

# **BOARD OF NATIONAL MINISTRIES**

## **AMERICAN BAPTIST CHURCHES USA**

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### **INDEPENDENT AUDITORS' REPORT**

and

### **FINANCIAL STATEMENTS**

For the years ended  
December 31, 2008 and 2007

REPORT OF INDEPENDENT AUDITORS'

To the Board of Directors  
Board of National Ministries of the  
American Baptist Churches in the USA  
Valley Forge, Pennsylvania

We have audited the accompanying combined statements of financial position of American Baptist Home Mission Societies (the "Societies") as of December 31, 2008 and 2007, and the related combined statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Societies' 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 audits 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 circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Societies' internal control. Accordingly, we express no such opinion. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Societies as of December 31, 2008 and 2007, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information in the report is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Milligan and Company LLC*

May 7, 2009  
Philadelphia, PA

## American Baptist Home Mission Societies

### The Combined Statements of Financial Position

December 31, 2008 and 2007

<b>ASSETS</b>	<b>2008</b>	<b>2007</b>
Current assets:		
Cash and cash equivalents	\$ 13,557,643	\$ 15,905,607
Assets whose use is limited	1,781,686	2,336,532
Receivables, net (Publishing)	239,131	246,214
Receivables due from Baptist related organizations, net	1,028,170	2,936,222
Mortgage loans receivable	242,472	347,434
Interest receivable	713,622	616,243
Inventory (Publishing)	822,285	874,158
Prepaid expenses and other assets	189,200	53,866
Total current assets	18,574,209	23,316,276
Noncurrent assets:		
Receivables due from Baptist related organizations, net	645,412	1,067,937
Mortgage loans receivable, net	6,717,697	7,246,060
Investments	106,006,054	147,997,949
Assets restricted for annuity obligations	586,216	578,959
Assets whose use is limited	65,566,032	95,197,335
Property and equipment, net	735,605	716,866
Total assets	<u>\$ 198,831,225</u>	<u>\$ 276,121,382</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 269,858	\$ 208,743
Accrued expenses	756,966	486,362
Allowance for sales returns (Publishing)	363,533	364,449
Funds of others	1,781,686	2,336,532
Total current liabilities	3,172,043	3,396,086
Noncurrent liabilities:		
Actuarial liability for annuity obligations	167,992	243,101
Funds of others	65,566,032	95,197,335
Total liabilities	<u>68,906,067</u>	<u>98,836,522</u>
Net assets:		
Unrestricted	26,002,156	64,147,520
Temporarily restricted	65,256,724	74,473,362
Permanently restricted	38,666,278	38,663,978
Total net assets	<u>129,925,158</u>	<u>177,284,860</u>
Total liabilities and net assets	<u>\$ 198,831,225</u>	<u>\$ 276,121,382</u>

The accompanying notes are an integral part of the combined financial statements.

**American Baptist Home Mission Societies**

**The Combined Statement of Activities and Changes in Net Assets**

For the year ended December 31, 2008 (with comparative 2007 totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2008 Total</u>	<u>2007 Total</u>
<b>REVENUES AND GAINS</b>					
Contributions:					
United Mission Basics	\$ 453,915	\$ -	\$ -	\$ 453,915	\$ 668,422
United Mission Designated	43,682	-	-	43,682	44,221
America for Christ Offering	1,102,965	-	-	1,102,965	1,067,548
One Great Hour of Sharing	-	756,327	-	756,327	623,105
Shared Support Services	323,576	-	-	323,576	323,576
Specific Purposes	-	229,677	-	229,677	291,887
Other Contributions	123,651	-	-	123,651	173,386
Other investment income	3,234,453	925,681	-	4,160,134	4,275,590
Mortgage interest income	573,634	-	-	573,634	501,578
Realized gains on sale of investments	-	-	-	-	15,622,085
Legacies, terminated trusts and trust fund income	309,579	-	2,300	311,879	1,953,855
Publishing Net Sales	2,291,680	-	-	2,291,680	2,585,593
Less: Publishing Cost of Goods Sold	<u>(1,140,593)</u>	<u>-</u>	<u>-</u>	<u>(1,140,593)</u>	<u>(1,035,716)</u>
Gross Profit	1,151,087	-	-	1,151,087	1,549,877
Net assets released from restrictions:					
Satisfaction of program restrictions	<u>1,665,112</u>	<u>(1,665,112)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>8,981,654</u>	<u>246,573</u>	<u>2,300</u>	<u>9,230,527</u>	<u>27,095,130</u>
<b>EXPENSES AND LOSSES</b>					
Ministry Services	7,161,283	-	-	7,161,283	7,082,779
Program Services	5,255,676	-	-	5,255,676	5,432,098
Publishing Ministry	1,907,551	-	-	1,907,551	1,994,132
New Life 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,535</u>
Total expenses	14,324,510	-	-	14,324,510	14,620,544
Net unrealized losses	28,462,755	8,367,503	-	36,830,258	4,876,531
Realized losses on sale of investments	3,982,634	1,170,817	-	5,153,451	-
Change in Annuity Valuation - FASB 136	357,119	-	-	357,119	22,104
Actuarial change on annuity obligations	<u>-</u>	<u>(75,109)</u>	<u>-</u>	<u>(75,109)</u>	<u>(30,457)</u>
Total expenses and losses	<u>47,127,018</u>	<u>9,463,211</u>	<u>-</u>	<u>56,590,229</u>	<u>19,488,722</u>
Changes in net assets	<u>(38,145,364)</u>	<u>(9,216,638)</u>	<u>2,300</u>	<u>(47,359,702)</u>	<u>7,606,408</u>
Net assets at beginning of year	<u>64,147,520</u>	<u>74,473,362</u>	<u>38,663,978</u>	<u>177,284,860</u>	<u>169,678,452</u>
Net assets at end of year	<u>\$ 26,002,156</u>	<u>\$ 65,256,724</u>	<u>\$ 38,666,278</u>	<u>\$ 129,925,158</u>	<u>\$ 177,284,860</u>

The accompanying notes are an integral part of the combined financial statements.

## American Baptist Home Mission Societies

### The Combined Statement of Activities and Changes in Net Assets

For the year ended December 31, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2007 Total</u>
<b>REVENUES AND GAINS</b>				
Contributions:				
United Mission Basics	\$ 668,422	\$ -	\$ -	\$ 668,422
United Mission Designated	44,221	-	-	44,221
America for Christ Offering	1,067,548	-	-	1,067,548
One Great Hour of Sharing	-	623,105	-	623,105
Shared Support Services	323,576	-	-	323,576
Specific Purposes	-	291,887	-	291,887
Other Contributions	173,386	-	-	173,386
Other investment income	3,493,869	781,721	-	4,275,590
Mortgage interest income	501,578	-	-	501,578
Realized gains on sale of investments	12,088,303	3,533,782	-	15,622,085
Legacies, terminated trusts and trust fund income	1,769,475	-	184,380	1,953,855
Publishing Net Sales	2,585,593	-	-	2,585,593
Less: Publishing Cost of Goods Sold	<u>(1,035,716)</u>	<u>-</u>	<u>-</u>	<u>(1,035,716)</u>
Gross Profit	1,549,877	-	-	1,549,877
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>1,334,063</u>	<u>(1,334,063)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>23,014,318</u>	<u>3,896,432</u>	<u>184,380</u>	<u>27,095,130</u>
<b>EXPENSES AND LOSSES</b>				
Ministry Services	7,082,779	-	-	7,082,779
Program Services	5,432,098	-	-	5,432,098
Publishing Ministry	1,994,132	-	-	1,994,132
New Life 2010	<u>111,535</u>	<u>-</u>	<u>-</u>	<u>111,535</u>
Total expenses	14,620,544	-	-	14,620,544
Net unrealized losses	3,772,936	1,103,595	-	4,876,531
Change in Annuity Valuation - FASB 136	22,104	-	-	22,104
Actuarial change on annuity obligations	<u>-</u>	<u>(30,457)</u>	<u>-</u>	<u>(30,457)</u>
Total expenses and losses	<u>18,415,584</u>	<u>1,073,138</u>	<u>-</u>	<u>19,488,722</u>
Changes in net assets	<u>4,598,734</u>	<u>2,823,294</u>	<u>184,380</u>	<u>7,606,408</u>
Net assets at beginning of year	<u>59,548,786</u>	<u>71,650,068</u>	<u>38,479,598</u>	<u>169,678,452</u>
Net assets at end of year	<u>\$ 64,147,520</u>	<u>\$ 74,473,362</u>	<u>\$ 38,663,978</u>	<u>\$ 177,284,860</u>

The accompanying notes are an integral part of the combined financial statements.

## American Baptist Home Mission Societies

### The Combined Statements Of Cash Flows

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities</b>		
Total change in net assets	\$ (47,359,702)	\$ 7,606,408
Adjustments to reconcile total change in net assets to net cash used in operating activities:		
Depreciation	138,968	111,239
Change in value of annuity obligations	(75,109)	(30,457)
Net unrealized losses on investments	36,830,258	4,876,531
Reserve for loan losses	-	179,970
Realized losses (gains) on investments	5,153,451	(15,622,085)
(Increase) decrease in:		
Receivable (publishing)	7,083	6,735
Receivables from Baptist related organizations	2,330,577	(287,750)
Prepaid expenses and other assets	(135,334)	5,614
Inventory (Publishing)	51,873	(238,718)
Interest receivable	(97,379)	(57,174)
Increase (decrease) in:		
Accounts payable	61,115	(1,561,070)
Accrued expenses	270,604	(60,913)
Allowance for sales returns	(916)	(4,775)
Net cash used in operating activities	<u>(2,824,511)</u>	<u>(5,076,445)</u>
<b>Cash flows from investing activities</b>		
Mortgage loans issued	(304,470)	(189,292)
Collections on mortgage loans	937,795	919,693
Purchases of property & equipment	(157,707)	(46,993)
Purchases of investments	(75,654,077)	(120,451,648)
Purchases of investments restricted for endowments	(2,300)	(184,380)
Proceeds from sale of investments	<u>75,655,006</u>	<u>126,764,555</u>
Net cash provided by investing activities	<u>474,247</u>	<u>6,811,935</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions restricted for investments of endowments	<u>2,300</u>	<u>184,380</u>
Net cash provided by financing activities	<u>2,300</u>	<u>184,380</u>
Net (decrease) increase in cash and cash equivalents	(2,347,964)	1,919,870
Cash and cash equivalents, beginning of year	<u>15,905,607</u>	<u>13,985,737</u>
Cash and cash equivalents, end of year	<u>\$ 13,557,643</u>	<u>\$ 15,905,607</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	<u>\$ 24,454</u>	<u>\$ 103,758</u>

The accompanying notes are an integral part of the combined financial statements.

## **1. Summary of Significant Accounting Policies:**

The American Baptist Home Mission Society (ABHMS) and Woman's American Baptist Home Mission Society (WABHMS) (collectively, the Societies) are managed by the Board of National Ministries of the American Baptist Churches in the U.S.A. (ABC). The ABHMS was established for the purpose of promoting the preaching of the gospel; the establishing, maintaining, or aiding Baptist churches or missions; the acquisition of sites in contemplation of the erection of houses of worship and other buildings; and establishing, maintaining, assisting in the establishing or maintaining of schools and other institutions of learning in connection with its missionary work in North America. The WABHMS was established to proclaim and witness to the Christian Faith in the United States and elsewhere in North America through the establishment, maintenance and assistance of churches, missions, and institutions of care or learning; to promote spiritual life and worship; and to minister to persons of special need in all ways its Board of Directors may deem appropriate. That work is carried on today through ministries of witness, renewal and justice. The accompanying combined financial statements include the activities of the Societies. All intercompany transactions have been eliminated.

Significant publishing activities are carried out by Judson Press, which serves as a trademark and imprint for the preparation for publication, printing and promoting the use of lesson texts, books, and other resource materials in support of the program of Christian education in the home, the local parish, and the community. The activities associated with Judson Press are reflected in the Combined Statements of Financial Position and Statement of Activities and Changes in Net Assets as (Publishing Ministry).

### **Income Taxes:**

The Societies have been granted an exemption from federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code.

### **Investments:**

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Gains and losses on investments are recognized as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Dividend and interest income are recognized when earned as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law.

Investments consist principally of certificates of deposit, U.S. Government and fixed income securities, corporate obligations, marketable equity securities, and alternative securities. Alternative investments may include asset managers, partnerships or other similar vehicles investing in domestic and international securities (either buying long or selling short), venture capital investments, private equity, high yield, distressed securities, mezzanine debt, loans, real estate and timber. U.S. Government obligations, mutual funds, fixed income securities, corporate obligations and marketable equity securities are stated at fair market value based on quoted market prices. Certificates of deposit and money market accounts are stated at cost which approximates fair value. Donated investments are recorded as contributions at fair value at the date of receipt.

Investment transactions (purchases and sales) are recorded on the trade dates. Gains and losses on sales are computed on the specific cost method and the LIFO method for the Common Investment Fund (CIF) of The American Baptist Home Mission Societies. Interest and dividend income is recorded on the accrual basis of accounting. The CIF makes distributions to participating funds at a rate determined annually by the Board of Directors. The annual payout rate for 2008 and 2007 was at 5 percent, respectively.

### **Cash and Cash Equivalents:**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at the time of purchase and are stated at cost, which approximates fair value. Liquid assets held in the CIF have been classified as cash and cash equivalents.

**Annuity Obligation:**

The actuarial liability for annuity payments is computed as required by New York State insurance law under the 1990 CM Standard IRS Annuity Tables, assuming a 6% reserve. The life expectancy of annuitants determines the actuarial obligations. Dependent on whether the pool of annuitants differs from these life expectancy assumptions, an actuarial loss or gain on annuity obligations can result.

**Assets Whose Use is Limited:**

Assets whose use is limited include amounts held by the Societies for the administration and management of assets as revocable or irrevocable charitable remainder trusts. They also include amounts held for The American Baptist Service Corporation (ABSCO), the New Church Planting Vision Community and New Christians and New Churches in a New Century Campaign for which the Societies act as custodian. American Baptist churches and related American Baptist agencies can invest in the CIF. These funds are held in a fiduciary capacity and reflected as a liability (Funds of others) in the combined statement of financial position.

**Temporarily Restricted Net Assets:**

Temporarily restricted net assets are those whose use by the Societies has been limited by donors to a specific term or purpose.

**Permanently Restricted Net Assets:**

Permanently restricted net assets are donor restricted endowments required to be maintained in perpetuity. The income is either unrestricted or temporarily restricted based on donors' intentions or law.

**Inventory:**

Inventories, consisting principally of printed materials and merchandise, are stated at cost less an estimated reserve for obsolescence, but not in excess of net realized value. The first-in, first-out cost method is used for inventory tracking and valuation.

**Property, Equipment and Depreciation:**

The Societies review their long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate their carrying amount may not be recoverable. There was no impairment in 2008 or 2007.

Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is computed on a straight-line basis and is charged to expense over the estimated useful lives of the assets. When assets are disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss on disposition is included in the statement of activities.

**Contributions and Donations:**

The Societies report gifts of cash and other assets as restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Judson Press:**

Judson Press serves as a trademark and imprint for carrying out part of the mission of The American Baptist Home Mission Society.

Specifically:

“Judson Press seeks to be a financially viable ministry that provides high quality resources designed to encourage, educate and equip disciples of Jesus Christ as they strive to be like him and the church as a whole as it seeks to fulfill Christ’s mission in the world.”

**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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications:**

Certain 2007 amounts have been reclassified to conform to the December 31, 2008 presentation. These changes had no impact on previously reported results of operations or net assets.

**Concentrations of Credit Risk:**

ABHMS has significant investments in stocks, bonds, and mutual funds and is therefore subject to concentrations of credit risk. Investments are made by investment managers engaged by ABHMS and the investments are monitored for ABHMS by an investment committee. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes its investment policies are prudent for the long-term welfare of ABHMS and its beneficiaries. In addition, certain financial instruments potentially subject ABHMS to concentrations of credit risk. These financial instruments consist primarily of cash and cash equivalents and mortgage loans receivable. ABHMS places its cash and cash equivalents with high credit quality financial institutions. Concentrations of credit risk with respect to loans receivable are generally diversified due to the large number of borrowers comprising the ABHMS customer base and their dispersal across geographical regions.

**Derivative Instruments and Hedging Activities:**

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161 *Disclosures about Derivative Instruments and Hedging Activities* (FASB 161) that may impact ABHMS's future financial presentations.

FASB 161 improves financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity's liquidity by requiring disclosure of derivative features that are credit risk-related. In addition, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. The Board of Directors is currently evaluating the impact of this standard. This statement is effective for ABHMS's fiscal year ending December 31, 2009.

## 2. Assets Whose Use is Limited:

Assets whose use is limited at December 31, 2008 and 2007 are designated as follows:

	<u>2008</u>	<u>2007</u>
Custodial Funds		
Assets held for The American Baptist Service Corporation	\$ 1,107,082	\$ 1,088,939
Assets held for the New Church Planting Vision Community	(94,048)	(94,048)
Assets held for New Christians and New Churches in a New Century Campaign	95,875	95,875
Assets held for others	19,290	12,718
Assets held for Hurricane Katrina	446,229	1,133,864
Assets held for others through the Common Investment Fund	65,079,279	94,414,595
	<u>66,653,707</u>	<u>96,651,943</u>
Assets held under trust agreements	694,011	881,924
	<u>67,347,718</u>	<u>97,533,867</u>
Less current portion	<u>(1,781,686)</u>	<u>(2,336,532)</u>
	<u>\$ 65,566,032</u>	<u>\$ 95,197,335</u>

## 3. Property and Equipment:

Property and equipment at December 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Computer equipment	\$ 579,465	\$ 558,371
Furniture and fixtures	463,349	326,736
Schools, Missions, Christian Centers and other properties	2,807,908	2,807,908
Land	292,068	292,068
	4,142,790	3,985,083
Less accumulated depreciation	<u>(3,407,185)</u>	<u>(3,268,217)</u>
Property and equipment, net of depreciatio	<u>\$ 735,605</u>	<u>\$ 716,866</u>

Depreciation expense of property and equipment was \$138,968 and \$111,239 in 2008 and 2007, respectively.

## 4. Receivables Due from Baptist Related Organizations:

ABHMS has loaned funds to related organizations to be used for the redemption of debts and payment of operating expenses. In addition, as described in note 6, ABHMS's mortgage loans are administered by the American Baptist Extension Corporation (ABEC). As of December 31, 2007, amounts due from ABEC for loans collected in excess of the amounts due to ABEC for loan disbursements were recorded as receivables. During 2008, ABHMS purchased investment notes totaling \$1,640,000 from ABEC for the mortgage loans collected in excess of the amount due to ABEC. These notes mature between March 2009 and June 2010 with interest rates ranging from 3.88% to 4.13%, and are recorded as investments as of December 31, 2008. Gift annuities are administered by the American Baptist Foundation and are recorded as receivables.

The collectibility of these loans is dependent upon (1) the ability of these organizations to liquidate their assets for amounts at least equal to their liabilities and (2) the portion of these organizations' losses that are borne by other Baptist related organizations.

As of December 31, 2008 and 2007, the receivables from these organizations include:

	<u>2008</u>	<u>2007</u>
American Baptist Extension Corporation	\$ 494,259	\$ 2,492,410
American Baptist Service Corporation	1,932,885	1,932,885
American Baptist Foundation	263,501	641,548
American Baptist Churches USA	455,661	468,515
American Baptist Historical Society	125,904	-
Other	213,084	280,213
	3,485,294	5,815,571
Less: Allowance for doubtful receivables	<u>(1,811,712)</u>	<u>(1,811,412)</u>
	<u>\$ 1,673,582</u>	<u>\$ 4,004,159</u>

## 5. Investments and Assets Whose Use is Limited:

The Societies report their investments and assets whose use is limited on the combined statement of financial position at fair value. The Societies' realized and unrealized gains and losses are reflected in the combined statement of activities. The fair values of investments are based on methods described in note 13.

The fair value of investments and assets whose use is limited as of December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Assets whose use is limited:		
Cash and cash equivalents	\$ 1,781,686	\$ 2,336,532
Equities	36,955,267	75,955,995
Fixed Income	24,186,626	15,028,878
Hedge Fund	2,997,027	3,458,154
Forestland REIT	1,427,112	754,308
	<u>\$ 67,347,718</u>	<u>\$ 97,533,867</u>
	<u>2008</u>	<u>2007</u>
Investments and assets restricted for annuity obligations:		
Certificates of deposit and commercial paper	\$ 417,553	\$ 315,743
Corporate bonds	3,824,331	5,293,490
U.S. Government securities	406	697
Marketable equity securities	429,004	620,536
Common Investment Fund	95,321,963	137,917,812
American Baptist Extension Corporation notes	5,140,000	3,500,000
Other	1,459,013	928,630
	<u>\$ 106,592,270</u>	<u>\$ 148,576,908</u>
	<u>2008</u>	<u>2007</u>
Net realized/unrealized gains and (losses):		
Assets whose use is limited		
Net realized (losses) and gains	\$ (3,526,924)	\$ 9,903,048
Net unrealized losses	\$ (24,080,056)	\$ (3,415,771)
Investments		
Net realized (losses) and gains	\$ (5,153,451)	\$ 15,622,085
Net unrealized losses	\$ (36,830,258)	\$ (4,876,531)
	<u>2008</u>	<u>2007</u>
The fair values of cash, cash equivalents and investments held by the Common Investment Fund:		
Cash and cash equivalents	\$ 1,191,379	\$ 7,856,109
Corporate bonds	37,273,710	36,158,464
Global bond fund	11,648,760	-
Marketable equity securities	107,961,364	194,317,870
Timber real estate investment trust	3,517,408	1,856,074
	<u>\$ 161,592,621</u>	<u>\$ 240,188,517</u>

## 6. Mortgage Loans Receivable:

The Societies mortgage loan portfolio was made up of 116 and 136 loans as of December 31, 2008 and 2007, respectively. The average rate on these loans as of December 31, 2008 and 2007 was 6.42% and 6.02%, respectively. Interest income on these mortgage loans is recorded on the accrual basis of accounting. These loans are geographically dispersed throughout the United States and are administered by The American Baptist Extension Corporation, an affiliate organization.

Scheduled maturities of mortgage loans receivable as of December 31, 2008 are as follows:

2009	\$	242,472
Later years		<u>7,517,225</u>
		7,759,697
Less reserve		<u>(799,528)</u>
	\$	<u><u>6,960,169</u></u>

## 7. Annuity and Life Income Funds:

The Insurance Law of the State of New York requires the segregation of annuity fund assets separate and distinct from all other funds of the Societies. Such assets are not available for payment of debts of ABHMS other than for annuity benefits. The insurance law also requires prescribed minimum reserves for annuity contracts equal to the greater of the actuarial reserve or \$100,000. The annual reports of the fund on the form prescribed by the Insurance Department have been filed through 2008. The Actuarial Liability for annuity obligations was \$167,992 and \$243,101 at December 31, 2008 and 2007, respectively.

## 8. Retirement Plan:

The Societies' employees participate in the American Baptist Churches Retirement Plan (a defined contribution plan). All staff are covered and vested under the plan immediately upon employment. Pension expense was \$703,839 and \$757,287 for the years 2008 and 2007 respectively.

## 9. Temporarily and Permanently Restricted Net Assets:

Temporarily and permanently restricted net assets consisted of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
<u>Temporarily Restricted Net Assets</u>		
Unexpended income and principal for capital expenditures, mortgage loans, student financial aid, endowment of schools, education purposes, operating programs and annuity life income funds of the Societies	<u>\$ 65,256,724</u>	<u>\$ 74,473,362</u>
<u>Permanently Restricted Net Assets</u>		
Donor restricted endowments required to be maintained in perpetuity	<u>\$ 38,666,278</u>	<u>\$ 38,663,978</u>

## 10. Lease Commitment:

The Societies have an operating lease agreement with the American Baptist Churches in the USA (ABCUSA), which expired on December 31, 2008 and renewed on a monthly basis through March 2009, when ABHMS became a part owner of the Mission Center property through its partnership in 588 Associates, LP, as described in note 12. During 2008, the Societies were assessed monthly rental charges based upon a fixed rate per square foot under the existing agreement. The amount of space occupied by the Societies can vary from year to year.

Rental expense was \$591,833 and \$428,975 for years ended December 31, 2008 and 2007 respectively.

## 11. Commitments and Contingencies:

The Societies are from time to time involved in litigation arising in the ordinary course of business. At December 31, 2008 and 2007, there was no outstanding litigation or potential losses outstanding, therefore, no accrual has been recorded.

## 12. Subsequent Event:

In 2008 ABHMS entered into a limited partnership agreement with ABCUSA, the American Baptist Foreign Mission Society (ABFMS), and the Ministers and Missionaries Benefit Board (MMBB) to form 588 Associates, LP, a Pennsylvania limited partnership. In March of 2009, 588 Associates, LP purchased the ABC Mission Center property located at 588-590 North Gulph Road, Upper Merion Township, Montgomery County, Pennsylvania from ABCUSA for the purchase price of twenty million dollars (\$20,000,000). ABHMS holds a thirty-five percent (35%) interest in the partnership and contributed seven million dollars (\$7,000,000) towards the purchase price of the property. Of that total \$3,500,000 was contributed in cash and the remaining \$3,500,000 was in the form of a 15-year mortgage note held by ABCUSA at 7%.

### 13. Fair Value Measurements

Effective January 1, 2008, the Societies adopted FASB Statement No. 157 "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in a principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets or liabilities. These inputs can be readily observable, market corroborated, or unobservable.

SFAS No. 157 established a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value in three broad levels. The standard requires that assets and liabilities be classified in their entirety based on the level of input that is significant to the fair value measurement. Assessing the significance of a particular input may require judgment considering factors specific to the asset or liability, and may affect the valuation of the asset or liability and their placement within the fair value hierarchy. The Societies classify fair value balances based on the fair value hierarchy defined by SFAS No. 157 as follows:

- Level 1 – Unadjusted quoted prices in active markets at the measurement date for identical assets or liabilities. An active market is one in which transactions for assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. This category includes contracts traded on active exchange markets valued using unadjusted prices quoted directly from the exchange.
- Level 2 – Quoted prices for similar assets or liabilities valued using industry standard models and based on prices, other than quoted prices within Level 1, that are either directly or indirectly observable as of the measurement date. The industry standard models consider observable assumptions including time value, volatility factors, benchmark yields, reported trades, issuer spreads, broker/dealer quotes, bids, offers, and industry and economic data.
- Level 3 – Assets or liabilities whose fair value is estimated based on internally developed models or methodologies using inputs that are generally less readily observable and supported by little, if any, market activity at the measurement date. Unobservable inputs are developed based on the best available information and subject to cost benefit constraints.

#### *Equities*

For its investments with asset managers that hold public common and preferred stocks, the Societies have position-level transparency into individual holdings. These investments are priced by the Societies' custodians BNY Mellon and Brown Brothers Harriman & Co. using observable market data and are classified as Level 1.

#### *Fixed Income*

The Societies also have investments with two fixed income managers.

PIMCO Total Return Fund III is a commingled bond fund. Investments consist mainly of corporate and municipal bonds, U.S. Treasury obligations, mortgage and asset backed securities, and foreign currency – denominated issues. These are classified as Level 1.

The Colchester Global Bond Fund includes, among others, the domestic sovereign debt of the higher quality smaller countries such as Australia, Hungary, Mexico, New Zealand, Norway, Poland and the Czech Republic. The securities held by the fund have been categorized as Level 2. While each of the securities held by the fund is valued on the basis of quoted prices in active markets at the balance sheet, date the emerging practice in the United States is to include all instruments that are traded on an over-the-counter basis (such as the fixed income instruments held by the fund) within Level 2 regardless of the pricing source and methodology used.

ABEC investments held by ABHMS are non-negotiable notes that mature between March 2009 and June 2010 with interest rates ranging from 3.88% to 4.13%. ABEC is a New York not-for-profit corporation that exists to promote and support church extension and to assist churches and other related entities with acquisition, construction, and renovation of property for the spreading and sharing of the Gospel of Jesus Christ. Because fair value is based on internally developed models or methodologies using unobservable inputs these have been classified as Level 3.

### **13. Fair Value Measurements, Continued:**

#### *Hedge Fund*

The fund consists of the Mellon First Principle fund, Ltd. and is managed by EACM Advisors LLC. This investment, a fund of funds, does not have access to the individual positions of each underlying manager. The fair value of these investments is determined by the administrator and approved by the Societies in consultation with each investment manager. These assets are classified as Level 3 because the Societies do not have position-level transparency into the underlying managers.

#### *Forestland REIT*

The Societies are Limited Partners in Heartwood Forestland REIT. Heartwood Forestland engages in acquiring a diversified portfolio of commercial forestlands to provide current income from the management and operations of such forestlands and to realize capital appreciation of the forestlands. Valuations are made by the General Partner during the first three years after acquisition (our initial acquisition date is September 30, 2007). An independent appraiser will establish value at the end of every three-year cycle. These assets are classified as Level 3 because the Societies do not have either quoted prices or readily observable market comparable prices as of the valuation date.

#### *Other Investments*

This category consists of investments placed with the American Baptist Foundation that the Societies received from the dissolution of Educational Ministries Pooled Income and Annuity Fund. The assets of the Pooled Income fund are invested in the Wellington Admiral Fund and the Annuity Fund is invested in the Dodge & Cox Balanced Fund. Both of these are classified as Level 1.

Also included in this category are investments in community development loan funds that are held as part of the Societies' Mission Directed Funds. These investments serve as an expression of ABHMS' concern for the economic development and empowerment of low-income and minority communities. The hope is to provide such financial institutions with resources to further the economic growth of the communities in which they serve while at the same time earning a reasonable rate of return. Because fair value is based on internally developed models or methodologies using unobservable inputs these have been classified as Level 3.

The accompanying schedules represent total market value of investments as of December 31, 2008, for the Societies and for Funds of Others, respectively.

**13. Fair Value Measurements, Continued:**

The accompanying schedule represents total market value of investments for the Societies as of December 31, 2008.

Assets Measured at Fair Value on a Recurring Basis

Description	Fair Value Measurements at Reporting Date Using:			
	12/31/2008	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 60,197,658	\$ 60,197,658	\$ -	\$ -
Fixed Income	38,955,544	26,893,012	6,922,532	5,140,000
Hedge Fund	4,389,760	-	-	4,389,760
Forestland REIT	2,090,296	-	-	2,090,296
Other	959,012	498,117	31	460,864
	<u>\$ 106,592,270</u>	<u>\$ 87,588,787</u>	<u>\$ 6,922,563</u>	<u>\$ 12,080,920</u>

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	Forestland REIT	Hedge Fund Investment	Fixed Income (ABEC Note)	Other (Mission Directed Funds)	Total
Beginning Balance 12/31/07	\$ 1,101,766	\$ 5,051,115	\$ 3,500,000	\$ 159,653	\$ 9,812,534
Investments made during year	999,401	-	1,640,000	300,000	2,939,401
Withdrawals made during year	-	-	-	-	-
Realized & Unrealized Gains/(Losses)	(10,871)	(661,355)	-	1,211	(671,015)
Transfers in and/or out of Level 3	-	-	-	-	-
Ending Balance 12/31/08	<u>\$ 2,090,296</u>	<u>\$ 4,389,760</u>	<u>\$ 5,140,000</u>	<u>\$ 460,864</u>	<u>\$ 12,080,920</u>

The amount of total gains or losses for the period included in changes in net assets attributed to the change in unrealized gains or losses relating to assets still held at the reporting date.

	\$ (10,871)	\$ (661,355)	\$ -	\$ 1,211	\$ (671,015)
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**13. Fair Value Measurements, Concluded:**

The accompanying schedule represents total market value of investments for the Funds of Others as of December 31, 2008.

Assets Measured at Fair Value on a Recurring Basis

Description	Fair Value Measurements at Reporting Date Using:			
	12/31/2008	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	\$ 1,781,686	\$ 1,781,686	\$ -	\$ -
Equities	36,955,267	36,955,267	-	-
Fixed Income	24,186,626	19,696,156	4,490,470	-
Hedge Fund	2,997,027	-	-	2,997,027
Forestland REIT	1,427,112	-	-	1,427,112
	<u>\$ 67,347,718</u>	<u>\$ 58,433,109</u>	<u>\$ 4,490,470</u>	<u>\$ 4,424,139</u>

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Forestland REIT	Hedge Fund Investment	Total
Beginning Balance 12/31/07	\$ 754,308	\$ 3,458,154	\$ 4,212,462
Investments made during year	680,144	-	680,144
Withdrawals made during year	-	-	-
Realized & Unrealized Gains/Losses	(7,340)	(461,127)	(468,467)
Transfers in and/or out of Level 3	-	-	-
Ending Balance 12/31/08	<u>\$ 1,427,112</u>	<u>\$ 2,997,027</u>	<u>\$ 4,424,139</u>

The amount of total gains or losses for the period included in changes in net assets attributed to the change in unrealized gains or losses relating to assets still held at the reporting date.

\$ (7,340)	\$ (461,127)	\$ (468,467)
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**Woman's American Baptist Home Mission Society**

**Supplemental Schedule of Financial Position**

**December 31, 2008**

**Assets**

Investment in the Common Investment Fund	\$ 5,339,489
Property and equipment, net of accumulated depreciation	<u>11,201</u>
Total assets	<u>\$ 5,350,690</u>

**Liabilities**

Payable to the American Baptist Home Mission Society	<u>\$ 6,782</u>
Total liabilities	6,782

**Net Assets**

Net Assets:	
Unrestricted	\$ 3,143,990
Permanently restricted	<u>2,199,918</u>
Total net assets	<u>5,343,908</u>
Total liabilities and net assets	<u>\$ 5,350,690</u>

**Woman's American Baptist Home Mission Society**

**Supplemental Schedule of Activities and Change in Net Assets**

**For the year ended December 31, 2008**

**Revenues**

Investment income	\$ 705,905
Contributions	-
Trust fund income	<u>2,187</u>
Total revenues	<u>708,092</u>

**Expenses**

Contribution to Baptist related organization	
Disbursements to The American Baptist Home Mission Society	<u>512,172</u>
Total expenses	<u>512,172</u>
Increase in net assets	195,920

Net assets at beginning of year	<u>5,147,988</u>
Net assets at end of year	<u>\$ 5,343,908</u>

**Common Investment Fund**  
**Supplemental Schedule of Financial Position**  
**December 31, 2008**

<b>ASSETS</b>	<b>Societies</b>	<b>Funds of Others</b>	<b>Total</b>
Cash, cash equivalents and investments at fair value	\$ 99,657,185	\$ 67,198,860	\$ 166,856,045
Total assets	<u>99,657,185</u>	<u>67,198,860</u>	<u>166,856,045</u>
 <b>LIABILITIES</b>			
Accounts payable	<u>3,143,843</u>	<u>2,119,581</u>	<u>5,263,424</u>
Total liabilities	<u>3,143,843</u>	<u>2,119,581</u>	<u>5,263,424</u>
Assets less liabilities	<u>\$ 96,513,342</u>	<u>\$ 65,079,279</u>	<u>\$ 161,592,621</u>
 <b>NET ASSETS</b>			
Participating funds	\$ 48,677,884	\$ 79,338,598	\$ 128,016,482
Undistributed net realized gains	81,464,070	10,487,131	91,951,201
Accumulated market value over cost	(17,938,996)	(19,980,860)	(37,919,856)
Accumulated net premium on withdrawals	<u>(15,689,616)</u>	<u>(4,765,590)</u>	<u>(20,455,206)</u>
Total net assets	<u>\$ 96,513,342</u>	<u>\$ 65,079,279</u>	<u>\$ 161,592,621</u>

Based on market values, the unit value at December 31, 2008 was \$240.027 and \$350.041 at December 31, 2007.

**Common Investment Fund**  
**Supplemental Schedule of Activities and Change in Net Assets**  
**For the year ended December 31, 2008**

<b>REVENUES</b>	<b>Societies</b>	<b>Funds of Others</b>	<b>Total</b>
Contributions	\$ 934,307	\$ 3,805,603	\$ 4,739,910
Investment income	3,197,604	2,094,372	5,291,976
Total revenues	<u>4,131,911</u>	<u>5,899,975</u>	<u>10,031,886</u>
 <b>EXPENSES, PAYMENTS AND LOSSES</b>			
Expenses and Payments			
Withdrawals	2,799,525	3,547,464	6,346,989
Operating expenses	902,946	590,465	1,493,411
Distribution to participants	5,856,196	3,830,346	9,686,542
Gains paid to participants	2,614,546	48,096	2,662,642
Total expenses and payments	<u>12,173,213</u>	<u>8,016,371</u>	<u>20,189,584</u>
Realized losses on sale of investments	5,235,814	3,526,924	8,762,738
Net unrealized losses	35,983,464	23,691,996	59,675,460
Total expenses, payments and losses	<u>53,392,491</u>	<u>35,235,291</u>	<u>88,627,782</u>
Changes in net assets	(49,260,580)	(29,335,316)	(78,595,896)
Net assets at beginning of year	<u>145,773,922</u>	<u>94,414,595</u>	<u>240,188,517</u>
Net assets at end of year	<u>\$ 96,513,342</u>	<u>\$ 65,079,279</u>	<u>\$ 161,592,621</u>

NOTE: Income distribution is based on an annual payment rate of \$14.280 per unit in 2008 and \$13.644 in 2007.