



CONSOLIDATED FINANCIAL STATEMENTS

Presbyterian Church (U.S.A.) Foundation  
For the Years Ended March 31, 2009 and 2008  
With Report of Independent Auditors

Ernst & Young LLP

Presbyterian Church (U.S.A.) Foundation

Consolidated Financial Statements

Years Ended March 31, 2009 and 2008

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## Report of Independent Auditors

The Trustees of the  
Presbyterian Church (U.S.A.) Foundation

We have audited the accompanying consolidated statements of financial position of the Presbyterian Church (U.S.A.) Foundation, its constituent corporations and its subsidiaries (the Foundation) as of March 31, 2009 and 2008, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 the Foundation'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 the Foundation'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Presbyterian Church (U.S.A.) Foundation, its constituent corporations and its subsidiaries at March 31, 2009 and 2008, and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

September 25, 2009

Presbyterian Church (U.S.A.) Foundation  
 Consolidated Statements of Financial Position

	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,356,709	\$ 1,854,883
Investments and accrued income	<b>808,496,006</b>	1,144,283,256
Total cash and investments	<b>809,852,715</b>	1,146,138,139
Principal admissions receivable	<b>75,871</b>	179,842
Loans receivable, net of reserves	<b>95,780,220</b>	91,087,501
Property, equipment, and software, net of accumulated depreciation and amortization	<b>2,878,978</b>	3,195,164
Present value of beneficial interest in Pew Trust	<b>3,973,467</b>	6,022,688
Other assets	<b>589,142</b>	554,865
Total assets	<b>\$ 913,150,393</b>	<b>\$ 1,247,178,199</b>

	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
<b>Liabilities, funds held for benefit of others, and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,676,730	\$ 2,807,534
Gift annuity reserves	85,344,115	96,361,540
Amounts payable to Presbyterian Church (U.S.A.), a Corporation	482,288	310,631
Principal and income distributions payable	3,956,351	3,708,902
Note payable	1,187,500	1,437,500
Total liabilities	<u>93,646,984</u>	<u>104,626,107</u>
Funds held for benefit of others:		
Nonendowment funds:		
Investment funds	74,036,052	91,807,448
Loan funds	174,934,889	193,809,193
Annuity and life income plans	53,747,649	95,529,132
Other	4,364,802	5,681,258
Total nonendowment funds	<u>307,083,392</u>	<u>386,827,031</u>
Endowment funds:		
General Assembly Agencies and related institutions	387,801,544	562,538,582
Jinishian Memorial Program	23,749,802	35,895,248
Jarvie Commonweal Service	69,443,931	104,780,576
Total endowment funds	<u>480,995,277</u>	<u>703,214,406</u>
Total funds held for benefit of others	<u>788,078,669</u>	<u>1,090,041,437</u>
Total liabilities and funds held for benefit of others	<u>881,725,653</u>	<u>1,194,667,544</u>
Net assets:		
Unrestricted	7,147,301	21,729,099
Temporarily restricted	2,986,271	7,211,831
Permanently restricted	21,291,168	23,569,725
Total net assets	<u>31,424,740</u>	<u>52,510,655</u>
Total liabilities, funds held for benefit of others, and net assets	<u>\$ 913,150,393</u>	<u>\$ 1,247,178,199</u>

*See accompanying notes.*

Presbyterian Church (U.S.A.) Foundation

Consolidated Statement of Activities and Changes in Net Assets

Year Ended March 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in unrestricted net assets				
from operations:				
Revenues and gains:				
Fees recovered from managed funds	\$ 15,506,684	\$ -	\$ -	\$ 15,506,684
Investment income	1,574,926	-	-	1,574,926
Other	34,964	-	-	34,964
Total revenues and gains	17,116,574	-	-	17,116,574
Expenses:				
Marketing and development	5,128,061	-	-	5,128,061
Investment management	4,515,779	-	-	4,515,779
Management and administrative	8,987,148	-	-	8,987,148
Total expenses	18,630,988	-	-	18,630,988
Excess of expenses over revenues from operations	(1,514,414)	-	-	(1,514,414)
Nonoperating increases (decreases) in net assets:				
Contributions	233,893	142,307	10,501	386,701
Gift annuity self insurance fee	496,133	-	-	496,133
Investment income – Board restricted	505,320	67,544	-	572,864
Net loss on investments	(6,774,368)	(3,644,934)	-	(10,419,302)
Change in value of beneficial interest:				
Life income plans	-	(123,450)	(225,418)	(348,868)
Trusts held by others	-	-	(2,049,221)	(2,049,221)
Effective portion – hedge intrinsic value	33,098	-	-	33,098
Distribution of restricted funds	-	(673,512)	-	(673,512)
Gift annuity exhausted contract expense	(269,394)	-	-	(269,394)
Contribution to Gift Annuity Reserve	(7,300,000)	-	-	(7,300,000)
Net assets released from restriction	7,934	6,485	(14,419)	-
Total nonoperating decrease in net assets	(13,067,384)	(4,225,560)	(2,278,557)	(19,571,501)
Decrease in net assets	(14,581,798)	(4,225,560)	(2,278,557)	(21,085,915)
Net assets at beginning of period	21,729,099	7,211,831	23,569,725	52,510,655
Net assets at end of period	\$ 7,147,301	\$ 2,986,271	\$ 21,291,168	\$ 31,424,740

See accompanying notes.

Presbyterian Church (U.S.A.) Foundation

Consolidated Statement of Activities and Changes in Net Assets

Year Ended March 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Changes in unrestricted net assets				
from operations:				
Revenues and gains:				
Fees recovered from managed funds	\$ 19,645,145	\$ –	\$ –	\$ 19,645,145
Investment income	1,693,530	–	–	1,693,530
Other	101,910	–	–	101,910
Net assets released from restriction	2,760	–	–	2,760
Total revenues and gains	21,443,345	–	–	21,443,345
Expenses:				
Marketing and development	5,553,081	–	–	5,553,081
Investment management	5,663,776	–	–	5,663,776
Management and administrative	8,708,788	–	–	8,708,788
Total expenses	19,925,645	–	–	19,925,645
Excess of revenues over expenses				
from operations	1,517,700	–	–	1,517,700
Nonoperating increases (decreases)				
in net assets:				
Contributions	33,460	433,931	829,624	1,297,015
Gift annuity self insurance fee	47,954	–	–	47,954
Investment income – Board restricted	105,981	155,603	–	261,584
Net loss on investments	(926,603)	(1,811,076)	–	(2,737,679)
Change in value of beneficial interest:				
Life income plans	–	(41,789)	(35,411)	(77,200)
Trusts held by others	–	–	(386,269)	(386,269)
Effective portion – hedge intrinsic value	36,467	–	–	36,467
Reclassification of board restricted fund	3,036,243	–	–	3,036,243
Distribution of restricted funds	–	(682,521)	–	(682,521)
Gift annuity exhausted contract expense	(100,978)	–	–	(100,978)
Net assets released from restriction	–	(2,760)	–	(2,760)
Total nonoperating (decrease) increase in net assets	2,232,524	(1,948,612)	407,944	691,856
Increase (decrease) in net assets	3,750,224	(1,948,612)	407,944	2,209,556
Net assets at beginning of period	17,978,875	9,160,443	23,161,781	50,301,099
Net assets at end of period	\$ 21,729,099	\$ 7,211,831	\$ 23,569,725	\$ 52,510,655

See accompanying notes.

Presbyterian Church (U.S.A.) Foundation

Consolidated Statements of Cash Flows

	Year Ended March 31	
	2009	2008
<b>Operating activities</b>		
Change in net assets	\$ (21,085,915)	\$ 2,209,556
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	410,767	432,555
Realized and unrealized losses on investments	10,144,872	2,738,911
Contributions restricted for long-term investment	(10,501)	(829,624)
Changes in assets and liabilities:		
Investments held for others	318,466,027	75,835,504
Principal admissions receivable	103,971	129,079
Loans receivable	(4,692,719)	(1,176,170)
Other assets	(34,277)	(127,264)
Accounts payable and accrued expenses	(130,804)	279,310
Gift annuity reserves	(11,017,425)	(2,275,121)
Amounts payable to Presbyterian Church (U.S.A.), a Corporation	171,657	43,001
Principal and income distribution payable	247,449	689,561
Nonendowment funds held for benefit of others	(79,743,639)	(27,120,136)
Endowment funds held for others	(222,219,129)	(51,956,646)
Present value of beneficial interest in Pew Trust	2,049,221	386,269
Net cash used in operating activities	<u>(7,340,445)</u>	<u>(741,215)</u>
<b>Investing activities</b>		
Purchase of property and equipment	(94,581)	(144,513)
Proceeds from sale of investments	11,824,605	5,142,499
Purchases of investments	(4,648,254)	(4,673,315)
Net cash provided by investing activities	<u>7,081,770</u>	<u>324,671</u>
<b>Financing activities</b>		
Payments on note payable	(250,000)	(250,000)
Proceeds of contributions restricted for investment in endowment funds	10,501	829,624
Net cash (used in) provided by financing activities	<u>(239,499)</u>	<u>579,624</u>
Change in cash and cash equivalents	(498,174)	163,080
Cash and cash equivalents at beginning of period	1,854,883	1,691,803
Cash and cash equivalents at end of period	<u>\$ 1,356,709</u>	<u>\$ 1,854,883</u>

See accompanying notes.

# Presbyterian Church (U.S.A.) Foundation

## Notes to Consolidated Financial Statements

March 31, 2008 and Fifteen Months Ended March 31, 2007

### **1. Organization**

The Presbyterian Church (U.S.A.) Foundation (the Foundation) was originally incorporated on March 28, 1799 as the Trustees of the General Assembly of the Presbyterian Church (U.S.A.). Over the years a number of name changes and reorganizations have taken place, the most recent in 1987. The Foundation is accountable directly to the General Assembly of the Presbyterian Church (U.S.A.). The Foundation offers various plans under which donors can make gifts of cash, real estate, or securities and specify how such gifts and related income are to be used. Certain of the assets held by the Foundation related to gifts must be returned to the donors after a specified period of time. In addition, the Foundation acts as an investment manager of funds received from Presbyterian Church (U.S.A.), a Corporation (PCUSA). The Foundation controls, and is the fiduciary for certain constituent corporations related to the General Assembly of the Presbyterian Church (U.S.A.).

During 1997, the Foundation formed a subsidiary, New Covenant Trust Company, N.A. (NCTC), which is a limited purpose national trust bank chartered by the Office of the Comptroller of the Currency (the OCC) under Federal banking laws. NCTC's charter limits the activities in which it may engage to trust and other fiduciary services of the type that nationally chartered limited purpose trust banks and the trust departments of full service national banks are permitted to engage. NCTC has a separately identified department, One Compass Advisors (formerly known as The NCF Investment Department of NCTC), which is a registered investment adviser regulated by the Securities and Exchange Commission (SEC). One Compass Advisors has been appointed the investment adviser of New Covenant Funds and as such, One Compass Advisors receives investment advisory fees from New Covenant Funds. In addition, NCTC acts as trustee for all charitable trusts accepted since the beginning of 2000. NCTC also provides investment advice directly to some churches, church related institutions, individuals, and trustees of charitable and personal trusts. NCTC serves as the custodian for individual retirement accounts.

On August 2, 1999, New Covenant Funds, a registered family of mutual funds, was formed and a majority of the assets held by the Foundation were invested in these mutual funds. New Covenant Funds are regulated by the SEC and are governed by its own Board of Trustees. The activity of New Covenant Funds is not included in these consolidated statements of activities and changes in net assets. The Foundation performs shareholder services to certain shareholders of New Covenant Funds and is compensated for these services by New Covenant Funds.

In 2006, NCTC purchased all of the stock of New Covenant Funds Distributor, Inc. (NCFD) in order to distribute the New Covenant Funds and register NCTC's employees and the Foundation's employees to sell the New Covenant Funds. New Covenant Funds Distributor, Inc. is a limited purpose broker dealer, registered with the Securities and Exchange Commission, and a member of, and regulated by, the Financial Industry Regulatory Authority.

# Presbyterian Church (U.S.A.) Foundation

## Notes to Consolidated Financial Statements (continued)

### **1. Organization (continued)**

The total assets of New Covenant Funds at March 31, 2009 and 2008, were approximately \$891 million and \$1.4 billion, respectively. On behalf of itself and its fiduciary and investment management accounts, the Foundation invested \$506 million and \$771 million in New Covenant Funds at March 31, 2009 and 2008, respectively.

The Foundation is a Section 501(c)(3) organization exempt as a religious corporation. The Foundation is exempt from federal and state income taxes on related income. NCTC and NCFD are subject to federal and state income taxes. The Foundation adopted FIN 48 for the year ended March 31, 2009 and NCTC and NCFD adopted FIN 48 for the year ended March 31, 2008. The adoption of FIN 48 did not result in an adjustment to the financial statements. NCTC and NCFD currently have no unrecorded tax benefits and also have no amounts accrued for interest or penalties.

### **2. Basis of Presentation and Accounting Policies**

#### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on an accrual basis in accordance with U.S. generally accepted accounting principles.

The statements of activities and changes in net assets classify changes in net assets from operations and nonoperations. Operating activities support the daily operations of the Foundation and all organizations controlled by it, including investment management and development activities. Nonoperating activities include contributions, investment income including market valuation changes in investments in hedge funds and interests in limited partnerships, and gains and losses on investments, which are designated or restricted for purposes other than the current operations of the Foundation.

Certain costs have been allocated between the Foundation, NCTC and NCFD. All intercompany transactions and accounts have been eliminated in consolidation.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and gains and expenses during the reporting period. Actual results could differ from those estimates.

## Presbyterian Church (U.S.A.) Foundation

### Notes to Consolidated Financial Statements (continued)

#### **2. Basis of Presentation and Accounting Policies (continued)**

##### **Cash Flows Presentation**

The Foundation considers investments with a maturity of three months or less when purchased to be cash equivalents excluding those amounts held as part of the investment portfolio. The carrying amount of cash equivalents approximates fair value.

Contributions received that are donor-restricted for long-term purposes are considered financing activities in the statements of cash flows.

##### **Investments**

Investments are recorded at fair values. Investment transactions are recorded on a trade date basis. Realized gains and losses are recorded using the specific identification method of securities sold. Realized and unrealized gains and losses are reported in the consolidated statements of activities, except for the gains and losses related to investment funds held for benefit of others. Such gains and losses are credited, net of corresponding investment fees, directly to the Funds Held for Benefit of Others account (see Note 5).

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements* (Statement 157), which 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 and establishes a framework for measuring fair value. Statement 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2 *Effective Date of SFAS 157*. This FSP delays the effective date of Statement 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed in the financial statements on a recurring basis (at least annually). Statement 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Statement 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, Statement 157 does not require any new fair value measurements. Adopting Statement 157 did not have a material impact on the Foundation's financial position and results of operations.

## Presbyterian Church (U.S.A.) Foundation

### Notes to Consolidated Financial Statements (continued)

#### **2. Basis of Presentation and Accounting Policies (continued)**

Following is a description of the Foundation's valuation methodologies for assets and liabilities measured at fair value.

The Foundation has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include unobservable parameters that are applied consistently over time.

Also included in investments are hedge funds and interests in limited partnerships for which readily marketable pricing is not necessarily available. The investments may include short sales on securities and trading in future contracts, options, foreign currency contracts, other derivative instruments and private equity investments. These investments are accounted for under the equity method. The components of the individual investments within these funds are not readily determinable. The estimated fair value is based on valuations provided by the external investment managers. Foundation management believes the carrying amount of these financial instruments, approximately \$45.9 million and \$54.1 million at March 31, 2009 and 2008, respectively, is a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

As stated above, Statement 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

*Level 1* – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## Presbyterian Church (U.S.A.) Foundation

### Notes to Consolidated Financial Statements (continued)

#### 2. Basis of Presentation and Accounting Policies (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, the Foundation continues to refine its valuation methodologies. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The Foundation adopted FASB Statement No. 157 *Fair Value Measurements* as of April 1, 2008, which, among other things, establishes a hierarchal framework for disclosure and measurement of investments at fair value. The hierarchal disclosure framework prioritizes and ranks the level of market price observations used in measuring investments at fair value. Market price observations are impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observations and a lesser degree of judgment used in measuring fair value.

The following table presents the financial instruments carried at fair value as of March 31, 2009, by Statement 157 valuation hierarchy defined above (in millions):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total FMV</b>
Assets:				
Cash and short-term investments	\$ 89.4	\$ 22.2	\$ —	\$ 111.6
Stocks	49.8	—	—	49.8
Bonds	—	47.3	—	47.3
Stock mutual funds	350.1	—	—	350.1
Bond mutual funds	201.6	—	—	201.6
Investments in hedge funds and interests in limited partnerships	—	—	45.9	45.9
Real estate	—	—	1.9	1.9
Present value of beneficial interest in Pew Trust	—	—	4.0	4.0
<b>Total</b>	<b>\$ 690.9</b>	<b>\$ 69.5</b>	<b>\$ 51.8</b>	<b>\$ 812.2</b>

# Presbyterian Church (U.S.A.) Foundation

## Notes to Consolidated Financial Statements (continued)

### 2. Basis of Presentation and Accounting Policies (continued)

The following table is a roll forward of the combined balance sheet amounts for financial instruments classified by the Foundation within Level 3 of the valuation hierarchy defined above (in millions):

	<u>Investments</u>
Fair value as of March 31, 2008	\$ 62.0
Realized and unrealized losses	(12.5)
Net purchases	2.3
Fair value as of March 31, 2009	<u>\$ 51.8</u>

### Beneficial Interest in Pew Trust

The Foundation is an income beneficiary of a trust fund held by others. The Foundation has recorded as an asset the net present value of the estimated income to be received from the Pew Trust.

### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

### Benefit Costs

Pension and medical insurance costs are funded by annual contributions as determined by the Board of Pensions, a related organization of the General Assembly of the Presbyterian Church (U.S.A.).

### Foundation Operating Expenses

On a consolidated basis, the Foundation recovers the majority of its operating expenses (see Note 10) from fees charged for services rendered. Income earned from its own endowment funds is also used to fund the operating expenses.

## Presbyterian Church (U.S.A.) Foundation

### Notes to Consolidated Financial Statements (continued)

#### **2. Basis of Presentation and Accounting Policies (continued)**

##### **Loan Receivable, Net of Reserves**

Loan funds are restricted by the Boards of the Foundation or certain constituent corporations, or donors, to be used for loans and/or grants to certain entities of the Presbyterian Church (U.S.A.). The Foundation and/or one of its constituent corporations is the fiduciary owner of church loan funds totaling approximately \$95.8 million and \$91.1 million, which is net of reserves of \$2.0 million and \$2.8 million at March 31, 2009 and 2008, respectively.

The Foundation has entered into a limited power of attorney with the Presbyterian Church (U.S.A.), a Corporation to act as its agent for the disbursement of these restricted church loan funds. The church loan funds may vary in restriction as to use of the loan or type of entity that may be classified as a borrower. Loans receivable represent the portion of these loan funds that are currently funded.

The reserve recorded is available for loan charge-offs, and is based on management's evaluation of several key factors, including the current loan portfolio, current economic conditions and other pertinent information. The reserve is based on estimates, and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known.

##### **Property, Equipment, and Software**

Property, equipment, and software are stated at cost. Depreciation and amortization is computed using the straight-line method over estimated useful lives ranging from 3 to 40 years.

##### **Derivatives and Hedging**

In the normal course of business, the Foundation's revenues from shareholder services and administrative fees are exposed to the effect of changes in the stock market as they are generally based on a percentage of the amount of assets invested. The Foundation has determined that the changes in market value of the New Covenant Growth Fund correlates to changes in the daily average of the Standard & Poor's (S&P) 500 Index. During the year ended March 31, 2008, the Foundation mitigated some of its risk to large decreases in the daily average of the S&P 500 Index through the use of derivative instruments. The Foundation has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors.

Presbyterian Church (U.S.A.) Foundation

Notes to Consolidated Financial Statements (continued)

**2. Basis of Presentation and Accounting Policies (continued)**

At March 31, 2008, S&P 500 Index put spreads open were as follows:

<u>Contract Date</u>	<u>Contract Period</u>	<u>Notional Amount</u>	<u>Discount Paid (Premium Received) Upon Entering Contract</u>	<u>Value at March 31 2008</u>	<u>Upper Strike</u>	<u>Lower Strike</u>
12/15/2005	1/1/2008 – 12/31/2008	\$2,000,000	\$ 59,400	\$ 9,143	10%	30%

The notional amount represents a portion of the anticipated revenues from shareholder services and administrative fees that are derived from the shares of the New Covenant Growth Fund where the Foundation earns a shareholder services fee on the contract date. The average daily close of the S&P 500 Index for each of the respective periods listed above will be compared to the S&P 500 Index close as of the respective contract date. If there is a decrease between the upper and lower strikes, payment will be received from the swap counterparty. No payments are received for changes less than the upper strike or changes in excess of the lower strike. Payments, if any, are made in the month of January of the year following the expiration of the contract. No payments were received in 2008 or 2009.

These put spreads are treated as cash flow hedges. Over time, the unrealized gains and losses related to the effective portion of the hedges will be recorded as a non-operating increase or decrease in net assets. Amounts are reclassified into excess of revenues over expenses from operations in the same periods in which the payments affect earnings. Any ineffectiveness related to the puts is also recorded as a component of excess of revenues over expenses.

The put spreads are recorded in the fiscal year 2008 consolidated statements of financial position as investments. All put spreads expired prior to March 31, 2009.

Presbyterian Church (U.S.A.) Foundation

Notes to Consolidated Financial Statements (continued)

**3. Funds Administered by the Foundation**

*Foundation Funds* – consist of unrestricted, temporarily restricted, and permanently restricted net assets available for use in the development activities and other work of the Foundation. Contributions and related investment income restricted by donors for particular programs are reported as temporarily restricted revenue when received. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Permanently restricted funds consist of gifts or bequests, the principal of which cannot be expended. The composition of temporarily and permanently restricted assets is as follows:

	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
Temporarily restricted:		
Present value of life income plans benefiting the Foundation	\$ 153,524	\$ 276,974
Gains on permanently restricted assets	–	2,332,530
Donor advised funds	<b>2,832,747</b>	4,602,327
Total temporarily restricted net assets	<b>\$ 2,986,271</b>	<b>\$ 7,211,831</b>
Permanently restricted:		
Present value of life income plans benefiting the Foundation	\$ 532,285	\$ 788,845
Beneficial interest in Pew Trust	<b>3,973,467</b>	6,022,688
Endowment funds benefiting the Foundation	<b>16,785,416</b>	16,758,192
Total permanently restricted net assets	<b>\$ 21,291,168</b>	<b>\$ 23,569,725</b>

*Funds Held for Benefit of Others* – consist of the following:

(1) investment funds managed by the Foundation for PCUSA and other Presbyterian related entities for investment purposes and returnable to the investing entity; (2) loan funds which are discussed in Note 2; (3) annuity and life income plans which provide for income distributions or other payments to the donor or other designated beneficiaries during their lifetime and following the lifetime of the beneficiaries, the remaining balance is disbursed to a charitable beneficiary, or transferred to an endowment fund held by the Foundation for the benefit of a Presbyterian related charitable beneficiary, as designated by the donor; and (4) endowment funds, the principal of which cannot be expended, for which another entity has a beneficial interest in income. The Foundation acts as a fiduciary with respect to the endowment funds in accordance with explicit directive from the General Assembly and designation from donors.

## Presbyterian Church (U.S.A.) Foundation

### Notes to Consolidated Financial Statements (continued)

#### 4. Endowments

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In 2007, the State of Indiana adopted UPMIFA. The adoption of UPMIFA had no effect on accounting for the Foundation's endowment funds. The following disclosures are made as required by FSP FAS 117-1.

Endowment funds that benefit the Foundation consist of approximately 190 funds established for a variety of purposes. The endowment funds include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of imposed restrictions.

The Board of Trustees of the Foundation has interpreted the Indiana Uniform Management of Institutional Funds Act (INUMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of permanent endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by INUMIFA. In accordance with INUMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation.

## Presbyterian Church (U.S.A.) Foundation

### Notes to Consolidated Financial Statements (continued)

#### **4. Endowments (continued)**

The Foundation has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain purchasing power of the endowment funds. Endowment funds include those assets of restricted funds that the Foundation must hold in perpetuity or for a specific period(s) as well as board-designated funds. Under these policies, as approved by the Board of Trustees, the endowment funds are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The Foundation has a policy of annually setting the total return payout rate. The policy specifies that the payout rate will not be more than 7% of the average principal for the three years ending the prior December 31. In establishing this policy, the Foundation considers the long-term expected return on endowment assets and, as such, the payout rate may vary from year-to-year but never be greater than 7%. Accordingly, over the long term, the Foundation expects the current spending policy to allow endowment funds to grow at an average of the long term rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specific term as well as to provide additional real growth through new gifts and investment return. It is anticipated that payments will approximate the estimated sustainable rates of total return (income and a portion of capital appreciation) after inflation. This total return payout rate will be monitored to determine the effects of changing return and inflation expectations on the preservation of purchasing power and the generation of appropriate levels of spendable income and the payout rate will be reset annually.

Presbyterian Church (U.S.A.) Foundation

Notes to Consolidated Financial Statements (continued)

**4. Endowments (continued)**

At March 31, 2009, the endowment net asset composition by type of fund consisted of the following (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted funds	\$ (7,125.1)	\$ 2,986.3	\$ 21,291.2	\$ 17,152.4
Board-designated funds	9,099.5	-	-	9,099.5
Total funds	<u>\$ 1,974.4</u>	<u>\$ 2,986.3</u>	<u>\$ 21,291.2</u>	<u>\$ 26,251.9</u>

Changes in endowment net assets for the fiscal year ended March 31, 2009, consisted of the following (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 16,139.7	\$ 7,211.8	\$ 23,569.7	\$ 46,921.2
Investment loss	(4,807.3)	(3,700.8)	(2,274.6)	(10,782.7)
Contributions	233.9	142.3	10.5	386.7
Appropriation of endowment assets for expenditure	(10,477.8)	(667.0)	(14.4)	(11,159.2)
Other changes:				
Transfers to create board- designated endowment funds	885.9	-	-	885.9
Endowment net assets, end of year	<u>\$ 1,974.4</u>	<u>\$ 2,986.3</u>	<u>\$ 21,291.2</u>	<u>\$ 26,251.9</u>

In fiscal year 2009, the Foundation appropriated \$10.5 million of endowment assets for expenditure. Of this, \$7.3 million was contributed to the gift annuity pools. The gift annuity pool contribution is subject to a contribution agreement where the gift annuity pools must return the contributed amount once the market value of the pools exceeds the state required reserves. Other assets appropriated for expenditure include \$1.4 million of reserves to fund operating deficits, \$1.5 million of income distributions for operations, and \$300,000 for exhausted gift annuity contract payments.

Presbyterian Church (U.S.A.) Foundation

Notes to Consolidated Financial Statements (continued)

**4. Endowments (continued)**

The Foundation transferred \$885,934 into Board designated funds of which \$500,000 was for exhausted gift annuity contracts and \$380,000 was transferred into its reserve account.

At March 31, 2008, the endowment net asset composition by type of fund consisted of the following (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted funds	\$ 3.5	\$ 7,211.8	\$ 23,569.7	\$ 30,785.0
Board-designated funds	16,136.1	–	–	16,136.1
<b>Total funds</b>	<b>\$ 16,139.6</b>	<b>\$ 7,211.8</b>	<b>\$ 23,569.7</b>	<b>\$ 46,921.1</b>

Changes in endowment net assets for the fiscal year ended March 31, 2008, consisted of the following (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 13,283.9	\$ 9,160.4	\$ 23,161.8	\$ 45,606.1
Investment return (loss)	628.1	(1,697.2)	(421.7)	(1,490.8)
Contributions	33.5	433.9	829.6	1,297.0
Appropriation of endowment assets for expenditure	(1,550.9)	(685.3)	–	(2,236.2)
Other changes:				
Transfers to create board- designated endowment funds	3,745.1	–	–	3,745.1
<b>Endowment net assets, end of year</b>	<b>\$ 16,139.7</b>	<b>\$ 7,211.8</b>	<b>\$ 23,569.7</b>	<b>\$ 46,921.2</b>

In fiscal year 2008, the Foundation appropriated \$1.6 million of endowment assets for expenditure. The Foundation utilized \$1.5 million of income from endowment assets for operations and \$100,000 of endowment assets for exhausted gift annuity contract payments.

Presbyterian Church (U.S.A.) Foundation

Notes to Consolidated Financial Statements (continued)

**4. Endowments (continued)**

The Foundation transferred \$ 3.7 million into Board-Designated funds of which \$ 3.4 million was for exhausted gift annuity contracts and \$ 300,000 was transferred into its reserve account.

From time to time, the fair value of assets associated with endowments funds may fall below the level that the donor or INUMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature which are reported in unrestricted net assets were \$7.1 million as of March 31, 2009. These deficiencies resulted from unfavorable market fluctuations that generally occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. There were no such deficiencies as of March 31, 2008.

**5. Investments and Accrued Income**

A summary of investments and accrued income follows (in millions):

	<b>March 31, 2009</b>		<b>March 31, 2008</b>	
	<b>Cost</b>	<b>Market</b>	<b>Cost</b>	<b>Market</b>
Cash and short-term investments	\$ 110.2	\$ 110.2	\$ 98.1	\$ 98.1
Stocks	35.3	49.8	93.8	114.3
Bonds	47.1	47.3	92.2	91.5
Stock mutual funds	527.2	350.1	494.1	522.4
Bond mutual funds	247.6	201.6	269.3	259.5
Investments in hedge funds and interests in limited partnerships	53.8	45.9	52.2	54.1
Real estate	1.9	1.9	1.9	1.9
Accrued interest and dividends	1.7	1.7	2.5	2.5
<b>Total</b>	<b>\$ 1,024.8</b>	<b>\$ 808.5</b>	<b>\$ 1,104.1</b>	<b>\$ 1,144.3</b>

Presbyterian Church (U.S.A.) Foundation

Notes to Consolidated Financial Statements (continued)

**5. Investments and Accrued Income (continued)**

A summary of realized and unrealized losses on investments follows (in millions):

<b>Year Ended March 31, 2009</b>	<b>Realized Losses</b>	<b>Unrealized Losses</b>	<b>Total</b>
Gains related to:			
Foundation funds	\$ (1.6)	\$ (8.8)	\$ (10.4)
Investment funds held for benefit of others	(74.0)	(247.8)	(321.8)
Total net losses	<u>\$ (75.6)</u>	<u>\$ (256.6)</u>	<u>\$ (332.2)</u>
<b>Year Ended March 31, 2008</b>			
(Losses) gains related to:			
Foundation funds	\$ 0.5	\$ (3.2)	\$ (2.7)
Investment funds held for benefit of others	19.5	(104.4)	(84.9)
Total net (losses) gains	<u>\$ 20.0</u>	<u>\$ (107.6)</u>	<u>\$ (87.6)</u>

The Foundation's investment portfolio is diversified and monitored by management and the Investment Committee of the Board of Trustees for compliance with the Board's investment policy. The market value of the Foundation's investment portfolio is largely dependent upon changes in the securities markets.

**6. Property, Equipment, and Software**

	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
Land	\$ 149,233	\$ 149,233
Building and building improvements	3,245,833	3,245,833
Furniture and equipment	937,805	928,674
Computers, related equipment, and software	2,810,186	2,724,736
	<u>7,143,057</u>	7,048,476
Less accumulated depreciation and amortization	4,264,079	3,853,312
Property and equipment, net	<u>\$ 2,878,978</u>	<u>\$ 3,195,164</u>

# Presbyterian Church (U.S.A.) Foundation

## Notes to Consolidated Financial Statements (continued)

### 7. Benefits Data

Substantially all employees of the Foundation participate in a Church-wide multi-employer benefit plan administered by the Board of Pensions of the Presbyterian Church (U.S.A.), which provides a defined benefit pension plan, a retirement savings plan and a major medical plan. As of March 31, 2009, net assets of the pension plan available for plan benefits exceeded the actuarial value of accumulated plan benefits for all covered employee groups. However, the Foundation's portion of plan assets and accumulated benefits is not determinable. Employees contribute to the retirement savings plan at their option. Although there is no liability to the Foundation upon withdrawal from the Plans, withdrawal by other participating entities may increase amounts assessed to the Foundation and other remaining participants in future years. Management believes that any withdrawal liability will not have a material impact on the consolidated financial statements.

Foundation pension costs were approximately \$794,000 and \$814,000 and medical costs were approximately \$1,290,000 and \$1,323,000 for the years ended March 31, 2009 and 2008, respectively.

### 8. Gift Annuity Funds

A summary of gift annuity funds follows:

	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
Assets available for future payments to annuitants	<b>\$ 87,294,583</b>	\$ 112,680,822
Reserve liability	<b>(85,344,115)</b>	(96,361,540)
Balance	<b><u>\$ 1,950,468</u></b>	<u>\$ 16,319,282</u>

The liability for the reserve portion of gift annuity funds is determined by an independent actuary.

## Presbyterian Church (U.S.A.) Foundation

### Notes to Consolidated Financial Statements (continued)

#### **8. Gift Annuity Funds (continued)**

The Foundation accounts for each gift annuity contract separately. Each contract is valued individually based on the contract's ownership share of the gift annuity pool's assets. At contract termination, if the contract has excess funds, those funds are distributed from the gift annuity pool to the named charitable beneficiary in the contract. However, if a contract exhausts its funding, the Foundation is obligated to continue payments to the annuitant. These payments are funded from Foundation assets. The Board of Trustees of the Foundation has designated approximately \$3.3 million of the Foundation's net assets to fund annuity obligations of exhausted contracts.

The balance of \$1,950,468 and \$16,319,282 at March 31, 2009 and 2008, respectively, is included in the annuity and life income plans which are classified as funds held for benefit of others.

In December 2008, the Foundation elected to re-insure all New York and Hawaii gift annuity contracts with an insurance company. The reserve liability associated with these contracts was approximately \$3.0 million at the time of reinsurance. The Foundation paid the insurance company a premium of approximately \$3.1 million for the re-insurance, of which approximately \$2.2 million came from the gift annuity pool and approximately \$0.9 million came from the Foundation's assets. The market value of the assets on hand to fund certain of the New York and Hawaii charitable gift annuity contracts at the time of reinsurance was less than the premium assessed by the insurance company largely because of the unprecedented market events in 2008. Therefore, the Foundation paid a portion of the reinsurance premium from its own assets. Pursuant to the reinsurance agreement, the insurance company will pay the annuitants for the remainder of the annuitants' lives essentially fulfilling the Foundation's obligation under the charitable gift annuity contracts. In the unlikely event that the insurance company would be unable to perform, the Foundation would be responsible for making any remaining payments to the annuitants. No liability associated with these contracts is reflected on the Foundation's balance sheet or in the liability above.

Gift annuity assets are held in segregated trust accounts and are not commingled with other Foundation assets.

Presbyterian Church (U.S.A.) Foundation

Notes to Consolidated Financial Statements (continued)

**9. Note Payable**

In 2003, the Foundation signed a \$2.5 million note payable to finance the construction and expansion of its corporate offices. The note bears interest at 3.89% and is due on October 15, 2013. The note is secured by the Foundation building and property. The following is a schedule of future payments by year and in the aggregate, required under the note:

2010	\$ 250,000
2011	250,000
2012	250,000
2013	250,000
2014	187,500
Total Payments	<u>\$ 1,187,500</u>

**10. Foundation Operating Expenses**

	<b>Year Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Salary and benefits	<b>\$ 9,491,439</b>	\$ 9,919,511
Outside investment services	<b>4,563,907</b>	4,477,661
Other operating expenses	<b>4,575,642</b>	5,528,473
	<b><u>\$ 18,630,988</u></b>	<u>\$ 19,925,645</u>

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