



Combined Financial Statements and
Supplemental Information with
Independent Auditors' Report

June 30, 2007 and 2006

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CLARK NUBER

Independent Auditors' Report

***Board of Trustees
CRISTA Ministries
Shoreline, Washington***

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We have audited the accompanying combined balance sheets of CRISTA Ministries (“the Organization”) as of June 30, 2007 and 2006, 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 18 and 19 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. This supplemental information is the responsibility of the Organization’s management.

Clark Nuber P S

Certified Public Accountants
Bellevue, Washington
August 30, 2007

CRISTA MINISTRIES

Combined Balance Sheets

Assets

(In Thousands)

| | <i>June 30,</i> | <i>2007</i> | <i>2006</i> |
|-------------------------------------|-----------------|----------------|-------------------|
| Current Assets: | | | |
| Cash and cash equivalents | \$ | 34,867 | \$ 34,811 |
| Receivables, net | | 4,993 | 4,306 |
| Prepaid expenses and inventory | | 1,232 | 1,498 |
| | | <hr/> | <hr/> |
| Total Current Assets | | 41,092 | 40,615 |
| Investments | | 28,133 | 23,558 |
| Land, buildings, and equipment, net | | 49,541 | 46,051 |
| Assets held in trust | | 2,555 | 2,455 |
| Other assets | | 5,048 | 3,129 |
| | | <hr/> | <hr/> |
| Total Assets | \$ | 126,369 | \$ 115,808 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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

CRISTA MINISTRIES

Combined Balance Sheets

Liabilities and Net Assets

(In Thousands)

| | <i>June 30,</i> | <i>2007</i> | <i>2006</i> |
|--|-----------------|----------------|-------------------|
| Current Liabilities: | | | |
| Accounts payable and accrued expenses | \$ | 9,311 | \$ 8,273 |
| Deferred revenue | | 1,331 | 1,471 |
| Net liabilities from discontinued operations | | | 1,435 |
| | | <hr/> | <hr/> |
| Total Current Liabilities | | 10,642 | 11,179 |
| Long-term obligations | | 10,538 | 11,180 |
| Refundable entry fees | | 8,858 | 8,841 |
| Nonrefundable entry fees | | 10,376 | 10,702 |
| Deposits | | 147 | 144 |
| Trusts, annuities, and other agreements | | 3,276 | 3,378 |
| | | <hr/> | <hr/> |
| Total Liabilities | | 43,837 | 45,424 |
| Commitments and contingencies (Note 13) | | | |
| Net Assets: | | | |
| Unrestricted | | 63,418 | 55,133 |
| Temporarily restricted | | 15,132 | 13,909 |
| Permanently restricted | | 3,982 | 1,342 |
| | | <hr/> | <hr/> |
| Total Net Assets | | 82,532 | 70,384 |
| | | <hr/> | <hr/> |
| Total Liabilities and Net Assets | \$ | 126,369 | \$ 115,808 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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

CRISTA MINISTRIES

***Combined Statements of Unrestricted Activities
(In Thousands)***

| | <i>Years Ended June 30,</i> | <i>2007</i> | <i>2006</i> |
|---|-----------------------------|----------------|-----------------|
| Revenues and Gains: | | | |
| Fees for services | \$ | 56,899 | \$ 53,516 |
| Contributions | | 8,007 | 8,320 |
| Contributions released from restrictions | | 10,307 | 11,571 |
| Gifts-in-kind | | 42,907 | 69,372 |
| Government grants | | 4,039 | 2,821 |
| Other program revenue | | 575 | 648 |
| Income on investments | | 2,422 | 1,886 |
| Net realized and unrealized gains on investments | | 2,047 | 1,538 |
| Miscellaneous income | | 435 | 451 |
| | | <hr/> | <hr/> |
| Total Revenues and Gains | | 127,638 | 150,123 |
| Expenses: | | | |
| Program services | | 112,016 | 135,724 |
| Fundraising | | 3,314 | 2,865 |
| Management and general | | 4,023 | 3,670 |
| | | <hr/> | <hr/> |
| Total Expenses | | 119,353 | 142,259 |
| Change in Unrestricted Net Assets from Continuing Operations | | 8,285 | 7,864 |
| Change in Unrestricted Net Assets from Discontinued Operations: | | | |
| Loss from discontinued operations of New Hope (including loss on disposal of \$1,265) | | | (1,640) |
| | | | <hr/> |
| Change in Unrestricted Net Assets | \$ | 8,285 | \$ 6,224 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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

CRISTA MINISTRIES

***Combined Statements of Changes in Net Assets
(In Thousands)***

| | <i>Years Ended June 30,</i> | <i>2007</i> | <i>2006</i> |
|--|-----------------------------|---------------|------------------|
| Unrestricted Net Assets: | | | |
| Total unrestricted revenue and gains | \$ | 117,331 | \$ 138,552 |
| Contributions released from restrictions | | 10,307 | 11,571 |
| Total unrestricted expenses and losses | | (119,353) | (142,259) |
| Loss from discontinued operations | | | (1,640) |
| | | <hr/> | <hr/> |
| Change in Unrestricted Net Assets | | 8,285 | 6,224 |
| Temporarily Restricted Net Assets: | | | |
| Contributions | | 10,568 | 12,512 |
| Contributions released from restrictions | | (10,307) | (11,571) |
| Income on investments | | 132 | 141 |
| Net realized and unrealized gains on investments | | 830 | 174 |
| | | <hr/> | <hr/> |
| Change in Temporarily Restricted Net Assets | | 1,223 | 1,256 |
| Permanently Restricted Net Assets: | | | |
| Contributions | | 2,640 | |
| Net realized and unrealized gains on investments | | | 6 |
| | | <hr/> | <hr/> |
| Change in Permanently Restricted Net Assets | | 2,640 | 6 |
| Total Change in Net Assets | | 12,148 | 7,486 |
| Beginning of year net assets | | <hr/> | <hr/> |
| | | 70,384 | 62,898 |
| End of Year Net Assets | \$ | 82,532 | \$ 70,384 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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

CRISTA MINISTRIES

Combined Statements of Cash Flows
(In Thousands)

| | <i>Years Ended June 30,</i> | |
|---|-----------------------------|------------------|
| | <i>2007</i> | <i>2006</i> |
| Cash Flows from Operating Activities: | | |
| Change in net assets | \$ 12,148 | \$ 7,486 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,646 | 3,518 |
| Entry fees earned - noncash | (2,057) | (1,885) |
| Nonrefundable entry fees received | 1,773 | 1,936 |
| Contributions restricted for investment in long-term assets | (2,640) | |
| Gain on sale of property | (11) | |
| Net realized and unrealized gains on long-term investments | (2,877) | (1,718) |
| Changes in assets and liabilities: | | |
| Receivables | (687) | (432) |
| Prepaid expenses and inventory | 266 | 218 |
| Assets held in trust | (100) | 198 |
| Other assets | (341) | (223) |
| Accounts payable and accrued expenses | 1,038 | 150 |
| Deferred revenue and deposits | (137) | 320 |
| Trusts, annuities, and other agreements | (102) | 277 |
| Long-term obligations | 568 | 270 |
| Net liabilities from discontinued operations | (1,435) | 1,282 |
| Net Cash Provided by Operating Activities | 9,052 | 11,397 |
| Cash Flows from Investing Activities: | | |
| Acquisition of land, buildings, and equipment | (7,079) | (2,790) |
| Proceeds from disposal of land, buildings, and equipment | 16 | 2 |
| Purchases of investments | (14,679) | (13,364) |
| Proceeds from sale of investments | 12,981 | 11,564 |
| Net Cash Used by Investing Activities | (8,761) | (4,588) |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuance of long-term obligations | | 25 |
| Principal payments on long-term obligations | (1,210) | (1,490) |
| Proceeds from contributions restricted for investment in long-term assets | 1,000 | |
| Refundable entry fees received | 934 | 850 |
| Entry fee refunds paid | (959) | (836) |
| Net Cash Used by Financing Activities | (235) | (1,451) |
| Increase in Cash and Cash Equivalents | 56 | 5,358 |
| Cash and Cash Equivalents: | | |
| Beginning of year | 34,811 | 29,453 |
| End of Year | \$ 34,867 | \$ 34,811 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for interest | \$ 596 | \$ 638 |
| Cash paid during the year for income taxes | \$ 753 | \$ 720 |

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

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 1 - Nature of Operations and Significant Accounting Policies

Business Purpose and Organization - Bringing Hope to Life...Loving People to Christ.

CRISTA Ministries is a Christian not-for-profit organization made up of nine distinct ministries, located at 19303 Fremont Avenue North, Shoreline, Washington 98133-3800. We deliver real life solutions that demonstrate the transforming love and hope found in Jesus Christ to the people we serve. With our work firmly grounded in Biblical truth, by faith we seek to convey Christ's love by meeting people's needs and helping them find new and more abundant life in Christ.

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

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 interorganization 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.

Accounts Receivable - Trade accounts receivable 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 that are 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. The allowance for doubtful accounts was \$586,000 and \$444,000 at June 30, 2007 and 2006, respectively.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 1 - Continued

Property and Depreciation - The Organization capitalizes assets with a cost greater than \$5,000 and an estimated useful life of 3 or more years. Purchased property is carried at cost. Donated property is recorded at market 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 - Investments consist primarily of marketable debt and equity securities as well as other non-marketable securities. Investments in marketable securities are stated at fair value, which is determined using quoted market prices. Investments in non-marketable securities are stated at the lower of cost or net realizable value.

Captive Insurance Company - Starting in fiscal 2005, 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, 2007 and 2006 is included in investments.

Other Assets - The Organization has capitalized the costs of acquiring initial continuing care contracts that are expected to be recovered from future revenues, financing fees associated with the issuance of tax-exempt bonds, and radio license fees. These costs are amortized to expense on a straight-line basis over the average expected remaining lives of the residents, the contract term, or future benefits.

Other assets also include a trust administered by a third party of which the Organization has a partial interest. Assets held within the third party trust consist of marketable and nonmarketable securities. Marketable securities are stated at market value based on quoted market prices. Nonmarketable securities are valued at fair value as provided by the trustee.

Additionally, included in other assets are assets in overseas locations and micro-enterprise loans (MLP), which are designed to assist impoverished persons to become self-sufficient. The MLP is administered in accordance with guidelines published by World Concern and is tailored to specific conditions of the host country. Interest rates on MLP loans range from 16% to 36%. 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. The allowance for doubtful accounts is calculated based on an analysis of individual accounts.

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, 2007 and 2006, 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. Investments are held with a variety of financial institutions. Cash, cash equivalent and investment balances may at times exceed FDIC and SIPC insurance limits.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 1 - Continued

Financial Instruments - The carrying amount in the financial statements of financial instruments, including cash and cash equivalents, receivables, investments, development loans receivable, payables, and long-term obligations, approximated fair value as of June 30, 2007 and 2006 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 such time as 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 40% 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, 2007. No unfunded liability exists for obligations to provide future services as of June 30, 2007.

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.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they 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 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.

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.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 1 - Continued

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 noncash gifts, which are valued at estimated fair market value at the date of gift.

Gifts-in-kind received through private donations are recorded in accordance with industry standards, referred to as the *Interagency GIK Standards*, as developed by an interagency taskforce appointed by the Association of Evangelical Relief and Development Organizations (AERDO). Gifts-in-kind of medicine, clothing, agricultural supplies, health supplies and other commodities are donated to the Organization for distribution to overseas development projects. Such gifts are recorded, at estimated fair market value, as inventory and revenue at the time received and as a reduction of inventory and program services expense on the dates the goods are shipped to final destinations.

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.

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 \$786,000 was included in expenses at June 30, 2007, and payments of \$753,000 were made to the U.S. Treasury during the year ending June 30, 2007, resulting in an accrued tax payable of \$33,000. Federal income tax of \$689,000 was included in expenses at June 30, 2006, and payments of \$720,000 were made to the US Treasury during the year ending June 30, 2006, resulting in a prepaid tax deposit of \$31,000.

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, 2007 and 2006.

Note 2 - Cash and Cash Equivalents

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

| | <u>2007</u> | <u>2006</u> |
|---|-----------------------|------------------|
| | <i>(In Thousands)</i> | |
| Cash | \$ 3,791 | \$ 3,665 |
| Commercial paper, auction rate securities and other | <u>31,076</u> | <u>31,146</u> |
| | <u>\$ 34,867</u> | <u>\$ 34,811</u> |

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 3 - Investments

Investments consisted of the following as of June 30:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|-------------------------|-------------------------|
| | <i>(In Thousands)</i> | |
| Cash | \$ 556 | \$ 148 |
| Marketable equity securities | 18,815 | 16,928 |
| Marketable debt securities | 3,940 | 2,067 |
| Nonmarketable equity securities | 366 | 366 |
| Nonmarketable debt securities | 3,946 | 3,525 |
| Property held for sale | 250 | 250 |
| Other | <u>260</u> | <u>274</u> |
| | <u>\$ 28,133</u> | <u>\$ 23,558</u> |

Cash included above represents cash from sale of investments that is being reinvested.

Note 4 - Land, Buildings, and Equipment

Land, buildings, and equipment consisted of the following as of June 30:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|-------------------------|-------------------------|
| | <i>(In Thousands)</i> | |
| Land | \$ 8,509 | \$ 5,167 |
| Buildings and improvements | 72,213 | 71,612 |
| Furniture, equipment, and other | 12,486 | 11,108 |
| Construction in progress | <u>487</u> | <u>503</u> |
| | 93,695 | 88,390 |
| Less accumulated depreciation | <u>(44,154)</u> | <u>(42,339)</u> |
| | <u>\$ 49,541</u> | <u>\$ 46,051</u> |

Note 5 - Assets Held in Trust

Assets held in trust consist of various unitrusts, testamentary and grantor trusts (Note 6) administered by CRISTA and are stated at fair value and consisted of the following as of June 30:

| | <u>2007</u> | <u>2006</u> |
|--------------------------|------------------------|------------------------|
| | <i>(In Thousands)</i> | |
| Cash | \$ 42 | \$ 75 |
| Equity securities | 777 | 662 |
| Fixed income securities | 1,111 | 1,093 |
| Mortgage debt securities | <u>625</u> | <u>625</u> |
| | <u>\$ 2,555</u> | <u>\$ 2,455</u> |

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 6 - Trusts, Annuities, and Other Agreements

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 8% 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 market value and totaled \$2,111,000 and \$2,023,000 at June 30, 2007 and 2006, 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 8% and totaled \$1,586,000 and \$1,548,000 at June 30, 2007 and 2006, respectively. Gain from the change in trust liabilities is 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 \$50,000 and a loss of \$145,000 during the years ended June 30, 2007 and 2006, 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 Statement of Changes in Net Assets. There were no new contributions to irrevocable trusts during the years ended June 30, 2007 and 2006.

Revocable Trusts - The Organization is a beneficiary of a revocable grantor trust administered by the Organization. The trust will terminate upon the death of the income beneficiary, at which time the remaining assets will be distributed to the Organization and other beneficiaries. The trust assets are valued at fair market value and totaled \$444,000 and \$432,000 at June 30, 2007 and 2006, respectively. The trust liabilities are valued at the same value as the trust assets as the trust is revocable. There were no new contributions to revocable trusts and no gains or losses were recognized for the years ended June 30, 2007 and 2006.

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 the market 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 the beneficiaries are recorded as liabilities and totaled \$1,044,000 and \$1,120,000 at June 30, 2007 and 2006, 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 Organization maintains segregated funds that exceed the actuarial value of the annuity liability as required by State law.

Other Agreements - Other agreements consist of gift loan agreements that 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 \$202,000 and \$278,000 at June 30, 2007 and 2006, respectively.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 7 - Other Assets

Other assets as of June 30 consisted of the following:

| | <u>2007</u> | <u>2006</u> |
|---|------------------------|------------------------|
| | <i>(In Thousands)</i> | |
| Micro-enterprise loans | \$ 2,715 | \$ 2,287 |
| Allowance for doubtful micro-enterprise loans | (234) | (215) |
| Partial interest in a perpetual trust administered by a third party | 1,640 | |
| Net financing fees for tax exempt bonds | 446 | 493 |
| Assets in overseas locations | 279 | 338 |
| Net radio license | 202 | 217 |
| Net initial acquisition costs of continuing care contracts | <u> </u> | <u>9</u> |
| | <u>\$ 5,048</u> | <u>\$ 3,129</u> |

During the year ended June 30, 2007, the Organization was notified that it had an unconditional, irrevocable right to 3% of the benefits of a perpetual trust administered by a third party. Under the terms of the trust, an independent trustee will make annual distributions, in perpetuity, to the Organization based upon 3% percent of the trust's annual earnings. The distributions are available for general operations. Permanently restricted contribution revenue and the related asset were recorded at fair value during the year ended June 30, 2007.

Note 8 - Long-Term Obligations

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

| | <u>2007</u> | <u>2006</u> |
|--|-------------------------|-------------------------|
| | <i>(In Thousands)</i> | |
| Tax exempt bonds - interest at weekly variable and fixed rates (effective rate of 5.5% and 5.2%, respectively for 2007 and 2006), due in various installments through July 1, 2014 | \$ 9,325 | \$ 10,535 |
| Deferred employee benefits | 505 | 645 |
| Obligations for future services (Note 12) | <u>708</u> | <u> </u> |
| | <u>\$ 10,538</u> | <u>\$ 11,180</u> |

Letters of credit are required with a financial institution to guarantee payment on the tax-exempt bonds. At June 30, 2007 and 2006, the letters of credit balance was \$10,831,000 and \$12,036,000 respectively, as security for all tax-exempt bonds.

The tax-exempt bonds are secured by land, buildings, and equipment with an aggregate net book value of \$16,609,000 and \$17,135,000, at June 30, 2007 and 2006, respectively. The Organization is in compliance with all restrictive covenants.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 8 - Continued

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

Interest expense, including letter of credit fees, was \$603,000 and \$645,000, for the years ended June 30, 2007 and 2006, respectively.

The Organization has a line-of-credit agreement expiring February 1, 2009 which provides for a total commitment of \$5,000,000. No balance was outstanding at June 30, 2007 and 2006. The Organization was in compliance with covenants of the line-of-credit agreement during fiscal year 2007.

Principal maturities on long-term obligations are as follows:

| <i>Years Ending June 30,</i> | <i>(In Thousands)</i> |
|------------------------------|-------------------------|
| 2008 | \$ - |
| 2009 | 1,332 |
| 2010 | 1,467 |
| 2011 | 1,445 |
| 2012 | 1,440 |
| Thereafter | <u>4,894</u> |
| | <u>\$ 10,538</u> |

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30 consisted of the following:

| | <u>2007</u> | <u>2006</u> |
|--|-------------------------|-------------------------|
| | <i>(In Thousands)</i> | |
| Restricted for program activities | \$ 14,298 | \$ 13,286 |
| Restricted for capital acquisitions | 308 | 147 |
| The Organization's portion of irrevocable trust agreements | <u>526</u> | <u>476</u> |
| | <u>\$ 15,132</u> | <u>\$ 13,909</u> |

Note 10 - Permanently Restricted Net Assets

Permanently restricted net assets as of June 30 consisted of the following:

| | <u>2007</u> | <u>2006</u> |
|-------------------------------------|------------------------|------------------------|
| | <i>(In Thousands)</i> | |
| Endowment for student financial aid | \$ 1,239 | \$ 239 |
| Endowment for senior financial aid | 1,103 | 1,103 |
| Perpetual trust (Note 7) | <u>1,640</u> | <u></u> |
| | <u>\$ 3,982</u> | <u>\$ 1,342</u> |

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 11 - 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 shipped or used at estimated fair market values. Fair market value is based on product like-kind analysis and current market prices when available.

Effective July 1, 2006, CRISTA changed its methodology for valuing certain medicines. The methodology was changed to more accurately capture the fair value of the medications based on current information. There is no net effect on change in unrestricted net assets; however, gifts-in-kind revenue and expense were \$59,504,000 lower due to the change in valuation methodology.

Gifts of \$42,639,000 and \$68,934,000 for the years ended June 30, 2007 and 2006 respectively, relate to the gifts-in-kind received through private donations and \$268,000 and \$437,000 for the years ended June 30, 2007 and 2006 were received from other not-for-profit organizations. Of the total gifts for the years ended June 30, 2007 and 2006, 99% and 96%, respectively, came from a single source.

A summary of gift-in-kind revenue for the years ended June 30 is as follows:

| | <u>2007</u> | <u>2006</u> |
|--|-------------------------|-------------------------|
| | <i>(In Thousands)</i> | |
| Medicines and medical supplies | \$ 42,404 | \$ 66,809 |
| Clothing | 61 | 412 |
| Seeds, food, and agricultural supplies | 403 | 1,846 |
| Other supplies | <u>39</u> | <u>305</u> |
| | <u>\$ 42,907</u> | <u>\$ 69,372</u> |

Note 12 - Discontinued Operations

In June 2006, the Organization's Board adopted a plan to discontinue the operations of New Hope Child and Family Agency. The close down was substantially complete by the end of fiscal year 2007. Obligations for future services related to the close of New Hope Child and Family Agency are classified under long-term obligations at June 30, 2007 (See Note 8).

As a result of this plan the Organization has reported the operating results, net assets and cash flows of New Hope as a discontinued operation and has recorded an accrual for the estimated loss on disposal of \$1,265,000 in 2006. This charge covered operating losses expected to occur before the completion of the close down and other costs associated with the transaction.

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 12 - Continued

Summarized financial information for this discontinued operation consist of the following:

| | <u>2007</u> | <u>2006</u> |
|--------------------|-----------------------|-------------------|
| | <i>(In Thousands)</i> | |
| Revenue | \$ - | \$ 1,141 |
| Operating expenses | | (1,516) |
| Loss accrual | | (1,265) |
| | <u>\$ -</u> | <u>\$ (1,640)</u> |

The balance sheet includes the following amounts applicable to discontinued operations as net liabilities:

| | <u>2007</u> | <u>2006</u> |
|---------------------------|-----------------------|-------------------|
| | <i>(In Thousands)</i> | |
| Current assets | \$ - | \$ 34 |
| Investments | | 11 |
| Current liabilities | | (215) |
| Non-current liabilities | (708) | |
| Expected loss on disposal | | (1,265) |
| | <u>\$ (708)</u> | <u>\$ (1,435)</u> |

Note 13 - Commitments and Contingencies

Leases - The Organization is obligated under various operating leases for office equipment, office and warehouse space. Lease expense for the years ended June 30, 2007 and 2006, was \$307,000 and \$277,000, respectively. Future minimum lease payments for operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2007, are as follows:

| | <i>(In Thousands)</i> |
|------|-----------------------|
| 2008 | \$ 272 |
| 2009 | 272 |
| 2010 | 221 |
| 2011 | 193 |
| 2012 | 16 |
| | <u>\$ 974</u> |

CRISTA MINISTRIES

Notes to Combined Financial Statements

Note 13 - Continued

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 year ended June 30, 2007 were \$1,302,000. There were no employer contributions for the year ended June 30, 2006 since the plan's inception date was July 1, 2006.

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 maximum claims as computed by the stoploss insurer'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 - 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.

SUPPLEMENTAL INFORMATION

CRISTA MINISTRIES

Combining Balance Sheet

June 30, 2007

(With Comparative Totals for 2006)

(In Thousands)

| | <i>CRISTA Senior Living</i> | <i>World Concern</i> | <i>King's Schools</i> | <i>CRISTA Broadcasting</i> | <i>CRISTA Camps and Conferences</i> | <i>Christian Veterinary Mission</i> | <i>Intercristo</i> | <i>Seattle Urban Academy</i> | <i>CRISTA Canada</i> | <i>CRISTA Operations</i> | <i>Total 2007</i> | <i>Total 2006</i> |
|---|-------------------------------------|--------------------------|---------------------------|--------------------------------|---|---|--------------------|--------------------------------------|--------------------------|------------------------------|-------------------|-------------------|
| Assets | | | | | | | | | | | | |
| Current Assets: | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 13,824 | \$ 3,748 | \$ 27 | \$ 1 | \$ 1 | \$ 600 | \$ - | \$ - | \$ 49 | \$ 16,617 | \$ 34,867 | \$ 34,811 |
| Due from (to) CRISTA Ministries | 10,691 | (3,366) | 1,271 | 2,040 | (436) | 481 | (300) | (60) | | (10,321) | | |
| Receivables, net | 1,319 | 1,029 | 188 | 1,952 | 258 | 3 | 7 | | 26 | 211 | 4,993 | 4,306 |
| Prepaid expenses and inventory | (2) | 25 | 13 | 19 | 44 | | | | | 1,133 | 1,232 | 1,498 |
| Total Current Assets | 25,832 | 1,436 | 1,499 | 4,012 | (133) | 1,084 | (293) | (60) | 75 | 7,640 | 41,092 | 40,615 |
| Investments | 3,237 | 391 | 3,718 | 5 | 468 | 1,964 | | 362 | | 17,988 | 28,133 | 23,558 |
| Land, buildings, and equipment, net | 27,372 | 177 | 9,018 | 1,615 | 2,360 | | 9 | 15 | 18 | 8,957 | 49,541 | 46,051 |
| Assets held in trust | | | | | | | | | | 2,555 | 2,555 | 2,455 |
| Other assets | 446 | 2,761 | | 202 | | | | | | 1,639 | 5,048 | 3,129 |
| Total Assets | \$ 56,887 | \$ 4,765 | \$ 14,235 | \$ 5,834 | \$ 2,695 | \$ 3,048 | \$ (284) | \$ 317 | \$ 93 | \$ 38,779 | \$ 126,369 | \$ 115,808 |
| Liabilities and Net Assets | | | | | | | | | | | | |
| Current Liabilities: | | | | | | | | | | | | |
| Accounts payable and accrued expenses | \$ 1,211 | \$ 1,997 | \$ 1,172 | \$ 456 | \$ 153 | \$ 319 | \$ 9 | \$ 46 | \$ 7 | \$ 3,941 | \$ 9,311 | \$ 8,273 |
| Deferred revenue | | | 340 | | 991 | | | | | | 1,331 | 1,471 |
| Net liabilities from discontinued operations | | | | | | | | | | | | 1,435 |
| Total Current Liabilities | 1,211 | 1,997 | 1,512 | 456 | 1,144 | 319 | 9 | 46 | 7 | 3,941 | 10,642 | 11,179 |
| Long-term obligations, net of current portion | 9,325 | | | | | | | | | 1,213 | 10,538 | 11,180 |
| Refundable entry fees | 8,858 | | | | | | | | | | 8,858 | 8,841 |
| Nonrefundable entry fees | 10,376 | | | | | | | | | | 10,376 | 10,702 |
| Deposits | 147 | | | | | | | | | | 147 | 144 |
| Trusts, annuities, and other agreements | | | | | | | | | | 3,276 | 3,276 | 3,378 |
| Total Liabilities | 29,917 | 1,997 | 1,512 | 456 | 1,144 | 319 | 9 | 46 | 7 | 8,430 | 43,837 | 45,424 |
| Net Assets: | | | | | | | | | | | | |
| Unrestricted | 25,150 | (3,442) | 8,977 | 5,373 | 1,083 | 161 | (293) | (91) | 86 | 26,414 | 63,418 | 55,133 |
| Temporarily restricted | 717 | 6,210 | 2,507 | 5 | 468 | 2,568 | | 362 | | 2,295 | 15,132 | 13,909 |
| Permanently restricted | 1,103 | | 1,239 | | | | | | | 1,640 | 3,982 | 1,342 |
| Total Net Assets | 26,970 | 2,768 | 12,723 | 5,378 | 1,551 | 2,729 | (293) | 271 | 86 | 30,349 | 82,532 | 70,384 |
| Total Liabilities and Net Assets | \$ 56,887 | \$ 4,765 | \$ 14,235 | \$ 5,834 | \$ 2,695 | \$ 3,048 | \$ (284) | \$ 317 | \$ 93 | \$ 38,779 | \$ 126,369 | \$ 115,808 |

See auditors' report.

CRISTA MINISTRIES

Combining Statement of Activities from Continuing Operations

Year Ended June 30, 2007

(With Comparative Totals for 2006)

(In Thousands)

| | <i>CRISTA Senior Living</i> | <i>World Concern</i> | <i>King's Schools</i> | <i>CRISTA Broadcasting</i> | <i>CRISTA Camps and Conferences</i> | <i>Christian Veterinary Mission</i> | <i>Intercristo</i> | <i>Seattle Urban Academy</i> | <i>CRISTA Canada</i> | <i>CRISTA Operations</i> | <i>Total</i> | <i>Inter- departmental eliminations</i> | <i>Total 2007</i> | <i>Total 2006</i> |
|---|-------------------------------------|--------------------------|---------------------------|--------------------------------|---|---|--------------------|--------------------------------------|--------------------------|------------------------------|------------------|---|-------------------|-------------------|
| Change in Unrestricted Net Assets from Continuing Operations | | | | | | | | | | | | | | |
| Revenues and Gains: | | | | | | | | | | | | | | |
| Fees for services | \$ 27,539 | \$ 16 | \$ 14,586 | \$ 11,606 | \$ 2,400 | \$ 27 | \$ 228 | \$ 26 | \$ - | \$ 471 | \$ 56,899 | \$ - | \$ 56,899 | \$ 53,516 |
| Contributions | 8 | 4,404 | 185 | 312 | 19 | 2,343 | 1 | 377 | 225 | 325 | 8,199 | (192) | 8,007 | 8,320 |
| Contributions released from restrictions | 374 | 7,685 | 1,078 | 1 | 261 | 743 | | 14 | | 151 | 10,307 | | 10,307 | 11,571 |
| Gifts-in-kind | | 42,680 | 22 | | 15 | 190 | | | | | 42,907 | | 42,907 | 69,372 |
| Government grants | | 4,024 | | | | | | 15 | | | 4,039 | | 4,039 | 2,821 |
| Other program revenue | | 575 | | | | | | | | | 575 | | 575 | 648 |
| Income on investments | 725 | 32 | 85 | | 12 | 72 | | 18 | | 1,478 | 2,422 | | 2,422 | 1,886 |
| Net realized and unrealized gains on investments | 137 | 28 | 75 | | 22 | 84 | | 10 | | 1,691 | 2,047 | | 2,047 | 1,538 |
| Miscellaneous income | 214 | 131 | 294 | 209 | 37 | 7 | 13 | | 8 | 31 | 944 | (509) | 435 | 451 |
| Total Revenues and Gains | 28,997 | 59,575 | 16,325 | 12,128 | 2,766 | 3,466 | 242 | 460 | 233 | 4,147 | 128,339 | (701) | 127,638 | 150,123 |
| Expenses: | | | | | | | | | | | | | | |
| Program - | | | | | | | | | | | | | | |
| Long-term healthcare | 18,853 | | | | | | | | | | 18,853 | | 18,853 | 18,660 |
| Relief and development services | | 56,704 | | | | 2,910 | | | | | 59,614 | (91) | 59,523 | 85,714 |
| Mission and development education | | | | | | 74 | | | | | 74 | | 74 | 62 |
| Instruction and activities | | | 11,247 | | | | | 361 | | | 11,608 | | 11,608 | 10,862 |
| Broadcast programming | | | | 3,258 | | | | | | | 3,258 | (52) | 3,206 | 2,527 |
| Camping and conference program | | | | | 1,853 | | | | | | 1,853 | (26) | 1,827 | 1,820 |
| Career services | | | | | | | 239 | | | | 239 | (12) | 227 | 218 |
| Sales, marketing, and promotion | 271 | | 456 | 5,137 | 277 | | | | | | 6,141 | | 6,141 | 5,643 |
| Maintenance and utilities | 3,736 | | 1,737 | 238 | 561 | 27 | 3 | | | (136) | 6,166 | | 6,166 | 5,578 |
| Depreciation and amortization | 1,793 | | 771 | 212 | 206 | | 6 | | | 658 | 3,646 | | 3,646 | 3,518 |
| Interest | 590 | 59 | 54 | | 16 | | 6 | 1 | | 205 | 931 | (328) | 603 | 640 |
| Other program | | | | 246 | | | | | 203 | (115) | 334 | (192) | 142 | 482 |
| | 25,243 | 56,763 | 14,265 | 9,091 | 2,913 | 3,011 | 254 | 362 | 203 | 612 | 112,717 | (701) | 112,016 | 135,724 |
| Fundraising and promotion | 177 | 1,716 | 218 | 92 | 114 | 407 | 5 | 118 | 22 | 445 | 3,314 | | 3,314 | 2,865 |
| Management and general | 961 | 1,730 | 538 | 542 | 123 | 75 | 19 | 20 | 15 | | 4,023 | | 4,023 | 3,670 |
| Total Expenses | 26,381 | 60,209 | 15,021 | 9,725 | 3,150 | 3,493 | 278 | 500 | 240 | 1,057 | 120,054 | (701) | 119,353 | 142,259 |
| Change in Unrestricted Net Assets from Continuing Operations | 2,616 | (634) | 1,304 | 2,403 | (384) | (27) | (36) | (40) | (7) | 3,090 | 8,285 | | 8,285 | 7,864 |
| Change in Temporarily and Permanently Restricted Net Assets from Continuing Operations | | | | | | | | | | | | | | |
| Contributions | 81 | 7,828 | 2,164 | 6 | 149 | 1,161 | | 16 | | 1,803 | 13,208 | | 13,208 | 12,512 |
| Contributions released from restrictions | (374) | (7,685) | (1,078) | (1) | (261) | (743) | | (14) | | (151) | (10,307) | | (10,307) | (11,571) |
| Income on investments | 34 | 21 | 23 | | 1 | 6 | | | | 47 | 132 | | 132 | 141 |
| Net realized and unrealized gains on investments | 215 | | 240 | | 50 | 94 | | 23 | | 208 | 830 | | 830 | 180 |
| Change in Temporarily and Permanently Restricted Net Assets from Continuing Operations | (44) | 164 | 1,349 | 5 | (61) | 518 | - | 25 | - | 1,907 | 3,863 | - | 3,863 | 1,262 |
| Change In Net Assets from Continuing Operations | \$ 2,572 | \$ (470) | \$ 2,653 | \$ 2,408 | \$ (445) | \$ 491 | \$ (36) | \$ (15) | \$ (7) | \$ 4,997 | \$ 12,148 | \$ - | \$ 12,148 | \$ 9,126 |

See auditors' report.