\$ 10,088,908	100.00%	\$12,091,688	100.00%
Restricted investments (<i>Note 10</i>):				
Agency and corporate notes	\$ 2,601,827		\$ 2,600,000	

Investments restricted subject to gift agreement terms (included in pooled investment funds) totaled \$1,115,969 and \$1,119,870 at fair value at December 31, 2007 and 2006, respectively. A liability of \$1,416,679 and \$1,404,492 was also recorded related to this restricted gift at December 31, 2007 and 2006, respectively. The remaining assets associated with this gift, \$317,530 and \$315,835 at December 31, 2007 and 2006, respectively, are included in the general investments of Church Extension.

Proceeds from the sale of investment securities were \$229,339 and \$553,780 in 2007 and 2006, respectively.

**BOARD OF CHURCH EXTENSION
OF DISCIPLES OF CHRIST**
NOTES TO FINANCIAL STATEMENTS (continued)

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

	<u>2007</u>	<u>2006</u>
Realized gains on equity securities	\$ 158,877	\$ 45,630
Net realized gains (losses) on securities:		
Unrealized gains	191,092	432,906
Unrealized losses	<u>(612,364)</u>	<u>—</u>
	<u>\$ (262,395)</u>	<u>\$ 478,536</u>

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. Loans

At December 31, loans receivable consisted of the following:

	<u>2007</u>	<u>2006</u>
Mortgage loans:		
Interest bearing	\$ 148,784,293	\$ 147,994,721
Non-interest bearing	<u>1,776,787</u>	<u>2,369,579</u>
	150,561,080	150,364,300
Unsecured loans	<u>968,599</u>	<u>1,314,303</u>
	151,529,679	151,678,603
Less allowance for possible loan losses	<u>1,513,460</u>	<u>1,440,196</u>
	<u>\$ 150,016,219</u>	<u>\$ 150,238,407</u>

There were 40 and 30 loans with aggregate principal balances of \$10,500,483 and \$6,895,241 at December 31, 2007 and 2006, respectively, with payments delinquent for over 90 days. There were no loans on nonaccrual status at December 31, 2007 and 2006.

Nonperforming loans were immaterial at December 31, 2007 and 2006.

Contractual loan maturities at December 31, 2007, are: 2008, \$5,600,950; 2009, \$364,513; 2010, \$980,793; 2011, \$1,938,786; 2012, \$3,988,170 and thereafter, \$138,656,467. An interest rate adjustment for loans is performed every one to three years to reflect the current market interest rate. At December 31, 2007, Church Extension had loan commitments outstanding of approximately \$23,900,000.

The carrying value of loans approximates their fair value.

4. Investment Notes and Other Obligations

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

	<u>2007</u>	<u>2006</u>
Investment notes (payable from 180 days up to five years, interest at 2%-8%)	\$ 103,552,385	\$ 105,595,214
Demand accounts (interest at 2%-5.575%)	<u>14,847,230</u>	<u>9,031,401</u>
	118,399,615	114,626,615
Investment notes relating to loans (generally five-year maturity, interest at 2%-6.5%)	<u>13,319,804</u>	<u>15,207,884</u>
	131,719,419	129,834,499
Investment balances due affiliated Church units (interest at 0.1%-6.65%)	<u>13,683,446</u>	<u>13,337,881</u>
	<u>\$ 145,402,865</u>	<u>\$ 143,172,380</u>

Maturities of investment notes and other obligations at December 31, 2007, are: 2008, \$73,672,879; 2009, \$38,157,490; 2010, \$28,708,608; 2011, \$3,401,384; 2012, \$1,327,403 and thereafter, \$135,101. Interest paid on investment notes and other obligations approximated interest expense in 2007 and 2006.

The carrying value of investment notes and other obligations approximates their fair value.

**BOARD OF CHURCH EXTENSION
OF DISCIPLES OF CHRIST
NOTES TO FINANCIAL STATEMENTS (continued)**

5. Bank Notes Payable

Church Extension has available an unsecured line of credit in the amount of \$7,000,000, under which there were no borrowings outstanding at December 31, 2007 and 2006. 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 were 6.595% and 7.072% at December 31, 2007 and 2006, respectively.

6. Net Assets

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

	<u>2007</u>	<u>2006</u>
Site Acquisition Fund	\$ 465,014	\$ 465,014
New Congregation Ministry	638,523	741,621
New Congregation Ministry – Coaching Program	1,188,558	677,986
Annuity/life income trust agreements	621,884	500,461
	<u>\$ 2,913,979</u>	<u>\$ 2,385,082</u>

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

	<u>2007</u>	<u>2006</u>
Annuity/life income trust agreements	\$ 893,615	\$ 889,169
Memorial and named funds for New Church Ministry endowment	511,590	455,038
	<u>\$ 1,405,205</u>	<u>\$ 1,344,207</u>

7. 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.

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 others. Data processing expenses were \$438,855 and \$398,207 for 2007 and 2006, respectively.

Church Extension has an unsecured loan outstanding to the Christian Church with a net carrying value of approximately \$93,226 and \$240,789 at December 31, 2007 and 2006 respectively. The loan was paid off in its entirety in January 2008.

As of December 31, 2007 and 2006, Church Extension had approximately \$9,468,570 and \$9,444,870, respectively, of investment notes held by Christian Church Foundation. As of December 31, 2007 and 2006, Church Extension has invested \$8,056,349 and \$7,719,860, respectively, in pooled investment funds of Christian Church Foundation, which have a fair value of \$9,128,437 and \$8,701,889, respectively.

Church Extension leases its primary office space from a related unit of the Christian Church. Office space occupancy costs expensed were \$250,940, and \$242,726 in 2007 and 2006, respectively. Minimum lease payments at December 31, 2007, are; 2008, \$151,010; 2009, \$151,010; and 2010, \$81,797.

8. 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 \$340,048 and \$308,828 in 2007 and 2006, respectively.

**BOARD OF CHURCH EXTENSION
OF DISCIPLES OF CHRIST
NOTES TO FINANCIAL STATEMENTS (continued)**

Church Extension also sponsors a defined-benefit healthcare 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 2007 and 2006, Church Extension paid benefits under the plan of \$34,664 and \$33,320, respectively. Expense recognized of \$18,148 and \$18,591 in 2007 and 2006, respectively, principally represents interest expense accreted on the liability.

For measurement purposes, the weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 7% at December 31, 2007 and 2006. An 8% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for both 2007 and 2006. The rate was assumed to decrease to 7% after the first year and remain at that level thereafter. A one-percentage-point change in the assumed healthcare cost trend rate would have an immaterial effect on the postretirement benefit obligation.

9. 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 Statement of Financial Accounting Standard 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. 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, 2007 and 2006. In the event a member church defaults on loan repayments, the collateral provided by Church Extension is subject to loss.