

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
(WITH INDEPENDENT AUDITORS' REPORT THEREON)
December 31, 2008 and 2007

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
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December 31, 2008 and 2007

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Presbyterian Church (U.S.A.), A Corporation

We have audited the accompanying consolidated statements of financial position of the Presbyterian Church (U.S.A.), A Corporation (the "Organization") as of December 31, 2008 and 2007 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization'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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Our audit was conducted for the purpose of forming an opinion on the 2008 basic consolidated financial statements taken as a whole. The consolidating information presented on pages 25 through 28 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual organizations. The consolidated information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 basic consolidated financial statements taken as a whole.

Crowe Horwath LLP
Crowe Horwath LLP

Louisville, Kentucky
May 7, 2009

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 6,599,515	\$ 3,601,473
Investments		
Investments and accrued income held by the Foundation	68,271,678	100,868,934
Other investments and accrued income	<u>43,857,582</u>	<u>41,901,623</u>
Total investments	112,129,260	142,770,557
Receivables		
Contributions from congregations	6,706,367	9,547,572
Mortgages and loans on churches and manses, including accrued interest, less allowance of \$20,700 and \$5,500 for 2008 and 2007, respectively	4,583,923	5,333,466
Receivables from related entities, mortgages and loans, less allowance of \$1,597,210 and \$1,330,990 for 2008 and 2007, respectively	7,023,757	7,758,361
Due from the Foundation	4,247,469	-
Other accounts receivable	<u>491,853</u>	<u>163,344</u>
Total receivables	23,053,369	22,802,743
Inventories, prepaid expenses and other assets	2,962,935	4,401,945
Property and equipment, net	27,694,203	31,989,579
Residual interest in annuity and life income funds held by the Foundation	7,040,974	10,267,689
Long-term investments held by the Foundation	261,046,515	383,173,789
Funds held in trust by others	<u>45,989,156</u>	<u>65,081,492</u>
Total assets	<u>\$ 486,515,927</u>	<u>\$ 664,089,267</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 9,379,318	\$ 8,074,449
Amounts received from congregations and designated for others	1,055,153	1,108,518
Amounts held for missionaries and committed for projects	4,785,618	5,780,997
Amounts due to other agencies	7,131,940	11,956,519
Deferred revenue	814,445	836,244
Due to the Foundation	-	2,237,728
Other	<u>476,216</u>	<u>680,534</u>
Total liabilities	23,642,690	30,674,989
Net assets		
Unrestricted		
Undesignated	12,173,762	92,851,028
Designated	<u>53,357,811</u>	<u>60,491,980</u>
Total unrestricted	65,531,573	153,343,008
Temporarily restricted	154,129,753	216,239,743
Permanently restricted	<u>243,211,911</u>	<u>263,831,527</u>
Total net assets	<u>462,873,237</u>	<u>633,414,278</u>
Total liabilities and net assets	<u>\$ 486,515,927</u>	<u>\$ 664,089,267</u>

See accompanying notes.

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended December 31, 2008 with comparative 2007 totals

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
Revenue, gains and other support					
Contributions					
Congregations	\$ 24,660,023	\$ 4,300,998	\$ -	\$ 28,961,021	\$ 31,118,592
Presbyterian Women	999,381	24,000	-	1,023,381	1,084,450
Gifts, bequests, and grants	2,107,327	4,656,711	1,551,527	8,315,565	8,772,647
Special giving and special offering	-	27,136,861	-	27,136,861	28,484,256
Total contributions	<u>27,766,731</u>	<u>36,118,570</u>	<u>1,551,527</u>	<u>65,436,828</u>	<u>69,459,945</u>
Income from endowment funds					
held by the Foundation	4,280,086	3,688,857	201,014	8,169,957	8,241,882
Income on investments	393,454	1,267,010	136,971	1,797,435	3,444,868
Income from funds held by others	1,198,222	155,471	-	1,353,693	1,028,210
Realized and unrealized (losses) gains					
on investments, net	(61,875,607)	(60,981,548)	(20,527,470)	(143,384,625)	21,417,141
Interest income from loans	72,925	131,050	206,859	410,834	372,472
Change in value of beneficial interest					
in life income funds	-	(1,053,421)	(2,173,294)	(3,226,715)	(505,882)
Hubbard Press	1,672,872	-	-	1,672,872	1,671,890
Sales of resources and services	17,198,118	598,595	-	17,796,713	20,105,256
Other	1,285,098	1,077,800	(15,223)	2,347,675	1,505,118
Net assets released from restrictions	(8,008,101)	(18,997,616)	(20,619,616)	(47,625,333)	126,740,900
Total revenue, gains, and other support	<u>52,258,993</u>	<u>(52,258,993)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	44,250,892	(71,256,609)	(20,619,616)	(47,625,333)	126,740,900
Expenses					
Programs					
Executive Administrator	2,106,137	-	-	2,106,137	1,620,567
Communication and Fund					
Development	8,204,921	-	-	8,204,921	7,415,622
Mission	63,548,940	-	-	63,548,940	67,012,042
Shared Services	10,013,919	-	-	10,013,919	10,151,192
Office of the General Assembly	12,937,716	-	-	12,937,716	10,496,542
General Assembly Council	2,358,431	-	-	2,358,431	2,617,743
Presbyterian Historical Council	429,016	-	-	429,016	556,905
Conference Center - Ghost Ranch	5,413,316	-	-	5,413,316	5,570,946
Conference Center - Stony Point	2,023,287	-	-	2,023,287	1,826,872
Church and Student Loans	67,754	-	-	67,754	-
Hubbard Press	1,807,533	-	-	1,807,533	1,409,281
Related Bodies and Other					
Programs	6,466,678	-	-	6,466,678	6,716,600
Total Programs	<u>115,377,648</u>	<u>-</u>	<u>-</u>	<u>115,377,648</u>	<u>115,394,312</u>
General and administrative					
Shared	3,282,523	-	-	3,282,523	3,301,870
Other	4,255,537	-	-	4,255,537	3,369,458
Total general and administrative	<u>7,538,060</u>	<u>-</u>	<u>-</u>	<u>7,538,060</u>	<u>6,671,328</u>
Total expenses	<u>122,915,708</u>	<u>-</u>	<u>-</u>	<u>122,915,708</u>	<u>122,065,640</u>
Change in net assets before transfer	(78,664,816)	(71,256,609)	(20,619,616)	(170,541,041)	4,675,260
Transfers for endowment funds					
with deficiencies	(9,146,619)	9,146,619	-	-	-
Change in net assets	(87,811,435)	(62,109,990)	(20,619,616)	(170,541,041)	4,675,260
Net assets at beginning of year	<u>153,343,008</u>	<u>216,239,743</u>	<u>263,831,527</u>	<u>633,414,278</u>	<u>628,739,018</u>
Net assets at end of year	<u>\$ 65,531,573</u>	<u>\$154,129,753</u>	<u>\$243,211,911</u>	<u>\$ 462,873,237</u>	<u>\$ 633,414,278</u>

See accompanying notes.

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, gains, and other support				
Contributions				
Congregations	\$ 26,326,980	\$ 4,791,612	\$ -	\$ 31,118,592
Presbyterian Women	1,042,450	42,000	-	1,084,450
Gifts, bequests, and grants	3,903,043	3,010,351	1,859,253	8,772,647
Special giving and special offering	<u>43,737</u>	<u>28,440,519</u>	<u>-</u>	<u>28,484,256</u>
Total contributions	31,316,210	36,284,482	1,859,253	69,459,945
Income from endowment funds				
held by the Foundation	4,032,366	3,991,701	217,815	8,241,882
Income on investments	1,706,333	1,599,170	139,365	3,444,868
Income from funds held by others	872,309	155,901	-	1,028,210
Realized and unrealized gains on investments, net	6,947,269	9,417,576	5,052,296	21,417,141
Interest income from loans	71,742	98,029	202,701	372,472
Change in value of beneficial interest in life income funds	-	(395,025)	(110,857)	(505,882)
Hubbard Press	1,671,890	-	-	1,671,890
Sales of resources and services	19,438,904	666,352	-	20,105,256
Other	<u>1,257,784</u>	<u>245,534</u>	<u>1,800</u>	<u>1,505,118</u>
	67,314,807	52,063,720	7,362,373	126,740,900
Net assets released from restrictions	<u>52,959,904</u>	<u>(52,959,904)</u>	<u>-</u>	<u>-</u>
Total revenue, gains, and other support	<u>120,274,711</u>	<u>(896,184)</u>	<u>7,362,373</u>	<u>126,740,900</u>
Expenses				
Programs				
Executive Administrator	1,620,567	-	-	1,620,567
Communication and Fund Development	7,415,622	-	-	7,415,622
Mission	67,012,042	-	-	67,012,042
Shared Services	10,151,192	-	-	10,151,192
Office of the General Assembly	10,496,542	-	-	10,496,542
General Assembly Council	2,617,743	-	-	2,617,743
Presbyterian Historical Council	556,905	-	-	556,905
Conference Center - Ghost Ranch	5,570,946	-	-	5,570,946
Conference Center - Stony Point	1,826,872	-	-	1,826,872
Hubbard Press	1,409,281	-	-	1,409,281
Related Bodies and Other Programs	<u>6,716,600</u>	<u>-</u>	<u>-</u>	<u>6,716,600</u>
	115,394,312	-	-	115,394,312
General and administrative				
Shared	3,301,870	-	-	3,301,870
Other	<u>3,369,458</u>	<u>-</u>	<u>-</u>	<u>3,369,458</u>
	6,671,328	-	-	6,671,328
Total expenses	<u>122,065,640</u>	<u>-</u>	<u>-</u>	<u>122,065,640</u>
Change in net assets	(1,790,929)	(896,184)	7,362,373	4,675,260
Net assets beginning of year	<u>155,133,937</u>	<u>217,135,927</u>	<u>256,469,154</u>	<u>628,739,018</u>
Net assets end of year	<u>\$ 153,343,008</u>	<u>\$ 216,239,743</u>	<u>\$ 263,831,527</u>	<u>\$ 633,414,278</u>

See accompanying notes.

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets	\$ (170,541,041)	\$ 4,675,260
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	3,726,559	3,473,839
Net recoveries for losses on church loans	15,200	(2,500)
Contributions and revolving loan fund investment earnings restricted for long-term investment	(2,081,148)	(2,392,966)
Realized and unrealized losses (gains) on investments, net	143,384,625	(21,417,141)
Change in market value of annuity and life income funds	2,530,822	(499,981)
Loss on disposal of property	2,852,427	671,111
Additions to annuity and life income funds	(39,250)	(125,939)
Changes in operating assets and liabilities		
Contributions from congregations	2,841,205	(309,513)
Due from the Foundation	(6,485,197)	13,570,671
Other accounts receivable	(328,509)	824,932
Inventories, prepaid expenses and other assets	1,439,010	(818,904)
Accounts payable and accrued expenses	1,304,869	(451,602)
Amounts received from congregations and other liabilities	(1,253,062)	(279,650)
Amounts due to other agencies	(4,824,579)	1,463,280
Deferred revenue	(21,799)	(96,563)
Net cash from operating activities	<u>(27,479,868)</u>	<u>(1,715,666)</u>
Cash flows from investing activities		
Purchases of investments	(174,954,071)	(177,147,336)
Sales of investments	203,430,353	171,898,470
New church loans issued	-	(844,150)
Payments received on church loans	730,677	486,913
Change in accrued interest receivable on church loans	3,666	(2,795)
Net change in receivables from related entities, mortgages and loans	734,604	592,817
Acquisition of property and equipment	<u>(2,283,610)</u>	<u>(1,743,813)</u>
Net cash from investing activities	27,661,619	(6,759,894)
Cash flows from financing activities		
Contributions and revolving loan fund investment earnings restricted for long-term investment	2,081,148	2,392,966
Maturities of annuity and life income funds	<u>735,143</u>	<u>1,131,802</u>
Net cash from financing activities	<u>2,816,291</u>	<u>3,524,768</u>
Net increase (decrease) in cash and cash equivalents	2,998,042	(4,950,792)
Cash and cash equivalents at beginning of year	<u>3,601,473</u>	<u>8,552,265</u>
Cash and cash equivalents at end of year	<u>\$ 6,599,515</u>	<u>\$ 3,601,473</u>

See accompanying notes.

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

The Presbyterian Church (U.S.A.), (“PCUSA”) is an unincorporated body of Reformed Christians, who have agreed to conduct worship and other religious activities in conformity with the then current version of the Presbyterian Church (U.S.A.) Constitution, which contains among other things, in its Book of Order, a Form of Government setting forth a detailed formal structure of the Church. As an ecclesiastical organization, PCUSA does not exist under any federal law. Central to the structure of PCUSA is the concept of governing bodies. At the national level, the governing body is the General Assembly. The ecclesiastical work of the PCUSA at the General Assembly level is carried out by a number of ministry units and related agencies.

Presbyterian Church (U.S.A.), A Corporation (“PCUSA, A Corporation”) is a corporate entity of the General Assembly of PCUSA, and is the principal corporation of the General Assembly. All voting members of the General Assembly Council are members of the Board of Directors of PCUSA, A Corporation. PCUSA, A Corporation receives and holds title to property and income at the General Assembly level related to mission activities; generally maintains and manages all real and tangible property, including the insuring of such property; effects short-term investment of funds prior to either their disbursement or transfer to the Presbyterian Church (U.S.A.) Foundation (the “Foundation”) for longer-term investment; acts as the disbursing agent for all funds held for the General Assembly and for other governing bodies and entities upon their request; and provides accounting, reporting and other financial and related services as the General Assembly or General Assembly Council may direct or approve.

PCUSA, A Corporation is a tax-exempt religious corporation under Internal Revenue Code Section 501(c)(3).

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated financial statements reflect the consolidated operations of PCUSA, A Corporation and its constituent corporations, which are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The constituent corporations of PCUSA, A Corporation are the following: General Assembly Mission Board of the Presbyterian Church (U.S.A.); The Historical Foundation of the Presbyterian and Reformed Churches, Inc.; The Hubbard Press; Pedco, Inc.; The Presbyterian Historical Society, Inc.; Presbyterian Life, Inc.; Presbyterian Publishing House of the Presbyterian Church (U.S.A.), Inc.; The Commission on Ecumenical Mission and Relations of the Presbyterian Church (U.S.A.) (formerly known as Commission on Ecumenical Mission and Relations of the United Presbyterian Church in the United States of America) a New York corporation; Board of Foreign Missions of the Presbyterian Church (U.S.A.); and The Woman’s Board of Foreign Missions of the Presbyterian Church (U.S.A.), a New York nonprofit corporation.

(Continued)

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

In order to ensure the observance of limitations and restrictions placed on the use of available resources, PCUSA, A Corporation maintains its financial accounts in accordance with the principles and practices of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds established in accordance with their nature or purpose.

For external reporting purposes, however, PCUSA, A Corporation's financial statements have been prepared to focus on the organization as a whole and to present balances and transactions classified in accordance with the existence or absence of donor-imposed restrictions. Net assets and related activity are classified as unrestricted, temporarily restricted and permanently restricted as follows:

- Unrestricted Undesignated - net assets that are not subject to donor-imposed restrictions. Unrestricted undesignated net assets consist of the accumulation of certain contributions, gifts, bequests, and related income thereon, which are available for general church purposes.
- Unrestricted Designated - net assets that are not subject to donor-imposed restrictions. Unrestricted designated net assets consist of the accumulation of certain contributions, gifts, bequests, and related income thereon that have been designated for specific purposes by the General Assembly Council of the General Assembly.
- Temporarily Restricted - net assets that are subject to donor-imposed restrictions that may or will be met either by actions of PCUSA, A Corporation or the passage of time. Temporarily restricted net assets primarily consist of contributions and related investment income.
- Permanently Restricted - net assets that are subject to donor-imposed restrictions to be maintained permanently by PCUSA, A Corporation. Generally, the donors of these assets permit PCUSA, A Corporation to use all or part of the income earned on related investments for general or specific purposes. Permanently restricted net assets consist primarily of endowment funds and revolving loan funds.

Cash Equivalents: For purposes of reporting cash flows, PCUSA, A Corporation considers investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments: Investments are recorded at fair value based on quoted market prices. Investment transactions are recorded on a trade-date basis. Realized gains and losses are recorded using the specific identification of securities sold on funds held by the Foundation and using the historical cost of securities sold on funds held by other investment managers.

The trustee believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of December 31, 2008 and 2007. Since alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

(Continued)

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Long-term investments held by the Foundation represent General Assembly endowment funds, which are generally not available for immediate use.

Contributions from Congregations: Contributions from congregations include amounts in-transit at year-end.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level considered by management to be adequate to provide for loan losses inherent in the loan portfolio. Management determines the adequacy of the allowance based upon reviews of payment history, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and such other factors, which in management's judgment deserve current recognition in estimating loan losses. The allowance for loan losses is increased by the provision for loan losses and reduced by net loan charge-offs.

Annuity and Life Income Funds: PCUSA, A Corporation is an income beneficiary of trust funds held by the Foundation. In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, PCUSA, A Corporation has recorded as an asset the net present value of the future income to be received from the funds.

Inventories: Inventories represent books, periodicals, and curriculum produced by PCUSA, A Corporation for distribution. These items are stated at average cost.

Property and Equipment: Property and equipment consists principally of the PCUSA, A Corporation headquarters building and related land and equipment, and domestic properties used for mission work, cemeteries, undeveloped land and property held for disposition.

The PCUSA, A Corporation headquarters building and related land and equipment are stated at cost, or fair value at the date of donation, if donated. The domestic properties used for mission work, cemeteries, racial ethnic schools, undeveloped land and other properties are recorded based on fair value at date of donation, appraisal value or replacement cost. Expenditures of greater than \$5,000 which increase values or extend the useful lives of the respective assets are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

PCUSA, A Corporation holds title to various other foreign properties. Such properties include properties used for mission work, cemeteries, undeveloped land and property held for disposition. Shared Services has administrative responsibility for property taxes, insurance, maintenance and improvements for these properties. Generally, it is PCUSA, A Corporation's policy to exclude the cost or donated value of foreign properties from its financial records.

(Continued)

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Deferred Revenue: PCUSA, A Corporation holds special events each year. Monies received to support future special events are recorded as deferred revenue.

Collections: PCUSA, A Corporation's collections consist of works of art, ecclesiastical objects and papers, historical treasures, scientific specimens and other assets. The collections, which were acquired through purchases and contributions since PCUSA, A Corporation's inception, are not recognized as assets on the consolidated statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the consolidated financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The more significant estimates made relate to the valuation of mortgages, loans, and contributions receivable and valuation of investments. Actual results could differ from those estimates.

Income Taxes: PCUSA, A Corporation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income taxes have been provided in the accompanying financial statements.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), issued July 2006, was effective as of January 1, 2007. The Corporation has elected to defer adoption of FIN 48, in accordance with the provisions of FASB Staff Position No. FIN 48-3, which permits certain nonpublic enterprises to delay adoption until fiscal years beginning after December 15, 2008. Upon adoption of FIN 48, the Corporation will recognize a tax benefit only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Currently, the Corporation accounts for contingencies associated with certain tax positions in accordance with SFAS No. 5, *Accounting for Contingencies*, which provides the recording of a contingency based on the probability of certain events to transpire that range from probable to remote as opposed to applying a more-likely-than-not recognition threshold.

(Continued)

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standard: In 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, provides enhanced guidance for using fair value to measure assets and liabilities under current U.S. GAAP standards and expands the disclosure of the methods used and the effect of fair value measurements on earnings. This Standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Company adopted applicable portions of this standard for the year ended December 31, 2008.

NOTE 3 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets at December 31, 2008 and 2007 are available for the following purposes:

	<u>2008</u>		<u>2007</u>	
	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Permanently Restricted Net Assets</u>
Church loans	\$ 2,022,045	\$ 17,369,859	\$ 2,154,338	\$ 18,371,975
Jinishian Memorial Program	16,712,812	9,633,734	33,823,576	9,594,927
Education	18,953,974	16,350,844	27,369,661	15,931,574
Mission work	16,634,237	3,630,961	20,445,172	3,537,856
Presbyterian disaster assistance	18,432,734	-	22,306,794	-
Evangelism and church growth	16,950,578	5,134,378	20,974,052	5,002,723
Health	13,145,084	9,967,122	18,335,374	9,711,546
Missionary support	32,684,232	11,813,588	43,717,845	11,515,228
Christian education	10,356,909	11,303,782	15,261,725	11,027,590
Peace making/Justice	1,498,854	66,222	2,204,178	64,524
Hunger	1,117,888	318,476	1,384,023	310,310
Outside trusts/Life income funds	1,888,977	51,141,153	2,942,398	72,314,008
Racial ethnic	167,756	172,967	142,567	168,532
Women	647,986	79,600	713,041	77,559
Historical Foundation/Per capita	1,145,524	782,632	1,711,687	782,632
General endowments	-	104,780,563	-	104,771,589
Other	<u>1,770,163</u>	<u>666,030</u>	<u>2,753,312</u>	<u>648,954</u>
	<u>\$ 154,129,753</u>	<u>\$ 243,211,911</u>	<u>\$ 216,239,743</u>	<u>\$ 263,831,527</u>

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PRESBYTERIAN CHURCH (U.S.A.),
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NOTE 3 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Net assets released from restrictions during the year ended December 31, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
Jinishian Memorial Program	\$ 2,101,733	\$ 2,309,955
Education	4,257,469	4,019,848
Mission work	9,853,292	9,303,353
Evangelism and church growth	4,491,288	4,240,617
Health	2,996,113	2,828,892
Missionary support	7,138,727	6,740,295
Christian education	3,096,528	2,923,702
Peace making/Justice	1,315,792	1,242,354
Hunger	3,152,335	3,820,472
Presbyterian disaster assistance	11,102,847	12,662,113
Self development of people	<u>2,752,869</u>	<u>2,868,303</u>
	<u>\$ 52,258,993</u>	<u>\$ 52,959,904</u>

NOTE 4 - INVESTMENTS

Investments, including long-term investments, are primarily held in common funds managed by the Foundation on behalf of PCUSA, A Corporation. A summary of PCUSA, A Corporation's ownership of the investments held at December 31, 2008 and 2007 is as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term investments	\$ 46,440,773	\$ 46,440,773	\$ 66,665,040	\$ 66,665,040
Deposits	3,975,914	3,975,914	4,368,471	4,368,471
Stocks	93,127	19,126,554	108,782	24,935,318
Bonds	34,603,767	34,083,583	25,560,837	25,746,412
Stock mutual funds	209,935,388	153,451,033	244,990,368	259,594,242
Bond mutual funds	106,663,280	81,379,106	106,186,750	111,496,873
Alternative investments	<u>47,734,726</u>	<u>34,718,812</u>	<u>30,619,712</u>	<u>33,137,990</u>
Total investments	<u>\$ 449,446,975</u>	<u>\$ 373,175,775</u>	<u>\$ 478,499,960</u>	<u>\$ 525,944,346</u>

Income received by PCUSA, A Corporation from the Foundation is net of outside investment managers, custodian and Foundation administrative fees.

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NOTE 5 - FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others represent resources neither in the possession nor under the control of PCUSA, A Corporation, but held and administered by outside trustees, with PCUSA, A Corporation deriving only income from such funds. Such investments are recorded in the consolidated statement of financial position at the fair value of the principal amounts, which represents the estimated present value of the expected future cash flows, and the income, including fair value adjustments, is recorded in the consolidated statement of activities and changes in net assets.

NOTE 6 - DONOR RESTRICTED ENDOWMENT FUNDS

Interpretation of Relevant Law: PCUSA, A Corporation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment.

Unrestricted Net Assets and Restricted Net Assets: PCUSA, A Corporation has a spending formula agreement with the Foundation whereby PCUSA, A Corporation receives investment income from unrestricted and restricted endowments held by the Foundation on behalf of the General Assembly for mission use.

For the calendar years 2008 and 2007, the distribution of income was 5% of the average annual fair value based on the 20-quarter rolling average as of June 30, 2006 and 2005, respectively (an eighteen-month lag).

Payments for calendar years 2007, 2008, and subsequent years will use the same eighteen-month lag. It is anticipated that payments will approximate the estimated sustainable rates of total return (income and a portion of capital appreciation) after inflation. This formula 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.

Investment Policies: The Trustees of the Presbyterian Church (U.S.A.) Foundation are charged with the responsibility of managing the endowment assets of the PCUSA, A Corporation. The overall goal in management of these funds is to generate a long-term total rate of return that provides sustainable distributions to support the mission within reasonable levels of risk.

The Trustees adhere to modern portfolio theory, which has, as its basis, risk reduction through diversification. Diversification is obtained through the use of multiple asset classes as well as multiple investments within these asset classes. Asset classes that may be used include (but are not limited to) domestic and international stocks and bonds, hedge funds, private equity (venture capital and corporate finance), and real property (real estate, minerals, and timber). The investment strategy is implemented through the selection of external advisors and managers with expertise and successful histories in the management of specific asset classes.

(Continued)

PRESBYTERIAN CHURCH (U.S.A.),
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NOTE 6 - DONOR RESTRICTED ENDOWMENT FUNDS (Continued)

The Trustees believe their role is one of setting and reviewing policy and retaining, monitoring, and evaluating advisors and investment managers. It is the Trustees' desire to find ways to invest these funds in accordance with the social witness principles of PCUSA. The Trustees will review the investment policy statement at least annually.

Return and risk expectations and investment constraints are the fundamentals that underlie all portfolio decisions. The return objectives, consistent with spending policy, is to be able to annually pay 5% (net of all fees and expenses) of the assets in each permanent fund (on a trailing 20-quarter rolling average) and have the value of each fund (and the corresponding distributions) grow with inflation. The funds should be invested to maximize return within appropriate risk tolerances, with the expectation that over a long time horizon (10 or 20 year) there is a reasonable expectation that the funds will be able to achieve both distribution and inflation goals. The funds stated risk objective is to have less than a 2½% predicted probability of a negative return of more than 18% in any year.

Endowment net asset composition as of December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 12,023,404	\$ 61,761,889	\$ 176,930,183	\$ 250,715,476
Other restricted funds	-	-	66,281,728	66,281,728
Board-designated funds	<u>53,357,811</u>	<u>-</u>	<u>-</u>	<u>53,357,811</u>
	<u>\$ 65,381,215</u>	<u>\$ 61,761,889</u>	<u>\$ 243,211,911</u>	<u>\$ 370,355,015</u>

Changes in donor restricted endowment fund net assets for the year ended December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2007 Market value	\$ 67,494,452	\$ 125,811,368	\$ 174,407,058	\$ 367,712,878
Additions	-	89,239	1,882,167	1,971,406
Income earned	2,354,715	3,539,564	83,970	5,978,249
Transfers and adjustments	(288,458)	1,322,860	1,358,992	2,393,394
Withdrawals	(7,117,160)	(8,575,633)	-	(15,692,793)
Realized/unrealized gains and losses	<u>(50,420,145)</u>	<u>(60,425,509)</u>	<u>(802,004)</u>	<u>(111,647,658)</u>
2008 Market value	<u>\$ 12,023,404</u>	<u>\$ 61,761,889</u>	<u>\$ 176,930,183</u>	<u>\$ 250,715,476</u>

(Continued)

PRESBYTERIAN CHURCH (U.S.A.),
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - DONOR RESTRICTED ENDOWMENT FUNDS (Continued)

Funds with Deficiencies: From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires PCUSA, A Corporation to retain as a fund of perpetual duration.

Deficiencies of this nature that are reported in unrestricted and designated net assets were \$9,146,619 as of December 31, 2008. These deficiencies resulted from unfavorable market fluctuations. There were no such deficiencies as of December 31, 2007.

NOTE 7 - MORTGAGES AND LOANS ON CHURCHES AND MANSES

A summary of the activity relating to mortgages and loans on churches and manses during the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Receivables at January 1	\$ 5,324,586	\$ 4,967,349
New loans	-	844,150
Repayments	<u>(730,677)</u>	<u>(486,913)</u>
Receivables at December 31	4,593,909	5,324,586
Add accrued interest receivable	<u>10,714</u>	<u>14,380</u>
	4,604,623	5,338,966
Less allowance for loss	<u>(20,700)</u>	<u>(5,500)</u>
Net receivables at December 31	<u>\$ 4,583,923</u>	<u>\$ 5,333,466</u>

(Continued)

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NOTE 7 - MORTGAGES AND LOANS ON CHURCHES AND MANSES (Continued)

The ability of each borrower congregation to pay PCUSA, A Corporation for the loan(s) made to the congregation may depend on the contributions the congregation receives from its members. Therefore, payments to PCUSA, A Corporation may depend on the continued growth in membership of the borrower congregations, and on the maintenance of adequate contributions by individual members to their congregations, as well as on prudent management by those congregations of their finances. The following is a summary of the gross loan balances for each Synod at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Alaska-Northwest	\$ -	\$ -
Covenant	446,856	466,209
Lakes and Prairies	-	14,919
Lincoln Trails	431,593	444,150
Living Waters	23,610	27,852
Mid-America	-	-
Mid-Atlantic	200,723	374,433
Northeast	387,712	421,863
Pacific	7,174	18,251
South Atlantic	1,802,787	2,089,063
Southern California/Hawaii	383,445	403,748
Southwest	196,194	606,322
The Rocky Mountains	-	-
The Sun	559,690	290,200
Trinity	<u>154,125</u>	<u>167,576</u>
	<u>\$ 4,593,909</u>	<u>\$ 5,324,586</u>

NOTE 8 - ALLOWANCES FOR LOAN LOSSES AND IMPAIRMENT OF LOANS

The outstanding principal balances of loans to churches, students, and Presbyterian schools and colleges for which an impairment has been recognized at December 31, 2008 and 2007 were approximately \$305,798 and \$1,336,490, respectively, and the related allocated allowances for loan losses at December 31, 2008 and 2007 were \$100,000 and \$30,000, respectively. No interest was received by PCUSA, A Corporation, on the impaired loans during 2008 and 2007. The total average impaired loan balances were approximately \$294,000 and \$1,343,000 at December 31, 2008 and 2007, respectively.

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NOTE 9 - RECEIVABLES FROM RELATED ENTITIES

A summary of the activity relating to receivables from related entities, which includes unsecured student loans, during the years ended December 31, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Receivables at January 1	\$ 9,089,351	\$ 9,693,490
New loans	18,469,682	16,309,089
Repayments	(18,459,731)	(16,379,890)
Loan recoveries (charge-offs)	<u>(478,335)</u>	<u>(533,338)</u>
Receivables at December 31	8,620,967	9,089,351
Less allowance for loss	<u>1,597,210</u>	<u>1,330,990</u>
Net receivables at December 31	<u>\$ 7,023,757</u>	<u>\$ 7,758,361</u>

NOTE 10 - PROPERTY AND EQUIPMENT

The components of property and equipment at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 3,887,958	\$ 3,887,958
Buildings and building improvements	46,234,773	47,459,344
Furniture and equipment	<u>24,701,756</u>	<u>24,755,311</u>
	74,824,487	76,102,613
Less accumulated depreciation	<u>47,130,284</u>	<u>44,113,034</u>
	<u>\$ 27,694,203</u>	<u>\$ 31,989,579</u>

NOTE 11 - BENEFITS DATA

As explained below, PCUSA, A Corporation offers a multi-employer defined benefit plan, a major medical plan and a retirement savings plan to eligible employees.

Substantially all employees of PCUSA, A Corporation participate in the Benefits Plan of the Presbyterian Church (U.S.A.) ("the Benefits Plan") which is administered by the Board of Pensions of the Presbyterian Church (U.S.A.) ("the Board of Pensions"). The Benefits Plan is a comprehensive benefits program, which provides a defined benefit pension plan, a long-term disability plan, a death benefits plan and a major medical plan. The assets of the Benefits Plan are commingled for investment purposes; however, accounting for each plan is separately maintained.

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PRESBYTERIAN CHURCH (U.S.A.),
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NOTE 11 - BENEFITS DATA (Continued)

The defined benefit pension plan's total net assets available for benefits, as reported by the Board of Pensions, were approximately \$4,831,658,000 and \$7,095,094,000 at December 31, 2008 and 2007, respectively. The defined benefit pension plan's total Accumulated Plan Benefit Obligations, as reported by the Board of Pensions, were approximately \$4,924,443,000 and \$4,503,023,000 at December 31, 2008 and 2007, respectively. Since the Benefits Plan is a Church Plan under the Internal Revenue Code, PCUSA, A Corporation has no financial interest in the Benefits Plan assets nor does it have any liability for benefits payable, contingent or otherwise, under the Benefits Plan or its components.

PCUSA, A Corporation pays the entire cost associated with the major medical plan. Employees have the option to purchase additional coverage such as dental, long-term care, and life insurance.

In addition, PCUSA, A Corporation sponsors a retirement savings plan, which is a tax-deferred annuity plan. The employer contribution is designed to provide equalization of the impact of tax differences between clergy and lay personnel. All exempt lay employees are eligible to participate in the employer portion of the plan. PCUSA, A Corporation pays an amount based upon a calculation of tax differences. Substantially all employees may make voluntary contributions to the plan.

PCUSA, A Corporation's expenses for the plans for the years ended December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Administered by Board of Pensions		
Pension plan	\$ 3,651,788	\$ 3,667,261
Major medical plan	<u>6,343,390</u>	<u>6,344,038</u>
	9,995,178	10,011,299
Administered by others - retirement savings plan	<u>315,605</u>	<u>293,417</u>
	<u>\$ 10,310,783</u>	<u>\$ 10,304,716</u>

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NOTE 12 - CONCENTRATION OF RISKS

Revenue Risk: PCUSA, A Corporation's primary source of revenue is contributions from Congregations, Presbyteries, Synods and individuals. The majority of these contributions are transmitted via the Presbyteries that are grouped into 16 Synods comprising of a total of 173 Presbyteries. The following is a summary of the contributions by each of the Synods during the years ended 2008 and 2007:

<u>Synod</u>	<u>2008</u>	<u>2007</u>
Alaska-Northwest	\$ 1,086,501	\$ 1,097,595
Covenant	3,268,348	3,648,546
Individuals and Other Church Related	8,941,633	8,791,504
Lakes and Prairies	2,851,193	3,035,619
Lincoln Trails	2,783,643	2,876,366
Living Waters	2,070,114	2,054,152
Mid-America	1,531,971	1,674,361
Mid-Atlantic	5,592,913	5,367,093
Northeast	4,172,726	4,282,959
Pacific	2,717,152	2,869,295
Puerto Rico	20,400	45,048
South Atlantic	3,781,787	4,244,155
Southern California/Hawaii	1,907,651	2,122,478
Southwest	926,718	955,920
The Rocky Mountains	967,228	1,057,251
The Sun	2,587,299	2,880,010
Trinity	<u>4,727,897</u>	<u>5,154,805</u>
	<u>\$ 49,935,174</u>	<u>\$ 52,157,157</u>

Credit Risk: PCUSA, A Corporation maintains cash and cash equivalents with various financial institutions. At times, such cash and cash equivalents may be in excess of the FDIC insurance level.

At December 31, 2008 and 2007, approximately 5.7% and 5.1%, respectively, of total short-term investments and long-term investments held by the Foundation were held in one common stock, The Proctor & Gamble Company.

NOTE 13 - FAIR VALUE

The following methods and assumptions were used by PCUSA, A Corporation in estimating its fair value disclosures for financial instruments:

Cash and Short-Term Investments: The carrying amounts reported in the consolidated statements of financial position for cash and short-term instruments, included in investments and accrued income, approximate their fair value.

(Continued)

PRESBYTERIAN CHURCH (U.S.A.),
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NOTE 13 – FAIR VALUE (Continued)

Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (“SFAS No. 157”) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in Presbyterian Church (U.S.A.), A Corporation’s principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS No. 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The fair values of debt and equity investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges or by quoted market prices of similar securities with similar due dates [or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities].

Certain equity type securities, life income funds, and funds held in trust by others have observable inputs and market activity that allow for pricing based on the underlying market prices of the items in the fund adjusted information developed by management for historical and current performance of the underlying funds, liquidity and credit premiums required by a market participant and financial trend analysis with respect to the overall fund compared to benchmark performance ratios.

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NOTE 13 – FAIR VALUE (Continued)

For other investments for which there is no active market, generally referred to as “alternative investments”, PCUSA, A Corporation has developed an internal model for pricing these securities. Information such as historical and current performance of the underlying assets, cash flow projections, liquidity and credit premiums required by a market participant, and financial trend analysis with respect to the individual fund manager is utilized in determining individual security valuations. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility.

The fair value of beneficial interest in trust assets (or any type of beneficial interest) is based on a valuation model that calculates the present value of estimated distributed income. The valuation model incorporates assumptions that market participants would use in estimating future distributed income. PCUSA, A Corporation is able to compare the valuation model inputs and results to widely available published industry data for reasonableness. If not readily comparable to published data, then the entity would have to develop a model similar to the above for a level 3 input.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2008 Using		
	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Assets:			
Investments	\$ 17,280,557	\$ 35,707,190	\$ 320,188,028
Life Income Funds	-	7,040,974	-
Funds held in trust by others	-	45,989,156	-

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PRESBYTERIAN CHURCH (U.S.A.),
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NOTE 13 – FAIR VALUE (Continued)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs for the year ended December 31, 2008:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	<u>Investments</u>
Beginning balance, January 1, 2008	\$ 462,238,126
Total gains or losses (realized/unrealized)	
Included in earnings	
Interest and dividend income on securities	7,840,944
Loss on sale of securities	(118,777,039)
Purchases, issuances, and settlements	17,070,434
Transfers in /out of Level 3	<u>(48,184,437)</u>
Ending balance, December 31, 2008	<u>\$ 320,188,028</u>

The table below summarizes changes in unrealized gains and losses recorded in earnings for the year ended December 31, 2008 for Level 3 assets and liabilities that are still held at December 31, 2008.

	Changes in Unrealized Gains/Losses Relating to Assets Still Held at Reporting Date for the Year Ended December 31, 2008		
	<u>Trading Securities</u>	<u>Available for Sale Securities</u>	<u>Total</u>
Interest income on securities	\$ -	\$ 7,840,944	\$ -
Other changes in fair value	<u>-</u>	<u>(118,777,039)</u>	<u>-</u>
Total	<u>\$ -</u>	<u>\$ (110,936,095)</u>	<u>\$ -</u>

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PRESBYTERIAN CHURCH (U.S.A.),
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NOTE 14 - COMMITMENTS AND CONTINGENCIES

PCUSA, A Corporation holds and participates in an insurance fund (the "Fund") that exists to provide a source of funds for that portion of certain losses not covered by commercial insurance to cover deductibles on commercial insurance and for certain classes of uninsured losses. Various General Assembly-level agencies and corporations are included in the Fund. The largest possible loss to be assumed in any one event or occurrence is \$250,000, with \$1,000,000 as the largest potential aggregate of all claims in a single calendar year.

The minimum balance of the self-insurance fund shall not fall below \$5,000,000 as a result of claims paid. In the event this happens, an assessment will be made to the insured entities to return the fund to the \$5,000,000 minimum balance. The assessment will be based on each insured entity's 5-year loss ratio. A 1% minimum assessment will be made by the entities that have not experienced any losses in the 5-year period.

The balance of the Fund held by PCUSA, A Corporation was \$4,249,019 and \$6,251,062 at December 31, 2008 and 2007, respectively. The self insurance fund fell below the minimum due to a decline in market value and not as a result of claims paid.

Additionally, PCUSA, A Corporation has excess insurance coverage for certain losses covered by commercial insurance up to \$25 million per occurrence on a policy that sits over the general liability and auto liability policies.

During the ordinary course of business, PCUSA, A Corporation is subject to pending and threatened legal actions. Management of PCUSA, A Corporation does not believe that any of these actions will have a material adverse effect on PCUSA, A Corporation's consolidated financial position or change in net assets.

NOTE 15 - RELATED PARTY TRANSACTIONS

The Foundation provides certain investment, custodial and deferred giving services to PCUSA, A Corporation. The Foundation recoups the cost of those services not covered from the income of its own endowment funds and the annual grant from the General Assembly by quarterly charges against the investment pools in which the funds administered by the Foundation are invested. These charges were recovered equally from the principal and income of these pools. Such costs consist of salary and benefits, 51% of the Foundation's operating expenses; outside investment services, 23% of the Foundation's operating expenses; and other operating expenses, 26% of the Foundation's operating expenses.

The income received by PCUSA, A Corporation from the Foundation is net of outside investment managers, custodial and Foundation administrative fees as described previously. PCUSA, A Corporation's investments and unrestricted and restricted endowment funds held by the Foundation on behalf of the General Assembly at December 31, 2008, totaled approximately \$329 million.

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NOTE 15 - RELATED PARTY TRANSACTIONS (Continued)

The Foundation's custodial cost recovery and investment management fees are assessed daily based on the prior day's market value against the total fund.

There are certain church loan funds whereby the fiduciary ownership belongs to the Board of National Missions, a constituent corporation of the Foundation. Accordingly, these funds are not reflected in the consolidated financial statements but are administered by PCUSA, A Corporation. These loan funds were approximately \$175 million and \$197 million at December 31, 2008 and 2007, respectively.

PCUSA, A Corporation served as a receiving agent for funds designated for the Board of Pensions. PCUSA, A Corporation received \$2,268,271 and \$2,388,891 for the years ended December 31, 2008 and 2007, respectively, of which \$790,396 and \$817,146 was yet to be remitted to the Board of Pensions at December 31, 2008 and 2007, respectively.

PCUSA, A Corporation leases office space and provides administrative support to the Presbyterian Church (U.S.A.) Investment and Loan Program, Inc. ("PILP") by contract. For the years ended December 31, 2008 and 2007, administrative support charged to PILP was \$134,027 and \$130,123, respectively. Office space charged to PILP was \$47,850 and \$46,464 for 2008 and 2007, respectively.

On June 29, 2000, PCUSA, A Corporation entered into an operating agreement with PILP under which PILP will provide administrative services (e.g., origination and loan servicing) for PCUSA, A Corporation's church loan program at cost in an effort to streamline the coordination process between PCUSA, A Corporation's church loan program and PILP's loan program. PCUSA, A Corporation reimbursed PILP \$257,183 and \$250,966 for the actual costs of such services during 2008 and 2007, respectively.

PCUSA, A Corporation and PILP have issued joint loans through a participation arrangement. For the years ended December 31, 2008 and 2007, PCUSA, A Corporation's amount was \$27,475,402 and \$24,960,426, respectively, under this participation arrangement.

The current commitment, effective May 1, 2004, to PILP is a five-year commitment to invest up to \$5,000,000 in short and intermediate term deposit accounts. As of December 31, 2008 and 2007, investments with PILP were \$8,690,082 and \$8,385,915, respectively. At December 31, 2008 and 2007 fixed interest rates ranged from 2.66% to 4.26% and 3.44% to 4.28%, respectively, and the adjustable rate ranged from 2.71% to 2.96% and 3.83% to 4.16%, respectively. For the years ended December 31, 2008 and 2007, the Foundation did not invest with PILP from PCUSA, A Corporation's unrestricted endowment funds.

PCUSA, A Corporation leases office space to Presbyterian Publishing Corporation ("PPC") under an operating lease. For the years ended December 31, 2008 and 2007, rental income was \$156,665 and \$152,611, respectively. Future minimum rental income under the operating lease, which expires in December 2011 with an option to renew, is \$166,343 annually.

Other related expenses charged to PPC for telephone and copy services were \$130,681 and \$131,421 in 2008 and 2007, respectively.

(Continued)

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 15 - RELATED PARTY TRANSACTIONS (Continued)

PPC publishes various pamphlets, magazines, and books for PCUSA, A Corporation during the year on a project-by-project basis. Expenses related to this type of work were \$0 in 2008 and 2007. PPC also pays PCUSA, A Corporation for advertising space in various church publications. Advertising expense under such arrangements was \$18,739 and \$13,560 in 2008 and 2007, respectively.

PCUSA, A Corporation participates in commercial insurance programs, whereby premiums are negotiated and paid by PCUSA, A Corporation. The Board of Pensions, Foundation, PILP and PPC reimburse PCUSA, A Corporation for expenses paid on their behalf. Expenses incurred for commercial insurance paid by PCUSA, A Corporation for December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Foundation	\$ 111,609	\$ 119,766
Board of Pensions	407,295	449,426
PILP	45,780	47,295
PPC	78,923	91,215

SUPPLEMENTARY SCHEDULES

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2008

	<u>General Mission</u>	<u>Plant</u>	<u>Hubbard Press</u>
ASSETS			
Cash and cash equivalents	\$ 5,952,130	\$ -	\$ 2,631
Investments			
Investments and accrued income held by the Foundation	52,659,445	1,678,368	
Other investments and accrued income	<u>36,806,759</u>	<u>-</u>	<u>1,519,500</u>
Total investments	<u>89,466,204</u>	<u>1,678,368</u>	<u>1,519,500</u>
Receivables			
Contributions from congregations	6,986,917	-	-
Mortgages and loans on churches and manses, including accrued interest, less allowance of \$20,700	-	-	-
Receivables from related entities, mortgages and loans, less allowance of \$1,597,210	3,088,469	-	164,877
Due (to) from other funds	(526,733)	(311,997)	70,231
Due from the Foundation	4,247,469	-	-
Other accounts receivable	<u>505,820</u>	<u>-</u>	<u>-</u>
Total receivables	<u>14,301,942</u>	<u>(311,997)</u>	<u>235,108</u>
Inventories, prepaid expenses and other assets	1,940,789	-	257,569
Property and equipment, net	-	25,626,562	254,788
Residual interest in annuity and life income funds held by the Foundation	7,040,974	-	-
Long-term investments held by the Foundation	258,601,213	-	-
Funds held in trust by others	<u>45,989,156</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 423,292,408</u>	<u>\$ 26,992,933</u>	<u>\$ 2,269,596</u>

(Continued)

<u>Curriculum</u>	<u>Loans</u>	<u>Per Capita</u>	<u>Eliminations</u>	<u>Total</u>
\$ -	\$ -	\$ 644,754	\$ -	\$ 6,599,515
-	8,561,568	5,372,297	-	68,271,678
-	<u>3,568,476</u>	<u>1,962,847</u>	-	<u>43,857,582</u>
-	<u>12,130,044</u>	<u>7,335,144</u>	-	<u>112,129,260</u>
-	-	(280,550)	-	6,706,367
-	4,583,923	-	-	4,583,923
537,451	3,131,470	2,963,891	(2,862,401)	7,023,757
1,645,981	(197,025)	(680,457)	-	-
-	-	-	-	4,247,469
-	-	(13,967)	-	<u>491,853</u>
<u>2,183,432</u>	<u>7,518,368</u>	<u>1,988,917</u>	<u>(2,862,401)</u>	<u>23,053,369</u>
751,538	-	13,039	-	2,962,935
-	-	1,812,853	-	27,694,203
-	-	-	-	7,040,974
-	1,647,544	797,758	-	261,046,515
-	-	-	-	<u>45,989,156</u>
<u>\$ 2,934,970</u>	<u>\$ 21,295,956</u>	<u>\$ 12,592,465</u>	<u>\$ (2,862,401)</u>	<u>\$ 486,515,927</u>

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
December 31, 2008

	<u>General Mission</u>	<u>Plant</u>	<u>Hubbard Press</u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	\$ 9,238,749	\$ -	\$ 17,551
Amounts received from congregations and designated for others	1,055,076	-	-
Amounts held for missionaries and committed for projects	4,785,618	-	-
Amounts due to other agencies	7,131,940	-	-
Deferred revenue	813,070	-	-
Other	<u>473,046</u>	-	<u>306</u>
Total liabilities	<u>23,497,499</u>	<u>-</u>	<u>17,857</u>
Net assets			
Unrestricted			
Undesignated	6,755,951	-	-
Designated	<u>16,919,223</u>	<u>26,992,933</u>	<u>2,251,739</u>
Total unrestricted	<u>23,675,174</u>	<u>26,992,933</u>	<u>2,251,739</u>
Temporarily restricted	150,962,184	-	-
Permanently restricted	<u>225,157,551</u>	<u>-</u>	<u>-</u>
Total net assets	<u>399,794,909</u>	<u>26,992,933</u>	<u>2,251,739</u>
Total liabilities and net assets	<u>\$ 423,292,408</u>	<u>\$ 26,992,933</u>	<u>\$ 2,269,596</u>

<u>Curriculum</u>	<u>Loans</u>	<u>Per Capita</u>	<u>Eliminations</u>	<u>Total</u>
\$ 2,934,970	\$ -	\$ 50,449	\$ (2,862,401)	\$ 9,379,318
-	-	77	-	1,055,153
-	-	-	-	4,785,618
-	-	-	-	7,131,940
-	-	1,375	-	814,445
-	-	2,864	-	476,216
<u>2,934,970</u>	<u>-</u>	<u>54,765</u>	<u>(2,862,401)</u>	<u>23,642,690</u>
-	-	5,417,811	-	12,173,762
-	<u>2,002,184</u>	<u>5,191,732</u>	-	<u>53,357,811</u>
-	<u>2,002,184</u>	<u>10,609,543</u>	-	<u>65,531,573</u>
-	2,022,045	1,145,524	-	154,129,753
-	<u>17,271,727</u>	<u>782,633</u>	-	<u>243,211,911</u>
-	<u>21,295,956</u>	<u>12,537,700</u>	-	<u>462,873,237</u>
<u>\$ 2,934,970</u>	<u>\$ 21,295,956</u>	<u>\$ 12,592,465</u>	<u>\$ (2,862,401)</u>	<u>\$ 486,515,927</u>

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
December 31, 2008

	Unrestricted							Total
	General Mission	Plant	Hubbard Press	Curriculum	Church Loans	Per Capita	Eliminations	
Revenue, gains, and other support								
Congregation	\$ 11,567,671	\$ -	\$ -	\$ -	\$ -	\$ 13,092,352	\$ -	\$ 24,660,023
Presbyterian Women	999,381	-	-	-	-	-	-	999,381
Gifts, bequests, and grants	1,833,391	-	-	-	-	318,936	(45,000)	2,107,327
Special giving and special offering	-	-	-	-	-	-	-	-
Total contributions	14,400,443	-	-	-	-	13,411,288	(45,000)	27,766,731
Income from endowment funds held by the Foundation	3,596,806	65,059	-	-	68,249	549,972	-	4,280,086
Income on investments	259,369	-	64,403	-	-	69,682	-	393,454
Income from funds held by others	1,198,222	-	-	-	-	-	-	1,198,222
Realized and unrealized gains (losses) on investments, net	(58,389,576)	(715,439)	-	-	(355,392)	(2,415,200)	-	(61,875,607)
Interest income from loans	9,917	-	-	-	63,008	-	-	72,925
Change in value of beneficial interest in life income funds	-	-	-	-	-	-	-	-
Hubbard Press	-	-	1,672,872	-	-	-	-	1,672,872
Sales of resources and services	14,592,119	-	-	2,575,951	-	519,653	(489,605)	17,198,118
Other	199,197	817,642	5,159	-	37	763,063	(500,000)	1,285,098
	(24,133,503)	167,262	1,742,434	2,575,951	(224,098)	12,898,458	(1,034,605)	(8,008,101)
Net assets released from restrictions	50,396,273	(28,805)	-	1,885,713	-	5,812	-	52,258,993
Total revenue, gains, and other support	26,262,770	138,457	1,742,434	4,461,664	(224,098)	12,904,270	(1,034,605)	44,250,892
Expenses								
Programs								
Executive Director	2,106,137	-	-	-	-	-	-	2,106,137
Communication and Fund Development	8,204,921	-	-	-	-	-	-	8,204,921
Mission	59,087,280	-	-	4,461,660	-	-	-	63,548,940
Shared Services	10,013,919	-	-	-	-	-	-	10,013,919
Office of the General Assembly	-	-	-	-	-	12,937,716	-	12,937,716
General Assembly Council	-	-	-	-	-	2,358,431	-	2,358,431
Presbyterian Historical Society	-	-	-	-	-	429,016	-	429,016
Conference Center-Ghost Ranch	5,127,402	285,914	-	-	-	-	-	5,413,316
Conference Center-Stony Point	1,963,099	60,188	-	-	-	-	-	2,023,287
Church and Student Loans	67,754	-	-	-	-	-	-	67,754
Hubbard Press	-	-	1,852,533	-	-	-	(45,000)	1,807,533
Related bodies and other programs	3,317,353	3,149,325	-	-	-	-	-	6,466,678
	89,887,865	3,495,427	1,852,533	4,461,660	-	15,725,163	(45,000)	115,377,648
General and administrative								
Shared	2,691,628	-	-	-	-	1,580,500	(989,605)	3,282,523
Other	4,115,892	294	-	139,351	-	-	-	4,255,537
	6,807,520	294	-	139,351	-	1,580,500	(989,605)	7,538,060
Total expenses	96,695,385	3,495,721	1,852,533	4,601,011	-	17,305,663	(1,034,605)	122,915,708
Change in net assets before transfer	(70,432,615)	(3,357,264)	(110,099)	(139,347)	(224,098)	(4,401,393)	-	(78,664,816)
Transfers for endowment funds with deficiencies	(9,146,619)	-	-	-	-	-	-	(9,146,619)
Change in net assets	(79,579,234)	(3,357,264)	(110,099)	(139,347)	(224,098)	(4,401,393)	-	(87,811,435)
Net assets at beginning of year	103,254,408	30,350,197	2,361,838	139,347	2,226,282	15,010,936	-	153,343,008
Net assets at end of year	\$ 23,675,174	\$ 26,992,933	\$ 2,251,739	\$ -	\$ 2,002,184	\$ 10,609,543	\$ -	\$ 65,531,573

Temporarily Restricted				Permanently Restricted				Consolidated Total
General Mission	Loans	Per Capita	Total	Endowments	Loans	Per Capita	Total	
\$ 4,300,998	\$ -	\$ -	\$ 4,300,998	\$ -	\$ -	\$ -	\$ -	\$ 28,961,021
24,000	-	-	24,000	-	-	-	-	1,023,381
4,578,427	78,284	-	4,656,711	1,551,527	-	-	1,551,527	8,315,565
27,136,861	-	-	27,136,861	-	-	-	-	27,136,861
36,040,286	78,284	-	36,118,570	1,551,527	-	-	1,551,527	65,436,828
3,652,650	15,796	20,411	3,688,857	-	201,014	-	201,014	8,169,957
1,267,010	-	-	1,267,010	-	136,971	-	136,971	1,797,435
155,471	-	-	155,471	-	-	-	-	1,353,693
(60,210,293)	(184,681)	(586,574)	(60,981,548)	(18,995,735)	(1,531,735)	-	(20,527,470)	(143,384,625)
-	131,050	-	131,050	-	206,859	-	206,859	410,834
(1,053,421)	-	-	(1,053,421)	(2,173,294)	-	-	(2,173,294)	(3,226,715)
-	-	-	-	-	-	-	-	1,672,872
598,595	-	-	598,595	-	-	-	-	17,796,713
1,077,800	-	-	1,077,800	-	(15,223)	-	(15,223)	2,347,675
(18,471,902)	40,449	(566,163)	(18,997,616)	(19,617,502)	(1,002,114)	-	(20,619,616)	(47,625,333)
(52,086,251)	(172,742)	-	(52,258,993)	-	-	-	-	-
(70,558,153)	(132,293)	(566,163)	(71,256,609)	(19,617,502)	(1,002,114)	-	(20,619,616)	(47,625,333)
-	-	-	-	-	-	-	-	2,106,137
-	-	-	-	-	-	-	-	8,204,921
-	-	-	-	-	-	-	-	63,548,940
-	-	-	-	-	-	-	-	10,013,919
-	-	-	-	-	-	-	-	12,937,716
-	-	-	-	-	-	-	-	2,358,431
-	-	-	-	-	-	-	-	429,016
-	-	-	-	-	-	-	-	5,413,316
-	-	-	-	-	-	-	-	2,023,287
-	-	-	-	-	-	-	-	67,754
-	-	-	-	-	-	-	-	1,807,533
-	-	-	-	-	-	-	-	6,466,678
-	-	-	-	-	-	-	-	115,377,648
-	-	-	-	-	-	-	-	3,282,523
-	-	-	-	-	-	-	-	4,255,537
-	-	-	-	-	-	-	-	7,538,060
-	-	-	-	-	-	-	-	122,915,708
(70,558,153)	(132,293)	(566,163)	(71,256,609)	(19,617,502)	(1,002,114)	-	(20,619,616)	(170,541,041)
9,146,619	-	-	9,146,619	-	-	-	-	-
(61,411,534)	(132,293)	(566,163)	(62,109,990)	(19,617,502)	(1,002,114)	-	(20,619,616)	(170,541,041)
212,373,715	2,154,338	1,711,690	216,239,743	244,775,053	18,273,841	782,633	263,831,527	633,414,278
<u>\$ 150,962,181</u>	<u>\$ 2,022,045</u>	<u>\$ 1,145,527</u>	<u>\$ 154,129,753</u>	<u>\$ 225,157,551</u>	<u>\$ 17,271,727</u>	<u>\$ 782,633</u>	<u>\$ 243,211,911</u>	<u>\$ 462,873,237</u>

PRESBYTERIAN CHURCH (U.S.A.),
A CORPORATION
CONSOLIDATING STATEMENT OF ACTIVITIES AND
CHANGES IN NET ASSETS FOR LOAN FUNDS
December 31, 2008

	<u>Unrestricted</u> Church Building Aid <u>Fund</u>	Temporarily <u>Restricted</u> Student <u>Loans</u>	<u>Permanently Restricted</u>			Consolidated <u>Total</u>
			Student <u>Loans</u>	Church Building Aid <u>Fund</u>	<u>Total</u>	
Revenues						
Gifts, bequests, and grants	\$ -	\$ 78,284	\$ -	\$ -	\$ -	\$ 78,284
Income from endowment funds held by the Foundation	68,249	15,796	76,489	124,525	201,014	285,059
Income from funds held by others	-	-	-	136,971	136,971	136,971
Realized and unrealized gains on investments, net	(355,392)	(184,681)	(874,741)	(656,994)	(1,531,735)	(2,071,808)
Interest income from loans	63,008	131,050	-	206,859	206,859	400,917
Other	<u>37</u>	<u>-</u>	<u>-</u>	<u>(15,223)</u>	<u>(15,223)</u>	<u>(15,186)</u>
	(224,098)	40,449	(798,252)	(203,862)	(1,002,114)	(1,185,763)
Net assets released from restrictions	<u>-</u>	<u>(172,742)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(172,742)</u>
Change in net assets	(224,098)	(132,293)	(798,252)	(203,862)	(1,002,114)	(1,358,505)
Net assets at beginning of year	<u>2,226,282</u>	<u>2,154,338</u>	<u>5,218,874</u>	<u>13,054,967</u>	<u>18,273,841</u>	<u>22,654,461</u>
Net assets at end of year	<u>\$ 2,002,184</u>	<u>\$ 2,022,045</u>	<u>\$ 4,420,622</u>	<u>\$ 12,851,105</u>	<u>\$ 17,271,727</u>	<u>\$ 21,295,956</u>