

The Evangelical Covenant Church

Financial Statements as of and for the Years Ended
January 31, 2008 and 2007, Additional Information
for the Years Ended January 31, 2008 and 2007,
and Independent Auditors' Report

THE EVANGELICAL COVENANT CHURCH

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INDEPENDENT AUDITORS' REPORT

To the Executive Board of
The Evangelical Covenant Church
Chicago, IL

We have audited the accompanying financial statements of The Evangelical Covenant Church (the "Church") as of January 31, 2008 and 2007, and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the Church's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Church'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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of The Evangelical Covenant Church as of January 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Church's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

June 13, 2008

THE EVANGELICAL COVENANT CHURCH

STATEMENTS OF FINANCIAL POSITION AS OF JANUARY 31, 2008 AND 2007

ASSETS	2008	2007	LIABILITIES AND NET ASSETS	2008	2007
CASH	\$ 2,307,559	\$ 2,377,253	ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$ 3,181,922	\$ 2,920,835
CONTRIBUTIONS AND BEQUESTS RECEIVABLE (Note 1)	1,190,629	623,603	INSURANCE PAYABLE	2,143,434	1,972,214
NOTES AND ACCOUNTS RECEIVABLE:			NOTES PAYABLE (Note 4)	1,986,536	
Churches and other affiliates — net of allowance of \$75,000 in 2008 and \$64,807 in 2007	1,566,646	2,362,605	SUPPLEMENTAL RETIREMENT BENEFITS PAYABLE (Note 10)	242,685	247,707
Covenant institutions — net of allowance of \$0 in 2008 and \$350,000 in 2007	898,022	1,456,303	DUE TO AFFILIATES	233,094	322,975
Other	295,641	678,515	ANNUITIES (Note 11):		
Total notes and accounts receivable	2,760,309	4,497,423	Annuities payable	12,335,312	12,474,462
INVESTMENTS (Note 2)	11,128,475	10,667,047	Due to other Covenant entities	6,547,891	6,744,055
PREPAID EXPENSES AND OTHER ASSETS	337,657	180,336	Total annuities	18,883,203	19,218,517
INVESTMENTS WHOSE USE IS LIMITED (Note 2):			DEFERRED INCOME		227,523
Annuities	20,468,197	20,977,829	Total liabilities	26,670,874	24,909,771
Investments pledged	1,050,650	1,050,650	NET ASSETS:		
Total investments whose use is limited	21,518,847	22,028,479	Unrestricted	7,419,106	7,805,398
OTHER ASSETS:			Temporarily restricted (Note 9)	11,609,641	12,041,330
Real estate	2,026,953	4,150,000	Permanently restricted (Note 9)	1,699,433	1,677,980
Real estate held for sale (Note 12)	4,150,000		Total net assets	20,728,180	21,524,708
Total other assets	6,176,953	4,150,000			
INTEREST IN IRREVOCABLE TRUSTS (Note 6)	1,837,544	1,750,023			
PROPERTY AND EQUIPMENT (Note 3)	141,081	160,315			
TOTAL	\$47,399,054	\$46,434,479	TOTAL	\$47,399,054	\$46,434,479

See notes to financial statements.

THE EVANGELICAL COVENANT CHURCH

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JANUARY 31, 2008 AND 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
INCOME:								
Church giving	\$ 8,430,619	\$ -	\$ -	\$ 8,430,619	\$ 8,679,385	\$ -	\$ -	\$ 8,679,385
Fees (Note 7)	2,059,567			2,059,567	2,075,730			2,075,730
Contributions	958,515	3,781,241	5,043	4,744,799	1,338,819	3,708,585	9,506	5,056,910
Meetings and events	795,075			795,075	3,258,989			3,258,989
Bequests	1,520,781			1,520,781	761,252			761,252
Other	457,723	155,713		613,436	275,295	295,967		571,262
Investment income net of fees (Note 2)	380,108	99,321	16,410	495,839	721,529	357,821	88,710	1,168,060
Total income	14,602,388	4,036,275	21,453	18,660,116	17,110,999	4,362,373	98,216	21,571,588
NET ASSETS RELEASED FROM RESTRICTIONS	4,467,964	(4,467,964)		-	5,190,810	(5,190,810)		-
	<u>19,070,352</u>	<u>(431,689)</u>	<u>21,453</u>	<u>18,660,116</u>	<u>22,301,809</u>	<u>(828,437)</u>	<u>98,216</u>	<u>21,571,588</u>
EXPENSES:								
Meetings and events	761,172			761,172	3,148,369			3,148,369
World Missions	6,237,504			6,237,504	6,181,797			6,181,797
Church Growth and Evangelism	3,988,822			3,988,822	3,926,643			3,926,643
Christian Formation	846,034			846,034	959,091			959,091
General Administration (Note 7)	2,936,019			2,936,019	2,780,219			2,780,219
Christian Higher Education	1,140,000			1,140,000	1,118,100			1,118,100
Ordered Ministry	1,459,357			1,459,357	1,236,725			1,236,725
Compassion, Mercy & Justice	82,599			82,599				
World Relief	1,717,330			1,717,330	2,348,448			2,348,448
Resource Center	156,296			156,296	157,818			157,818
Depreciation	35,867			35,867	41,344			41,344
Interest	95,644			95,644	70,843			70,843
Total expenses	19,456,644	-	-	19,456,644	21,969,397	-	-	21,969,397
INCREASE (DECREASE) IN NET ASSETS	(386,292)	(431,689)	21,453	(796,528)	332,412	(828,437)	98,216	(397,809)
NET ASSETS — Beginning of year	7,805,398	12,041,330	1,677,980	21,524,708	7,472,986	12,869,767	1,579,764	21,922,517
NET ASSETS — End of year	\$ 7,419,106	\$ 11,609,641	\$ 1,699,433	\$ 20,728,180	\$ 7,805,398	\$ 12,041,330	\$ 1,677,980	\$ 21,524,708

See notes to financial statements.

THE EVANGELICAL COVENANT CHURCH

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JANUARY 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	\$ (796,528)	\$ (397,809)
Adjustments to reconcile decrease in net assets to net cash flows used in from operating activities:		
Depreciation	35,867	41,344
Unrealized depreciation (appreciation) on investments	218,598	(304,909)
Gain on sale of investments	(127,427)	(343,992)
Write-off of uncollectable receivable	220,879	
Contributed investments		(103,232)
Contributions restricted for investment in endowment	(5,043)	(9,506)
Loss on disposal of assets		797
Changes in assets and liabilities:		
Contributions and bequests receivable	(567,026)	327,267
Accounts receivable	452,165	51,717
Prepaid expenses and other assets	(157,321)	33,878
Interest in irrevocable trusts	(87,521)	(102,186)
Accounts payable and accrued expenses	265,008	87,028
Health insurance payable	171,220	47,667
Supplemental retirement benefits payable	(5,022)	7,616
Due to affiliates	(89,881)	21,270
Annuities payable	(139,150)	551,185
Annuities due to other Covenant entities	(1,077,742)	(444,930)
Deferred income	(227,523)	33,864
Net cash flows used in operating activities	<u>(1,916,447)</u>	<u>(502,931)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(16,633)	(1,839)
Purchases of investments	(2,405,104)	(2,192,964)
Proceeds from sale and maturity of investments	2,181,360	5,720,180
Purchase of investments restricted for annuities	(8,478,693)	(12,380,497)
Sales and maturities of investments restricted for annuities	9,919,811	12,331,057
Disbursements under notes receivable	(1,071,000)	(993,108)
Collections on notes receivable	1,752,386	1,071,901
Net cash flows provided by investing activities	<u>1,882,127</u>	<u>3,554,730</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for investment in endowment	5,043	9,506
Borrowings under line of credit	4,000,000	2,000,000
Repayment of line of credit borrowings	(4,000,000)	(2,000,000)
Repayment of note payable	(40,417)	(3,500,000)
Net cash flows used in financing activities	<u>(35,374)</u>	<u>(3,490,494)</u>
NET DECREASE IN CASH	(69,694)	(438,695)
CASH — Beginning of year	<u>2,377,253</u>	<u>2,815,948</u>
CASH — End of year	<u>\$ 2,307,559</u>	<u>\$ 2,377,253</u>
SUPPLEMENTAL CASH FLOW INFORMATION — Cash paid for interest	<u>\$ 87,691</u>	<u>\$ 91,119</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES:		
Transfer in of investments restricted for annuities	<u>\$ 675,393</u>	<u>\$ 663,402</u>
Unrealized (depreciation) appreciation on investments related to annuities due to other Covenant entities	<u>\$ (77,949)</u>	<u>\$ 533,331</u>
Gain on sale of investments related to annuities due to other Covenant entities	<u>\$ 284,134</u>	<u>\$ 103,431</u>
Transfer of real estate and assumption of related mortgage note payable	<u>\$ 2,026,953</u>	<u>\$ -</u>

See notes to financial statements.

THE EVANGELICAL COVENANT CHURCH

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JANUARY 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statements — The Evangelical Covenant Church (the “Church”) and other Covenant institutions are accountable to the Executive Board of the Covenant and the Covenant Annual Meeting. Only those funds under the Executive Board’s control that are associated with the Church activities are included in these financial statements. The financial statements exclude the accounts of member churches and regional conferences. They also exclude other Covenant institutions administered by separate Boards. These Covenant institutions are related parties of the Church as they share common control by the Executive Board.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Contributions and Bequests — Contributions and bequests are recorded at the time of notification of an unconditional promise from the donor and are classified as either Unrestricted, Temporarily Restricted (see Note 9), or Permanently Restricted (see Note 9) based upon the donor’s intent. Unrestricted net assets are primarily derived from member churches, individual donors, and fees (see Note 7). Temporarily restricted contributions are received from member churches and individual donors in support of various ministries of the Church. Funds are raised by member churches, direct mailings to individuals, and promotion of ministry opportunities through the Church’s Web site. Some donor-restricted contributions whose restrictions are met within the same fiscal year are reported as unrestricted income. Contributions and bequests receivable represent amounts expected to be collected within less than one year.

Insurance Payable — Bethany Benefit Service (BBS), an activity of the Church, administers the health, life, and long-term disability insurance of its ministers, missionaries, and staff. BBS acts in an agency capacity, collecting and remitting the benefit premiums on behalf of the participants. Amounts payable represent benefit premiums collected from participants not yet remitted to the insurance carrier at year-end.

Due to Affiliates — Due to affiliates includes amounts that the Church is holding on behalf of certain affiliates and contributions the Church has received on behalf of, but has not remitted to, affiliates as of fiscal year-end. Included in Due to affiliates and Accounts payable and accrued expense are \$359,053 and \$457,885 as of January 31, 2008 and 2007, respectively, due to Covenant institutions.

Annuity Agreements — The Church has an obligation to make payments under charitable gift annuity agreements. In accordance with various state regulations, the Church maintains separate trust funds as a reserve fund to meet the future payments under these agreements (see Note 11). Annuities payable are determined based upon the annuitants’ ages and life expectancies using rates which comply with various state requirements. A discount rate of 7% and the Annuity 2000 Mortality Table were used in the valuation of the annuity agreements. Payouts are made for the life of the annuitants at rates ranging

from 4.2% to 21.6% based on existing annuity agreements. The excess of amounts available to fund the annuities over the calculated amount of annuities payable is recorded as temporarily restricted net assets if the residual is available to the Church or as a liability if the residual is payable to other Covenant entities.

Deferred Income — Deferred income includes monies received in advance for meetings and events.

Meetings and Events — Meetings and events income and expenses include the activities of the Church's annual meeting and an annual conference held for Church pastors. Additionally, a youth conference and a multi-ethnic, intergenerational, spiritual life conference are each held every three years.

Depreciation — Property and equipment are recorded at cost and depreciated on the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings	25–50
Building improvements	15
Furniture and equipment	5–10

Income Tax Status — The Church is exempt from taxation pursuant to Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes is required.

Recently Issued Accounting Pronouncements — In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, *Fair Value Measurements*, to define fair value, establish a framework for measuring fair value, and to expand disclosures about fair value measurements. FASB Statement No. 157 is effective for fiscal years beginning after November 15, 2007, and should be applied prospectively.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure certain financial instruments at fair value that are not currently required to be measured at fair value. FASB Statement No. 159 is effective for fiscal years beginning after November 15, 2007, and should not be applied retrospectively, except as permitted for certain conditions for early adoption.

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*. FSP No. FAS 157-2 defers the effective date of FASB Statement No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis.

In June 2006, the FASB issued FASB interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting treatment for uncertainty in income taxes recognized in an organization's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in an income tax return. FIN No. 48 is effective for fiscal years beginning after December 15, 2007.

The Church is assessing the impact, if any, the application of the above standards will have on its financial statements.

2. INVESTMENTS AND INVESTMENTS WHOSE USE IS LIMITED

Investments as of January 31, 2008 and 2007, consist of the following:

	2008		2007	
	Cost	Market	Cost	Market
National Covenant Properties Certificates	\$ 3,479,063	\$ 3,479,063	\$ 2,480,389	\$ 2,480,389
Mutual funds	3,478,542	4,524,937	3,082,077	4,508,440
Pooled bond funds	2,199,038	2,239,309	2,843,927	2,766,103
Money market funds	101,832	101,832	162,115	162,115
Investment in Covenant Trust Company	<u>783,334</u>	<u>783,334</u>	<u>750,000</u>	<u>750,000</u>
Total	<u>\$ 10,041,809</u>	<u>\$ 11,128,475</u>	<u>\$ 9,318,508</u>	<u>\$ 10,667,047</u>

Investments whose use is limited as of January 31, 2008 and 2007, consist of the following:

	2008		2007	
	Cost	Market	Cost	Market
Annuities:				
Mutual funds	\$ 4,763,178	\$ 7,387,713	\$ 5,358,314	\$ 8,745,975
Pooled bond funds	1,041,300	1,085,038	273,504	272,057
U.S. government bonds	11,139,811	11,596,503	11,038,116	10,873,685
Money market funds	<u>398,943</u>	<u>398,943</u>	<u>1,086,112</u>	<u>1,086,112</u>
	17,343,232	20,468,197	17,756,046	20,977,829
Investments pledged — National Covenant Properties Certificates	<u>1,050,650</u>	<u>1,050,650</u>	<u>1,050,650</u>	<u>1,050,650</u>
Total	<u>\$ 18,393,882</u>	<u>\$ 21,518,847</u>	<u>\$ 18,806,696</u>	<u>\$ 22,028,479</u>

Investments in National Covenant Properties (NCP) Certificates bear interest at rates ranging from 3.75% to 6% and mature through 2013. The fair value of the NCP Certificates approximates their cost.

The mutual funds, money market funds, and U.S. government bonds are recorded at fair value based upon quoted prices for such marketable securities. The pooled bond funds are private bond funds which hold marketable securities. These pooled bond funds are recorded at the fair market value of the quoted prices of the individual bonds held.

Investment in Covenant Trust Company represents the Church's ownership interest in Covenant Trust Company, which is owned jointly with North Park University and Covenant Ministries of Benevolence. The cost of the Covenant Trust Company investment is the Church's best estimate of its fair value as there is not a market for Covenant Trust Company stock.

Investment income for the years ended January 31, 2008 and 2007, consists of the following:

	2008	2007
Unrestricted:		
Dividends and interest — net of investment fees	\$ 458,615	\$ 391,994
Gain on sale of investments	58,649	316,498
Unrealized (depreciation) appreciation on investments	<u>(137,156)</u>	<u>13,037</u>
Total unrestricted	<u>380,108</u>	<u>721,529</u>
Temporarily restricted (net of amounts attributable to other Covenant entities):		
Dividends and interest — net of investment fees	128,395	127,165
Gain on sale of investments	68,778	27,494
Unrealized (depreciation) appreciation on investments	<u>(97,852)</u>	<u>203,162</u>
Total temporarily restricted	<u>99,321</u>	<u>357,821</u>
Permanently restricted — unrealized appreciation on investments	<u>16,410</u>	<u>88,710</u>
Total	<u>\$ 495,839</u>	<u>\$ 1,168,060</u>

A portion of dividends and interest, and realized and unrealized gains or losses related to investments held by the Church in its Annuity Fund, is attributable to amounts ultimately due to other Covenant entities and, accordingly, is recorded as a component of Annuities — Due to Other Covenant Entities in the Statements of Financial Position. Dividends and interest, realized gains, and unrealized depreciation on investments for the year ended January 31, 2008, totaling \$530,422, \$284,134, and (\$77,949), respectively, were recorded as a component of Investments Whose Use Is Limited — Annuities and of Annuities — Due to Other Covenant Entities. Dividends and interest, realized gains, and unrealized appreciation on investments for the year ended January 31, 2007, totaling \$478,382, \$103,431, and \$533,331, respectively, were recorded as a component of Investments Whose Use Is Limited — Annuities and of Annuities — Due to Other Covenant Entities.

Fees paid for investments held and managed by Covenant Trust Company were \$79,981 and \$82,456 for the years ended January 31, 2008 and 2007, respectively.

3. PROPERTY AND EQUIPMENT

Property and equipment at January 31, 2008 and 2007, consist of the following, at cost:

	2008	2007
Administrative office:		
Land	\$ 49,000	\$ 49,000
Building and improvements	759,470	759,470
Furniture, fixtures, and vehicles	1,285,388	1,293,464
Mission stations and other	<u>15,041</u>	<u>15,041</u>
	2,108,899	2,116,975
Less accumulated depreciation	<u>(1,967,818)</u>	<u>(1,956,660)</u>
Total	<u>\$ 141,081</u>	<u>\$ 160,315</u>

4. LINE OF CREDIT AND NOTES PAYABLE

The Church has a line of credit with NCP. As of January 31, 2008 and 2007, the total line of credit was \$3,500,000 and \$2,500,000, respectively. No borrowings were outstanding under this agreement as of January 31, 2008 and 2007. During the year ended January 31, 2008, the Church acquired real estate located in Westminster, Colorado by assuming the related mortgage note payable and outstanding interest payable with NCP of \$2,026,953. As of January 31, 2008, the outstanding balance on the mortgage note payable was \$1,986,536. The mortgage note payable is due on demand and the interest rate at January 31, 2008, was 6%.

5. COMMITMENTS AND CONTINGENCIES

Guarantor of Debt — The Church is liable as joint guarantor, with the conferences, of various mortgage loans of Covenant churches. As of January 31, 2008, the outstanding principal balances on these loans totaled \$90,189,547. These loans are secured by the related properties. The Church has pledged investments totaling \$1,050,650 as security for 19 of these loans (see Note 2). The mortgage loans have maturity dates ranging from on demand through the year 2027.

Guarantor of Lease Payments — The Church has guaranteed a portion of monthly lease payments to third-party lessors for two affiliated entities. Payment by the Church is required in the event of default by either of the lessees. As of January 31, 2008, the outstanding guaranty amounts under the leases totaled \$259,683. The leases and guarantees expire in 2009. No collateral of the Church has been pledged in support of the guarantees and no funds have been disbursed by the Church as of January 31, 2008, under these guarantees.

Covenant Agreements — The Church participates in sponsoring various “Covenant Agreements” with regional church conferences. The Covenant Agreements provide support for pastor salaries and benefits at various member churches. The Church’s planned expenditures under existing Covenant Agreements are as follows:

Years Ending January 31	Amount
2009	\$ 722,924
2010	302,204
2011	80,153
2012	<u>8,917</u>
 Total	 <u>\$ 1,114,198</u>

6. BENEFICIAL INTEREST OF GIFT INSTRUMENTS

A source of funds to the Church is in the form of bequests from deceased church members and other parties. The Covenant Estate Planning Services, an affiliate of the Church, maintains information as to the estimated values of the Church’s share of trusts and other estate planning mechanisms used by donors. Estimates of value as to the underlying assets of the trusts or other arrangements rely on quoted market prices in the case of stocks and other equity and traded debt securities, appraisal value (where available) for real property, and other reasonable estimates made by the trustees for specific assets.

Amounts related to irrevocable trusts for which the Church is named as beneficiary are reflected in the statements of financial position as Interest in Irrevocable Trusts. Trusts which name the Church as beneficiary, but which allow the beneficiary to be changed to a different Church-related entity at the discretion of the grantor, are not considered irrevocable for accounting purposes and, accordingly, have not been recorded in the financial statements. The Interest in Irrevocable Trusts becomes available to the Church upon death of the grantor.

During the year ended January 31, 2008, the Church was not the beneficiary of any new irrevocable trusts. There was one new irrevocable trust during the year ended January 31, 2007, of which the Church was named a beneficiary.

7. FEES AND EXPENSE REIMBURSEMENTS

The Church charges fees for administrative and management services provided to other Covenant institutions and funds of the Church. Fees charged to related Covenant institutions and funds were \$2,059,567 and \$2,075,730 for the years ended January 31, 2008 and 2007, respectively. In addition, the Church recorded \$1,069,944 and \$1,003,216 for the years ended January 31, 2008 and 2007, respectively, as reimbursement of expenses incurred by the Church, which are reflected as a reduction of General Administration expenditures in the statements of activities.

8. PENSION TRUST FUND

The Church participates in the Covenant Pension Plan, a trustee pension plan covering full-time ministers and missionaries. Lay employees of the Church with a minimum of one year of service are covered by a pension plan administered by the Board of Benevolence. Both plans are noncontributory and provide for benefits upon retirement, normally at age 65. Pension costs include normal cost and amortization of past service costs and are funded as they are accrued.

The Church’s share of pension costs, which was charged to expense, was \$496,958 and \$500,019 for the Covenant Pension Plan and \$38,216 and \$31,250 for the pension plan administered by the Board of Benevolence for the years ended January 31, 2008 and 2007, respectively. As of January 31, 2008 and 2007, \$44,808 and \$37,306, respectively, was due from the Covenant Pension Plan for expenses paid by the Church on its behalf, which are included in accounts receivable due from Churches and Other Affiliates in the Statements of Financial Position.

As both plans cover employees of other institutions, asset and benefit information applicable to the Church is not available.

9. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those assets whose use has been limited by donors to a specific time period or purpose. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Temporarily restricted net assets at January 31, 2008 and 2007, are as follows:

	2008	2007
Kingdom Builders Frontier Friends	\$ 91,030	\$ 93,968
Friends of World Mission	408,078	325,685
World Mission	1,647,802	1,725,219
Church Growth and Evangelism	3,756,273	3,191,185
Interest in annuity agreements	1,584,994	1,759,312
Interest in irrevocable trusts	1,837,544	1,750,023
Sustaining Pastoral Excellence	960,356	1,178,042
Other	<u>1,323,564</u>	<u>2,017,896</u>
 Total	 <u>\$ 11,609,641</u>	 <u>\$ 12,041,330</u>

Permanently restricted net assets of \$1,699,433 and \$1,677,980 at January 31, 2008 and 2007, respectively, are restricted in perpetuity with income available for specific educational and church activities as designated by the donors.

10. SUPPLEMENTAL RETIREMENT BENEFITS

Based on resolutions adopted by the Executive Board of the Church, the Church provides supplemental retirement benefit payments to several former employees. The Church has accrued a liability of \$242,685 and \$247,707 at January 31, 2008 and 2007, respectively, to fund these payments. The liability is estimated based on life expectancy of former employees and a discount rate of 7% at January 31, 2008 and 2007. During the years ended January 31, 2008 and 2007, the supplemental retirement benefit payments were \$34,808 and \$33,819, respectively.

11. ANNUITY AGREEMENTS

The Church has an obligation to make payments under charitable gift annuity agreements. In accordance with various state regulations, the Church maintains separate trust funds as a reserve fund to meet the future payments under these agreements.

Annuity agreement information is as follows:

	2008	2007
Assets — investments designated for annuity agreements	<u>\$20,468,197</u>	<u>\$20,977,829</u>
Liabilities and net assets:		
Liabilities:		
Annuities payable	\$12,335,312	\$12,474,462
Due to other Covenant entities	<u>6,547,891</u>	<u>6,744,055</u>
Total liabilities	18,883,203	19,218,517
Net assets — temporarily restricted for annuity agreements	<u>1,584,994</u>	<u>1,759,312</u>
Total	<u>\$20,468,197</u>	<u>\$20,977,829</u>

12. REAL ESTATE HELD FOR SALE

Real estate held for sale at January 31, 2008 consists of the following:

Church's share of joint ownership in property located in Chicago, IL	\$ 3,500,000
Property located in Phoenix, AZ	<u>650,000</u>
Total	<u>\$ 4,150,000</u>

Subsequent to January 31, 2008, the property located in Chicago was sold and the Church's portion of the selling price was \$6,500,000, payable in two installments. Additionally, the property located in Phoenix was sold for \$2,540,000, with the net proceeds split between the Church and one of the Church conferences. The net proceeds of the Phoenix property are restricted for Church planting.

13. PRIOR-YEAR RECLASSIFICATION — TEMPORARILY RESTRICTED MEETINGS AND EVENTS INCOME

Subsequent to the issuance of the financial statements for the year ended January 31, 2007, it was determined that meetings and events income, which has historically been presented in the statement of activities as temporarily restricted income, with meetings and events expenditures in the same year being reclassified to unrestricted net assets through releases from restrictions, should have been reported directly as unrestricted income in accordance with FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As a result, the following amounts have been reclassified from the amounts previously presented in the financial statements:

	As Reclassified			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Meetings and events income	\$ 3,258,989	\$ -	\$ -	\$ 3,258,989
Total income	17,110,999	4,362,373	98,216	21,571,588
Net assets released from restrictions	5,190,810	(5,190,810)	-	-
Increase (decrease) in net assets	332,412	(828,437)	98,216	(397,809)
Net assets: beginning of year	7,472,986	12,869,767	1,579,764	21,922,517
Net assets: end of year	7,805,398	12,041,330	1,677,980	21,524,708
	As Previously Reported			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Meetings and events income	\$ 50	\$ 3,258,939	\$ -	\$ 3,258,989
Total income	13,852,060	7,621,312	98,216	21,571,588
Net assets released from restrictions	8,294,968	(8,294,968)	-	-
Increase (decrease) in net assets	177,631	(673,656)	98,216	(397,809)
Net assets: beginning of year	7,419,660	12,923,093	1,579,764	21,922,517
Net assets: end of year	7,597,291	12,249,437	1,677,980	21,524,708

14. SUBSEQUENT EVENT

Subsequent to January 31, 2008, Covenant Communication, a related party of the Church, was consolidated into the operations of the Church, effective February 1, 2008. Assets and liabilities totaling \$395,604 each were transferred to the Church.

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ADDITIONAL INFORMATION

THE EVANGELICAL COVENANT CHURCH

STATEMENTS OF ACTIVITIES — OPERATING FUND FOR THE YEARS ENDED JANUARY 31, 2008 AND 2007

	2008	2007
INCOME:		
Church giving	\$ 8,430,619	\$ 8,679,385
Fees	2,059,669	2,075,833
Other contributions	700,912	594,249
Other income	<u>6,685</u>	<u> </u>
Total income	<u>11,197,885</u>	<u>11,349,467</u>
EXPENSES:		
World Missions	4,744,164	4,560,914
Church Growth and Evangelism	2,839,125	2,883,315
General Administration	2,044,750	2,130,802
Christian Higher Education	1,140,000	1,118,100
Christian Formation	855,304	853,147
Ordered Ministry	668,032	591,659
Compassion, Mercy and Justice	<u>82,599</u>	<u> </u>
Total expenses	<u>12,373,974</u>	<u>12,137,937</u>
EXCESS OF EXPENSES OVER INCOME	(1,176,089)	(788,470)
TRANSFERS FROM OTHER FUNDS	<u>642,621</u>	<u>436,606</u>
NET OPERATING FUND DECREASE	(533,468)	(351,864)
BEGINNING-OF-YEAR DEFICIT	<u>(452,775)</u>	<u>(100,911)</u>
END-OF-YEAR DEFICIT	<u>\$ (986,243)</u>	<u>\$ (452,775)</u>