



Combined Financial Statements

For the Years Ended June 30, 2011 and 2010

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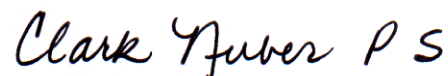
Independent Auditors' Report***Board of Trustees
CRISTA Ministries
Shoreline, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying combined balance sheets of CRISTA Ministries (“the Organization”) as of June 30, 2011 and 2010, and the related combined statements of unrestricted activities, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization’s management. Our responsibility is to express an opinion on these combined 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 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011 and 2010, 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 made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information for the years ended June 30, 2011 and 2010, presented on page 24, is presented for additional analysis and is not a required part of the basic combined financial statements. Such information is the responsibility of the Organization’s management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Certified Public Accountants
September 8, 2011

CRISTA MINISTRIES

Combined Balance Sheets - Assets
June 30, 2011 and 2010
(In Thousands)

	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents-		
Available for current ministries	\$ 9,626	\$ 11,259
Designated by the board for expansion	4,915	13,253
Loan funds held for capital project	5,003	
Held for donor restricted ministry purposes	4,541	5,458
Held by field operations	2,853	2,731
Total cash and cash equivalents	<u>26,938</u>	<u>32,701</u>
Current receivables, net	6,365	5,973
Prepaid expenses and supplies	<u>388</u>	<u>346</u>
Total Current Assets	33,691	39,020
Investments-		
Available for current ministries	13,367	12,848
Endowment funds	6,782	6,055
Other investments	<u>1,068</u>	<u>883</u>
Total investments	<u>21,217</u>	<u>19,786</u>
Property and equipment used in ministries, net	56,522	55,665
Long-term pledges receivable, net	83	
Planned giving program	2,644	2,416
Assets held by field operations	3,478	3,596
Radio licenses and other intangibles	<u>6,558</u>	<u>1,090</u>
Total Assets	<u>\$ 124,193</u>	<u>\$ 121,573</u>

See accompanying notes.

CRISTA MINISTRIES

Combined Balance Sheets - Liabilities and Net Assets
June 30, 2011 and 2010
(In Thousands)

	<u>2011</u>	<u>2010</u>
Current Liabilities:		
Accounts payable and accrued expenses	\$ 7,980	\$ 7,945
Accounts payable held in field offices	1,650	1,575
Deferred revenue	610	657
Current portion of long-term obligations	699	
	<u>10,939</u>	<u>10,177</u>
Total Current Liabilities	10,939	10,177
Long-term obligations	13,507	9,401
Refundable entry fees	6,707	7,119
Nonrefundable entry fees	7,206	8,353
Deposits and deferred rent	134	135
Planned giving program obligations	2,129	2,048
	<u>40,622</u>	<u>37,233</u>
Total Liabilities	40,622	37,233
Commitments and contingencies (Note 10)		
Net Assets:		
Unrestricted -		
General	18,257	19,334
Represented by property and equipment owned by the Organization	48,367	47,370
	<u>66,624</u>	<u>66,704</u>
Temporarily restricted-		
Restricted for program activities	8,506	10,018
Restricted for capital acquisitions	840	762
The Organization's portion of irrevocable trust agreements	87	10
Restricted for endowment funds	3,572	3,304
	<u>13,005</u>	<u>14,094</u>
Permanently restricted-		
Endowments for student financial aid and teacher excellence	1,452	1,239
Endowment for senior financial aid	1,103	1,103
Perpetual trust	1,387	1,200
	<u>3,942</u>	<u>3,542</u>
Total Net Assets	83,571	84,340
Total Liabilities and Net Assets	\$ 124,193	\$ 121,573

See accompanying notes.

CRISTA MINISTRIES

***Combined Statements of Unrestricted Activities
For the Years Ended June 30, 2011 and 2010
(In Thousands)***

	<u>2011</u>	<u>2010</u>
Revenues, Gains and Losses:		
Fees for services	\$ 57,604	\$ 57,750
Contributions	10,161	9,245
Contributions released from restrictions	9,632	9,738
Gifts-in-kind	66,738	62,016
Government grants	8,667	6,673
Other program revenue	709	618
Income on investments	610	391
Net realized and unrealized losses on investments and planned giving program	1,026	1,780
Miscellaneous income	280	304
	<u>155,427</u>	<u>148,515</u>
Total Revenues, Gains and Losses	155,427	148,515
Expenses:		
Program services	145,865	136,360
Fundraising	3,807	3,670
Management and general	5,835	4,828
	<u>155,507</u>	<u>144,858</u>
Total Expenses	155,507	144,858
Change in Unrestricted Net Assets Before Impairment Loss on Investments and Trusts	(80)	3,657
Impairment loss on investments and trusts (Note 3)		(4,411)
		<u>(4,411)</u>
Change in Unrestricted Net Assets	\$ (80)	\$ (754)

See accompanying notes.

CRISTA MINISTRIES

***Combined Statements of Changes in Net Assets
For the Years Ended June 30, 2011 and 2010
(In Thousands)***

	<u>2011</u>	<u>2010</u>
Unrestricted Net Assets:		
Total unrestricted revenue and gains	\$ 145,795	\$ 134,366
Contributions released from restrictions	9,632	9,738
Total unrestricted expenses and losses	<u>(155,507)</u>	<u>(144,858)</u>
Change in Unrestricted Net Assets	(80)	(754)
Temporarily Restricted Net Assets:		
Contributions	8,061	12,102
Contributions released from restrictions	(9,632)	(9,738)
Income on investments	115	38
Net realized and unrealized gains (losses) on investments and planned giving program	<u>367</u>	<u>(20)</u>
Change in Temporarily Restricted Net Assets	(1,089)	2,382
Permanently Restricted Net Assets:		
Contributions	213	
Net realized and unrealized gains on investments	<u>187</u>	<u>59</u>
Change in Permanently Restricted Net Assets	400	59
Total Change in Net Assets	(769)	1,687
Beginning of year net assets	<u>84,340</u>	<u>82,653</u>
End of Year Net Assets	<u>\$ 83,571</u>	<u>\$ 84,340</u>

See accompanying notes.

CRISTA MINISTRIES

Combined Statements of Cash Flows For the Years Ended June 30, 2011 and 2010 (In Thousands)

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (769)	\$ 1,687
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation and amortization	4,708	4,340
Entry fees earned - noncash	(1,451)	(1,585)
Nonrefundable entry fees received	421	689
Proceeds from capital campaign contributions	(251)	(338)
Proceeds from permanently restricted endowment contributions	(213)	
Loss on sale of property	11	463
Net realized and unrealized (gains) losses on long-term investments and planned giving program	(1,580)	2,592
Changes in assets and liabilities:		
Receivables and pledges receivable	(475)	(1,032)
Prepaid expenses and supplies	(42)	(4)
Planned giving program	13	232
Assets held by field operations	118	(266)
Radio licenses and other intangibles	423	(619)
Accounts payable and accrued expenses	110	(364)
Deferred revenue, deposits and deferred rent	(48)	(90)
Withdrawn entry fees	16	
Planned giving program obligations	81	(209)
Long-term obligations	(47)	(7)
Net Cash Provided by Operating Activities	1,025	5,489
Cash Flows from Investing Activities:		
Acquisition of land, buildings, and equipment	(5,292)	(3,701)
Proceeds from disposal of land, buildings, and equipment	6	2
Purchase of radio license	(6,181)	
Purchases of investments	(37,908)	(35,421)
Proceeds from sale of investments	37,816	36,041
Net Cash Used by Investing Activities	(11,559)	(3,079)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term obligations	13,495	68
Principal payments on long-term obligations	(8,643)	(1,450)
Refundable entry fees received	333	127
Entry fee refunds paid	(878)	(985)
Proceeds from capital campaign contributions	251	338
Proceeds from permanently restricted endowment contributions	213	
Net Cash Provided (Used) by Financing Activities	4,771	(1,902)
(Decrease) Increase in Cash and Cash Equivalents	(5,763)	508
Cash and Cash Equivalents:		
Beginning of year	32,701	32,193
End of Year	\$ 26,938	\$ 32,701
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 421	\$ 426
Cash paid during the year for income taxes	\$ 375	\$ 710

See accompanying notes.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 1 - Nature of Operations and Significant Accounting Policies

Business Purpose and Organization - To Love God by Serving People.

CRISTA Ministries, headquartered at 19303 Fremont Avenue North, Shoreline, Washington 98133-3800, is a Christian not-for-profit organization made up of seven distinct ministries with one common purpose. The mission of CRISTA Ministries is to love God by serving people - meeting practical and spiritual needs so that those we serve locally and internationally will be built up in love, united in faith and maturing in Christ. We seek to see people drawn into a transformational relationship with Christ.

CRISTA Ministries was founded in 1948 as King's Garden. Today, its seven ministries serving locally and internationally are: CRISTA Senior Living, World Concern, King's Schools, CRISTA Broadcasting, CRISTA Camps and Conferences, Christian Veterinary Mission, and Seattle Urban Academy.

World Concern Development Organization ("WCDO") is the non-ecclesiastical arm of World Concern, shares common facilities and management with World Concern, and is reported in these financial statements as part of World Concern. WCDO is a not-for-profit organization responsible for administering governmental and other grants.

CRISTA Ministries Canada ("CRISTA Canada") is a not-for-profit organization incorporated under the Canada Corporation Act and registered as a Charitable Organization. CRISTA Canada has an agreement with CRISTA Broadcasting to provide programming designed to support individuals in their commitment to practice their Christian beliefs and live the Christian life. CRISTA Canada also has an agreement with World Concern and Christian Veterinary Mission to help provide for the spiritual and physical needs of families in the poorest countries of the world.

Principles of Combination - The combined financial statements include the accounts of CRISTA Ministries, WCDO, and CRISTA Canada (collectively, the "Organization"). All significant inter-organization transactions have been eliminated.

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

Cash and Cash Equivalents - Cash in excess of daily requirements is invested in interest-bearing instruments with maturities of three months or less. Such investments are considered to be cash equivalents, except for those included in the Organization's investment portfolio and subject to its investment policy.

Cash Held by Field Operations - Cash held by field operations represents cash forwarded to project field sites for use in carrying out ministry activities.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 1 - Nature of Operations and Significant Accounting Policies

Receivables - Receivables consist of trade accounts receivable and pledges receivable and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable or pledges receivable. The allowance for doubtful accounts was \$1,708,000 and \$999,000 at June 30, 2011 and 2010, respectively.

Property and Depreciation - The Organization capitalizes assets with a cost greater than \$5,000 and an estimated useful life of three or more years. Purchased property is carried at cost. Donated property is recorded at fair value when received. Depreciation is computed using the straight-line method based on estimated useful lives as follows:

Buildings and improvements	10 - 50 years
Furniture and equipment	3 - 5 years
Vehicles	3 - 7 years

Investments and Planned Giving Program Assets - Investments and planned giving program assets consist primarily of marketable debt and equity securities as well as mutual funds and non-marketable securities. Investments in marketable securities are stated at fair value. Investments in non-marketable securities are stated at the lower of cost or net realizable value.

Captive Insurance Company - The Organization has contracted with a captive insurance company to insure against professional liability, property damage, and business income/extra expense, and to reinsure against a portion of its general liability, auto liability, and physical damage. The Organization owns a non-controlling share of the common stock of the captive insurance company and is accounting for this investment under the cost method of investment accounting. The value of this investment in the amount of \$366,000 as of June 30, 2011 and 2010, is included in investments.

Assets Held by Field Operations - The Organization includes in assets held by field operations assets in overseas locations and micro-enterprise loans (MLP), which are designed to assist impoverished persons to become self-reliant, successful entrepreneurs. The MLP is administered in accordance with guidelines published by World Concern and is tailored to specific conditions of the host country. The average loan size was \$228 and \$295 at June 30, 2011 and 2010, respectively. Maturities on MLP loans range from two months to two years. The majority of these loans mature from one to two years. Based on management's intent and ability to reinvest collected amounts in the MLP in these countries, the balance has been classified as long-term. MLP at June 30, 2011 and 2010, totaled \$3,539,000 and \$3,621,000, respectively. Allowance for doubtful accounts at June 30, 2011 and 2010, totaled \$243,000 and \$260,000, respectively. The allowance for doubtful accounts is calculated based on an analysis of individual accounts.

Radio Licenses and Other Intangibles - The Organization has capitalized financing fees associated with the issuance of tax-exempt bonds and radio license fees. Allowable costs are amortized to expense on a straight-line basis over the contract term or future benefit period. Costs that cannot be amortized will be reviewed on an annual basis for any possible impairment. During the year ended June 30, 2011, the Organization purchased KFMK in Austin, Texas for \$6,250,000. Of this amount \$6,181,000 was assigned to the value of the radio license.

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Notes to Combined Financial Statements

Note 1 - Continued

Concentration of Credit Risk - Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of receivables, cash and cash equivalents, and investments. As of June 30, 2011 and 2010, concentration of credit risk with respect to receivables is limited due to a large base of customers consisting of public and private companies representing a variety of industries, government agencies, and individuals in the Pacific Northwest. Cash and cash equivalents are held with banks located in and outside of the United States. As of June 30, 2011 and 2010, 11% and 8%, respectively, of cash and cash equivalents are held in banks outside of the United States. Investments are held with a variety of financial institutions. Cash, cash equivalents, and investment balances may at times exceed FDIC and SIPC insurance limits.

Financial Instruments - The carrying amount of financial instruments, including cash and cash equivalents, receivables, investments, development loans receivable, payables, and long-term obligations, approximates fair value as of June 30, 2011 and 2010, with the exception of investments carried at cost. It is not practical to estimate the fair value of investments carried at cost.

Deferred Revenue - Cash from some fees for services is received prior to the Organization providing the intended program services. These revenues are deferred until the period in which the services are rendered.

Entry Fees - Entry fees represent advance payment for use of retirement facilities. Entry fees are subject to contractual refunds upon death or other termination of residency. The refunds on a majority of the contracts range from 0% to 75% of the entry fees paid, depending upon length of residency. The nonrefundable portion of the entry fee is recorded as deferred revenue and is amortized to income based upon the life expectancy of the residents.

The present value of the net cost of future services to current residents is calculated annually to determine if an unfunded liability for those services should be recorded. A discount rate of 6% was used as of June 30, 2011. No unfunded liability exists for obligations to provide future services as of June 30, 2011 or 2010.

Basis of Presentation - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets - Unrestricted net assets include all net assets on which there are no donor-imposed restrictions for use, or such donor-imposed restrictions were temporary and expired or were met during the current or previous years.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time, as well as for endowment funds.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions to be maintained permanently by the Organization.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net

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Notes to Combined Financial Statements

assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

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Notes to Combined Financial Statements

Note 1 - Continued

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as temporarily restricted. When the long-lived assets are acquired, the Organization reflects the expiration of the donor-imposed restriction as a reclassification included in contributions released from restrictions.

Foreign Currency Translation - The functional currency of World Concern's field offices is the local currency in which the office is located. Assets and liabilities of the office have been translated into U.S. dollars at year-end exchange rates. Revenues and expenses have been translated at average monthly exchange rates. Any translation adjustments are included in the combined statements of unrestricted activities.

Revenues and Gains - Fees for services, government grants, and miscellaneous income consist of revenues earned during the year. Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions also include non-cash gifts (gifts-in-kind), which are valued at estimated fair value at the date of gift (Note 9).

Senior Living recognizes revenue based on estimated net realizable amounts from patients and third-party payors, which includes the Medicaid and Medicare programs. Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates may change.

Functional Allocation of Expenses - The cost of providing program services, fundraising, and general administration of the Organization has been summarized on a functional basis in a supplemental schedule to the financial statements. Accordingly, certain costs have been allocated between program services, fundraising, and general administrative expenses based on actual usage or square footage.

Income Taxes - The Internal Revenue Service has determined that CRISTA and WCDO are exempt from federal income taxes under Sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code, with the exception of certain activities that result in unrelated business income which are therefore taxable. Federal income tax of \$45,000 and \$646,000 was included in expenses for the years ended June 30, 2011 and 2010, respectively. There are open tax years that are subject to IRS review; however, management has determined that no provision for uncertain tax positions was required at June 30, 2011 or 2010.

CRISTA Canada is registered as a Charitable Organization under tax laws established by the Canada Revenue Agency. It had no taxable income for the years ended June 30, 2011 and 2010.

Financial Statement Reclassifications - Certain reclassifications have been made to the prior year combined financial statements to conform to the current year presentation. Such reclassifications have no effect on the change in net assets or net asset balances as previously reported.

Subsequent Events - The Organization has evaluated subsequent events through September 8, 2011, the date on which the financial statements were available to be issued.

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Notes to Combined Financial Statements

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following as of June 30:

	<i>(In Thousands)</i>	
	<u>2011</u>	<u>2010</u>
Cash	\$ 5,959	\$ 4,094
CD, commercial paper, and other	20,979	28,607
Total Cash and Cash Equivalents	\$ 26,938	\$ 32,701

Cash and cash equivalents include \$2,853,000 and \$2,731,000 at June 30, 2011 and 2010, respectively, of funds on deposit in banks in foreign countries.

Cash and cash equivalents designated by the Board for expansion at June 30, 2011 and 2010, include \$1,371,000 and \$8,875,000, respectively, for the purchase and development of KFMK radio station in Austin, Texas and \$3,544,000 and \$4,378,000, respectively, for construction of Schools' Technology and Science Center.

Also included in cash and cash equivalents at June 30, 2011, is \$5,003,000 from the proceeds of a bond financing to be used for a Senior Living renovation project.

Note 3 - Investments and Planned Giving Program Assets

Investments and planned giving program assets consisted of the following as of June 30:

	<i>(In Thousands)</i>	
	<u>2011</u>	<u>2010</u>
Investments-		
Cash and cash equivalents	\$ 670	\$ 656
Marketable equity securities	3,406	2,959
Marketable debt securities	14,687	13,638
Non-marketable debt securities	451	451
Non-marketable equity securities	366	366
Property held for sale	250	250
Beneficial interest in perpetual trust held by third party	1,387	1,200
Other		266
	<u>21,217</u>	<u>19,786</u>
Planned giving program assets-		
Cash and cash equivalents	19	32
Marketable equity securities	447	534
Marketable debt securities	2,170	1,850
Non-marketable debt securities	8	
	<u>\$ 23,861</u>	<u>\$ 22,202</u>

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 3 - Continued

Impairment Loss on Investments and Trusts - In fiscal years 2003 through 2005, the Organization invested \$3,015,000 of its investments available for current ministries and \$290,000 of its endowment investments with an investment company (the Company). During subsequent years, \$1,633,000 of cumulative interest was added to the investments. In July 2010, the Organization was notified that the Company had filed for bankruptcy. Based on information received from the bankruptcy trustee, management believes that the recoverable value of the investments is \$451,000. Because the conditions causing the bankruptcy existed prior to June 30, 2010, unrestricted loss on investments of \$4,411,000 and temporarily restricted loss on investments of \$76,000 were recognized in the year ended June 30, 2010. Any future recoveries or losses over or under the estimated recovery amount will be reflected as income or loss in the year received.

Certain of the trusts administered by the Organization were also invested with the Company. Net impairment losses associated with the Organization's beneficial interest in the trusts totaling \$472,000 were recognized for the year ended June 30, 2010, in temporarily restricted losses on investments and planned giving program.

During the year ended June 30, 2011, a plan was approved by the bankruptcy court for disposition of assets. The estimated recovery for the Organization approximates the amount recorded as recoverable in the year ended June 30, 2010. The actual disposition of the bankrupt estate will take several years to conclude.

Note 4 - Fair Value Measurements

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. These financial instruments were valued using a market approach.

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Notes to Combined Financial Statements

Note 4 - Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Organization at year-end.

Mortgage Backed Securities and Annuity Contracts - Mortgage backed securities and annuity contracts are valued using the NAV provided by the investment's manager. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The investments are traded on a private market that is not active.

Perpetual Trust - The perpetual trust is valued at the Organization's share of the trust's assets, which are reported at fair value.

Assets recorded at fair value on a recurring basis at June 30 were as follows:

	<i>Fair Value Measurements at June 30, 2011 (In Thousands)</i>			
	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Total</i>
Mutual funds-				
Growth	\$ 78	\$ -	\$ -	\$ 78
Value	16			16
Blended	1,110			1,110
International	479			479
Bond	12,262			12,262
Commodity	1,275			1,275
Total mutual funds	15,220	-	-	15,220
Mortgage backed securities			617	617
Annuity contracts			4,873	4,873
Perpetual trust held by third party			1,387	1,387
Total at June 30, 2011	\$ 15,220	\$ -	\$ 6,877	\$ 22,097

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Notes to Combined Financial Statements

Note 4 - Continued

<i>Fair Value Measurements at June 30, 2010 (In Thousands)</i>				
	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	<i>Total</i>
Mutual funds-				
Growth	\$ 222	\$ -	\$ -	\$ 222
Value	39			39
Blended	734			734
International	216			216
Bond	11,089			11,089
Commodity	1,401			1,401
Total mutual funds	13,701	-	-	13,701
Mortgage backed securities			816	816
Annuity contracts			4,464	4,464
Perpetual trust held by third party			1,200	1,200
Total at June 30, 2010	\$ 13,701	\$ -	\$ 6,480	\$ 20,181

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made using significant unobservable inputs (Level 3) follows:

<i>Fair Value Measurements (In Thousands)</i>				
	<i>Mortgage Backed Securities</i>	<i>Annuity Contracts</i>	<i>Perpetual Trust</i>	<i>Total (Level 3)</i>
Balance at July 1, 2009	\$ 817	\$ 4,163	\$ 1,141	\$ 6,121
Total gains or losses (realized/unrealized)	47	410	59	516
Purchases, issuances, and settlements	(48)	(109)		(157)
Balance at June 30, 2010	816	4,464	1,200	6,480
Total gains or losses (realized/unrealized)	(197)	476	187	466
Purchases, issuances, and settlements	(2)	(67)		(69)
Balance at June 30, 2011	\$ 617	\$ 4,873	\$ 1,387	\$ 6,877

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 4 - Continued

The annuity contracts generally have terms over the lives of the annuitants. The contracts allow for certain periodic withdrawals without penalty; however, the contracts may be liquidated at cash surrender values, which approximates fair value, at any time. Mortgage backed securities are held in a real estate trust. While this asset is intended as a long-term holding, shares may be redeemed under the Trust's redemption program. Any shareholder that has held shares for at least one year from the date of acquisition may present all or any portion of such shares for redemption at any time. However, share redemptions may be limited by the Trust's available cash flow. There are no unfunded commitments on these investments at June 30, 2011 or 2010. The perpetual trusts represent the Organization's interest in trust assets. Annual distributions are made from the trusts by the trustees; therefore, no redemption terms or restrictions apply.

A reconciliation of the investments and planned giving assets measured at fair value on a recurring basis to total investments as of June 30 is as follows:

	<i>(In Thousands)</i>	
	<u>2011</u>	<u>2010</u>
Assets recorded at fair value on a recurring basis	\$ 22,097	\$ 20,181
Assets recorded at cost	<u>1,764</u>	<u>2,021</u>
Total Investments and Planned Giving	<u>\$ 23,861</u>	<u>\$ 22,202</u>

Note 5 - Property and Equipment Used in Ministries

Property and equipment used in ministries consisted of the following as of June 30:

	<i>(In Thousands)</i>	
	<u>2011</u>	<u>2010</u>
Land	\$ 9,420	\$ 9,284
Buildings and improvements	87,596	85,167
Furniture, equipment, and other	16,624	15,617
Construction in progress	<u>1,488</u>	<u>590</u>
Total property and equipment before depreciation	115,128	110,658
Less accumulated depreciation	<u>(58,606)</u>	<u>(54,993)</u>
Property and Equipment, Net	<u>\$ 56,522</u>	<u>\$ 55,665</u>

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 6 - Planned Giving Program

Irrevocable Trusts - The Organization is a beneficiary of irrevocable unitrusts and testamentary trusts administered by the Organization. The trusts provide for annual distributions of 6% to 7% of the value of trust assets to be paid to the trust grantors. The trusts all terminate upon the death of the various grantors, at which time the remaining assets will be distributed to the Organization and other beneficiaries. The trust assets are valued at fair value and totaled \$1,136,000 and \$1,010,000 at June 30, 2011 and 2010, respectively. The trust liabilities are valued at the present value of the estimated future distributions to be paid to the trust grantors discounted at rates of 6% to 7% and totaled \$1,049,000 and \$1,000,000 at June 30, 2011 and 2010, respectively.

Gains or losses from the change in trust liabilities are recorded as temporarily restricted contribution revenue. When trusts are initially established the Organization records temporarily restricted contribution revenue equal to the value of trust assets received less the trust liability. The Organization recorded a gain of \$76,000 and a loss of (\$438,000) during the years ended June 30, 2011 and 2010, respectively, related to the change in trust assets and liabilities. This gain or loss is included in the temporarily restricted net realized and unrealized gains (losses) on investments on the combined statements of changes in net assets. There were no contributions to irrevocable trusts during the years ended June 30, 2011 and 2010.

Annuities - The Organization administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. When contributed assets are initially received the assets are recorded at fair value as general assets of the Organization and temporarily restricted contribution revenue is recorded equal to the value of contributed assets received less the annuity liability. The present values of the payments due to the beneficiaries are recorded as liabilities and totaled \$961,000 and \$928,000 at June 30, 2011 and 2010, respectively. Net present values are calculated based on the expected life of the beneficiaries and using the applicable federal discount rate at the date of the gift. The annuity liability is revalued annually based upon actuarially computed present values. The liability recorded and the segregated funds the Organization maintains exceed the actuarial value of the annuity liability as required by Washington state law.

Gift Loan Agreements - Gift loan agreements represent demand notes with interest rates of 5% that become contributions to the Organization upon the death of the noteholder. Gift loan agreement liabilities totaled \$119,000 and \$120,000 at June 30, 2011 and 2010, respectively.

Perpetual Trust - The Organization is named as one of several beneficiaries of a perpetual trust. Under the terms of the trust, an independent trustee will make annual distributions, in perpetuity, to the Organization based upon 3% percent of the Organizations' share of the trust assets' fair value. That share totaled \$1,387,000 and \$1,200,000 at June 30, 2011 and 2010, respectively, and is included in permanently restricted net assets. The Organization received distributions totaling \$60,700 and \$55,230 for the years ended June 30, 2011 and 2010, respectively. The distributions are available for general operations. Changes in the value of the underlying assets of \$187,000 and \$59,000 for the years ended June 30, 2011 and 2010, respectively, have been recorded in the accompanying combined statements of changes in permanently restricted net assets as net realized and unrealized gains on investments.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 7 - Long-Term Obligations

Long-term obligations as of June 30 consisted of the following:

	<i>(In Thousands)</i>	
	<u>2011</u>	<u>2010</u>
Tax exempt bonds - fixed rate of 3.7%, due in monthly installments through January 1, 2026	\$ 13,155	\$ -
Tax exempt bonds - interest at weekly variable and fixed rates (effective rate of 3.3% and 4.6%, respectively, for 2011 and 2010), paid in full January 2011		5,245
Line-of-credit (effective interest rate of 1.9% and 2.2% for 2011 and 2010), paid in full January 2011		3,050
Deferred employee benefits	424	471
Obligations for future services	<u>627</u>	<u>635</u>
Total Long-Term Obligations	<u>\$ 14,206</u>	<u>\$ 9,401</u>

Letters of credit were required with a financial institution to guarantee payment on the paid in full tax-exempt bonds. At June 30, 2010, the letter of credit balance was \$6,882,000 as security for all tax-exempt bonds. The annual fee for the letter of credit was 0.625% of the outstanding bond balance in 2010. The annual charge was approximately \$44,000 for the year ended 2010. The letter of credit was terminated in January 2011.

The tax-exempt bonds are secured by land, buildings, and equipment with an aggregate net book value of \$19,262,000 and \$21,460,000, at June 30, 2011 and 2010, respectively. The Organization is in compliance with all restrictive covenants.

Interest expense, including letter of credit fees, was \$457,000 and \$436,000, for the years ended June 30, 2011 and 2010, respectively.

The Organization has a line-of-credit agreement expiring November 30, 2012, which provides for a total commitment of \$2,500,000. There was no outstanding balance at June 30, 2011. The line-of-credit outstanding balance at June 30, 2010, of \$3,050,000 is included in the long-term obligations at June 30, 2010. The Organization was in compliance with covenants on the line-of-credit agreements during fiscal years 2011 and 2010.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 7 - Continued

Principal maturities on long-term obligations are as follows:

<i>Years Ending June 30,</i>	<i>(In Thousands)</i>
2012	\$ 699
2013	802
2014	762
2015	791
2016	887
Thereafter	<u>10,265</u>
	<u>\$ 14,206</u>

Deferred employee benefits include a salary continuation agreement with a former key officer and a reserve for workers' compensation liability.

Note 8 - Endowment

The Organization's endowments consist of a number of funds established for a variety of purposes. Its endowments include both donor-restricted permanent endowment funds and temporarily restricted funds set up to function as endowments but allowing for the possibility of spending of corpus, if necessary. As required by generally accepted accounting principles (GAAP) and as disclosed below, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has interpreted the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation the Organization classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the:

- Duration and preservation of the fund;
- Purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- Possible effect of inflation and deflation;
- Expected total return from income and the appreciation of investments;
- Other resources of the Organization; and
- Investment policies of the Organization.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 8 - Continued

Endowment net assets consisted of the following at June 30:

	<i>(In Thousands)</i>			
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor restricted permanent endowments-				
Student financial aid	\$ (347)	\$ -	\$ 1,452	\$ 1,105
Senior financial aid	(362)		1,103	741
Total donor restricted permanent endowments	(709)		2,555	1,846
Temporarily restricted, functioning as endowments-				
General program		859		859
Schools		1,038		1,038
Christian Veterinary Mission		903		903
Seattle Urban Academy		437		437
Camps		328		328
World Concern		7		7
Total temporarily restricted functioning as endowments		3,572		3,572
Endowment Net Assets, June 30, 2011	\$ (709)	\$ 3,572	\$ 2,555	\$ 5,418

	<i>(In Thousands)</i>			
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor restricted permanent endowments-				
Student financial aid	\$ (387)	\$ -	\$ 1,239	\$ 852
Senior financial aid	(379)		1,103	724
Total donor restricted permanent endowments	(766)		2,342	1,576
Temporarily restricted, functioning as endowments-				
General program		815		815
Schools		954		954
Christian Veterinary Mission		796		796
Seattle Urban Academy		415		415
Camps		317		317
World Concern		7		7
Total temporarily restricted functioning as endowments		3,304		3,304
Endowment Net Assets, June 30, 2010	\$ (766)	\$ 3,304	\$ 2,342	\$ 4,880

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 8 - Continued

Changes to endowment net assets for the year ended June 30, 2011, are as follows:

	<i>(In Thousands)</i>			<i>Total</i>
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	
Endowment net assets June 30, 2010	\$ (766)	\$ 3,304	\$ 2,342	\$ 4,880
Endowment investment return-				
Interest and dividends				
Realized and unrealized		123		123
gains and losses	57	243		300
Total endowment investment return	57	366		423
Contributions		88	213	301
Appropriation of endowment for expenditure		(186)		(186)
Endowment Net Assets, June 30, 2011	<u>\$ (709)</u>	<u>\$ 3,572</u>	<u>\$ 2,555</u>	<u>\$ 5,418</u>

Changes to endowment net assets for the year ended June 30, 2010, are as follows:

	<i>(In Thousands)</i>			<i>Total</i>
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	
Endowment net assets June 30, 2009	\$ (546)	\$ 2,968	\$ 2,342	\$ 4,764
Endowment investment return-				
Interest and dividends				
Realized and unrealized		96		96
gains and losses	(220)	363		143
Total endowment investment return	(220)	459		239
Contributions		91		91
Appropriation of endowment for expenditure		(214)		(214)
Endowment Net Assets, June 30, 2010	<u>\$ (766)</u>	<u>\$ 3,304</u>	<u>\$ 2,342</u>	<u>\$ 4,880</u>

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 8 - Continued

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$709,000 and \$766,000 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations and impairment of investments (Note 3) that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an average annual rate of return of approximately 7%, or the Consumer Price Index plus a risk premium of 3%, whichever is greater over a five-year investment horizon in a manner that seeks to minimize principal fluctuations over the investment time horizon. Actual returns may vary significantly from this objective in any given year.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation, realized and unrealized gains, and current yield such as interest and dividends. The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution approximately 5% of the market value of endowment assets as of the beginning of the calendar year. In establishing this policy, the Organization considered the long-term expected return on its endowment and its desire to maintain a predictable stream of funding to programs supported by its endowment assets. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow at an average 2% annually. This is consistent with the Organization's objective to provide real growth to its endowment through new gifts and investment returns.

Note 9 - Gifts-in-Kind

CRISTA receives donations of medicine, clothing, agricultural supplies, health supplies, and other commodities for use in its various programs. Such gifts are recorded as inventory and revenue at the time received and as a reduction of inventory and as a program services expense when the distributing agency has received the goods at estimated fair values. These gifts are recorded at their fair value based on product like-kind analysis and current estimated wholesale prices when available. Gifts-in-kind (GIK) are recorded in accordance with generally accepted accounting principles and in consideration of Accord GIK Interagency Standards. Such standards are subject to review and adjustment; therefore, estimates of fair value of donated commodities may vary in the future.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 9 - Continued

Gifts of \$56,528,000 and \$16,215,000 for the years ended June 30, 2011 and 2010, respectively, relate to gifts-in-kind received through private donations and \$10,210,000 and \$45,801,000 for the years ended June 30, 2011 and 2010, respectively, were received from other not-for-profit organizations. Of the total gifts for the years ended June 30, 2011 and 2010, 84% and 74%, respectively, came from a single source, although the single source was different in each year. A summary of gift-in-kind revenue for the years ended June 30 is as follows:

	<i>(In Thousands)</i>	
	<u>2011</u>	<u>2010</u>
Medicines and medical supplies	\$ 63,203	\$ 60,970
Clothing	187	5
Seeds, food, and agricultural supplies	2,504	378
Other supplies	844	663
Total Gift-In-Kind Revenue	<u>\$ 66,738</u>	<u>\$ 62,016</u>

Note 10 - Commitments and Contingencies

Leases - The Organization is obligated under various operating leases for office equipment, office and radio tower space. Lease expense for the years ended June 30, 2011 and 2010, was \$486,000 and \$350,000, respectively. Future minimum lease payments for operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2011, are as follows:

	<i>(In Thousands)</i>
2012	\$ 429
2013	493
2014	500
2015	485
2016	490
Thereafter	<u>2,163</u>
Total	<u>\$ 4,560</u>

Employee Retirement Benefits - The Organization offers a Section 403(b) savings plan to eligible employees. Employees may contribute amounts from their salaries to the plan up to the limits specified by the Internal Revenue Service. The Organization contributes 3% of earnings annually to each eligible employee's account. The Organization matches up to 4% additional contributions to an eligible employee's account based upon years of service to the Organization. Employer provided funds are vested to the employee at 20% per year until fully vested after five years. Total employer contributions expensed during the years ended June 30, 2011 and 2010, were \$1,458,000 and \$1,366,000, respectively.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 10 - Continued

Other Employee Benefits - The Organization offers employees an option to participate in a self-insured health plan. The Organization also maintains a self-insured workers' compensation plan. Claims under these plans are self-insured with stop-loss umbrella policies in place to limit maximum potential liability for both individual claims and total claims for a plan year. Claims are paid as they are submitted to the plan administrators. The Organization maintains an accrual for claims that have been incurred but not yet reported (IBNR) to the plan administrators and therefore have not been paid. The IBNR reserve is based on the historical lag period and current payment trends of health insurance claims (generally 2-3 months) and workers compensation claims (generally 1-3 years). The IBNR reserve for health care is based on the historical claims as computed by the insurance broker's actuaries (generally 15 months), less payments made. The liability for the benefit claims due in less than one year are recorded in accounts payable and accrued expenses while the liability for claims greater than one year are recorded in long term obligations in the accompanying combined balance sheets.

Contingencies - Amounts received under federal grant-in-aid programs are subject to audit and adjustment by the granting agency. Any adjusted amounts, including funds already received, may constitute a liability of the Organization. Management believes adjustments required, if any, as a result of audits will not have a material effect on the Organization's financial position or results of activities.

In the normal course of business, the Organization has various claims in process, matters in litigation, and other contingencies. In management's opinion, the outcome from these matters will not materially impact the Organization's financial position or results of activities.

SUPPLEMENTARY INFORMATION

CRISTA MINISTRIES

**Combined Schedules of Functional Expenses
For the Years Ended June 30, 2011 and 2010
(In Thousands)**

	2011				2010			
	<i>Program Services</i>	<i>Fundraising</i>	<i>Management and General</i>	<i>Total 2011</i>	<i>Program Services</i>	<i>Fundraising</i>	<i>Management and General</i>	<i>Total 2010</i>
Salaries	\$ 33,933	\$ 1,420	\$ 2,537	\$ 37,890	\$ 31,743	\$ 1,229	\$ 1,896	\$ 34,868
Payroll taxes	2,752	142	180	3,074	2,931	121	162	3,214
Employee benefits	5,696	210	334	6,240	5,243	162	272	5,677
Professional services	1,683	67	696	2,446	1,768	60	239	2,067
Advertising and promotion	1,090	31	3	1,124	721	25	18	764
Office expenses	1,881	248	202	2,331	1,704	263	142	2,109
Information technology	562	147	88	797	425	203	75	703
Occupancy	4,765	31	286	5,082	4,394	29	213	4,636
Travel	2,429	70	144	2,643	1,565	47	83	1,695
Conferences and training	952	64	132	1,148	1,278	54	105	1,437
Interest	457			457	436			436
Depreciation and amortization	4,708			4,708	4,340			4,340
Insurance	1,447		166	1,613	1,519		159	1,678
Dues and fees	614	4	56	674	570	12	70	652
Purchased services	1,535	1,119	615	3,269	1,819	1,251	1,062	4,132
Taxes	147	1	55	203	791	9		800
Grants	52			52	55			55
Program supplies	80,712	253	10	80,975	74,862	205	2	75,069
Other	450		331	781	196		330	526
	\$ 145,865	\$ 3,807	\$ 5,835	\$ 155,507	\$ 136,360	\$ 3,670	\$ 4,828	\$ 144,858

See independent auditors' report.