

# **National Church Residences and Affiliates**

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**Special Purpose Financial Report  
with Additional Information  
June 30, 2008**

# National Church Residences and Affiliates

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## Independent Auditor's Report

To the Board of Trustees  
National Church Residences and Affiliates

We have audited the accompanying special purpose balance sheet of National Church Residences and Affiliates ("NCR and Affiliates") as of June 30, 2008 and 2007 and the related special purpose statements of activities, changes in net assets, and cash flows for the years then ended. These special purpose financial statements are the responsibility of NCR and Affiliates' management. Our responsibility is to express an opinion on these special purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying special purpose financial statements have been prepared for the purpose of complying with, and on the basis of, accounting practices specified by Section 5.10 of the master trust indenture between Fifth Third Bank and NCR and Affiliates and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose financial statements of NCR and Affiliates as of June 30, 2008 and 2007 and for the years then ended present fairly, in all material respects, the information set forth therein on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 21, 2008 on our consideration of NCR and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide opinions on the effectiveness of internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

This report is intended solely for the use of the boards of trustees and management of NCR and Affiliates, NCR and Affiliates' lenders, and the bondholders and is not intended to be and should not be used for any other purpose.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

August 21, 2008

# National Church Residences and Affiliates

## Special Purpose Balance Sheet

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,288,803	\$ 4,527,431
Investments (Note 3)	34,164,410	31,910,171
Temporarily restricted cash and investments (Note 3)	3,250	12,632
Other receivables:		
Related parties (Note 4)	2,713,704	5,256,658
Current portion of long-term receivables from related parties (Note 4)	444,371	327,072
Other	436,763	172,755
Other current assets	<u>644,542</u>	<u>52,140</u>
Total current assets	41,695,843	42,258,859
<b>Property and Equipment - Net (Note 5)</b>	20,534,804	20,283,200
<b>Other</b>		
Designated and temporarily restricted cash and cash equivalents (Note 3)	12,633,958	9,030,791
Long-term receivables from related parties - Net of current portion (Note 4)	14,841,495	10,928,950
Investment in related party organizations (Note 6)	2,496,218	2,474,870
Net unamortized bond issuance costs	342,248	341,158
Other noncurrent assets	<u>986,991</u>	<u>821,913</u>
Total assets	<u><b>\$ 93,531,557</b></u>	<u><b>\$ 86,139,741</b></u>

# National Church Residences and Affiliates

## Special Purpose Balance Sheet (Continued)

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 2,606,378	\$ 2,227,876
Lines of credit (Note 7)	889,947	-
Accrued interest	79,041	63,021
Deposits held	399,892	258,029
Accrued liabilities and other:		
Life-lease fees (Note 10)	841,374	906,238
Deferred developers fees	-	230,496
Current portion of long-term debt (Note 8)	612,643	596,044
Other liabilities	74,982	57,528
	<hr/>	<hr/>
Total current liabilities	5,504,257	4,339,232
<b>Long-term Debt</b> - Net of current portion (Note 8)	24,786,410	20,228,568
<b>Other Long-term Liabilities</b>		
Refundable fees (Note 10)	7,960,811	7,395,274
Deferred compensation liability	516,940	456,246
Workers' compensation liability - Including reserves for related parties	312,403	140,740
Deferred revenue - Life-lease fees - Net of current portion (Note 10)	9,007,279	9,893,705
Deferred revenue - Developer fees	363,500	313,500
Other long-term liabilities	428,667	459,070
<b>Net Assets</b>		
Unrestricted	41,345,094	39,065,805
Temporarily restricted	3,306,196	3,847,601
	<hr/>	<hr/>
Total net assets	44,651,290	42,913,406
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Total liabilities and net assets	<b>\$ 93,531,557</b>	<b>\$ 86,139,741</b>

# National Church Residences and Affiliates

## Special Purpose Statement of Activities

	Year Ended	
	June 30, 2008	June 30, 2007
<b>Operating Revenue</b>		
Management fees	\$ 16,264,295	\$ 14,637,805
Service and administrative	2,512,901	2,517,180
Developer fees and other	4,660,004	9,046,747
Life-lease amortization revenue	1,374,083	1,232,202
Distributions received from unconsolidated subsidiaries	2,510,322	2,425,933
Rental revenue	607,801	472,462
Total operating revenue	27,929,406	30,332,329
<b>Operating Expenses</b>		
Payroll and other employee-related expenses	13,476,289	12,299,806
Administration	4,592,776	4,810,908
Depreciation and amortization	2,405,539	2,281,581
Operating and maintenance	1,217,930	1,048,599
Interest	750,293	837,834
Taxes and insurance	525,809	693,092
Travel	884,870	772,355
Advertising	623,995	551,421
Utilities	414,350	409,275
Service and ancillary	291,369	129,663
Total operating expenses	25,183,220	23,834,534
<b>Operating Income</b>	2,746,186	6,497,795
<b>Other Income (Loss)</b>		
Net investment (loss) income (Note 3)	(1,400,529)	4,306,807
Contributions (Note 6)	-	7,213,400
Loss on impairment of notes receivable - Related parties (Notes 4 and 6)	-	(7,536,998)
Loss on impairment of investment in related party organization (Note 6)	-	(2,153,297)
Gain on equity investment in related party organization (Note 6)	71,348	-
Pension-related changes other than net periodic benefit cost (Note 9)	(194,540)	-
Net assets released from restriction - Unrestricted	1,056,824	768,507
Total other (loss) income	(466,897)	2,598,419
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 2,279,289</b>	<b>\$ 9,096,214</b>

See Notes to Special Purpose  
Financial Statements.

# National Church Residences and Affiliates

## Special Purpose Statement of Changes in Net Assets

	Unrestricted	Temporarily Restricted	Total
<b>Net Assets - July 1, 2006</b>	\$ 29,969,591	\$ 3,392,999	\$ 33,362,590
Increase in unrestricted net assets	9,096,214	-	9,096,214
Restricted contributions	-	723,571	723,571
Investment income and other	-	499,538	499,538
Net assets released from restriction - Unrestricted	-	(768,507)	(768,507)
<b>Increase in Net Assets</b>	<u>9,096,214</u>	<u>454,602</u>	<u>9,550,816</u>
<b>Net Assets - June 30, 2007</b>	39,065,805	3,847,601	42,913,406
Increase in unrestricted net assets	2,279,289	-	2,279,289
Restricted contributions	-	709,673	709,673
Investment loss and other	-	(194,254)	(194,254)
Net assets released from restriction - Unrestricted	-	(1,056,824)	(1,056,824)
<b>Increase (Decrease) in Net Assets</b>	<u>2,279,289</u>	<u>(541,405)</u>	<u>1,737,884</u>
<b>Net Assets - June 30, 2008</b>	<u>\$ 41,345,094</u>	<u>\$ 3,306,196</u>	<u>\$ 44,651,290</u>

# National Church Residences and Affiliates

## Special Purpose Statement of Cash Flows

	Year Ended	
	June 30, 2008	June 30, 2007
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 1,737,884	\$ 9,550,816
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Realized and unrealized loss (gain) on investments	2,813,931	(3,625,168)
Life-lease amortization revenue	(1,374,083)	(1,232,202)
Depreciation and amortization	2,405,539	2,281,581
Loss on impairment of notes receivable - Related parties	-	7,536,998
Loss on impairment of investment in related parties	-	2,153,297
Gain on disposal of property and equipment	-	14,350
Contributions (noncash)	-	(7,213,400)
Gain on equity investment in related party organization	(71,348)	-
Changes in assets and liabilities which provided (used) cash:		
Other assets	(707,484)	598,340
Accounts payable and accrued expenses	394,524	155,229
Deposits held	141,863	(139,332)
Other liabilities	(193,444)	273,693
Workers' compensation liability	171,663	(15,648)
Deferred compensation liability	60,694	107,736
Net cash provided by operating activities	5,379,739	10,446,290
<b>Cash Flows from Investing Activities</b>		
Purchase and construction of property and equipment	(2,643,972)	(3,792,445)
Changes in receivables - Related parties	349,585	(1,324,974)
Purchase of marketable securities	(15,975,231)	(20,988,527)
Proceeds from marketable securities	10,892,800	15,300,085
Net increase in temporarily restricted cash and investments	(3,593,785)	(1,907,002)
Purchase of investment in related party	-	(3,502,000)
Net cash used in investing activities	(10,970,603)	(16,214,863)
<b>Cash Flows from Financing Activities</b>		
Life-lease receipts and refunds	988,330	2,277,836
Proceeds from debt issuance	3,122,587	2,275,713
Payments of debt	(648,628)	(881,598)
Proceeds from lines of credit	889,947	-
Net cash provided by financing activities	4,352,236	3,671,951
<b>Net Decrease in Cash and Cash Equivalents</b>	(1,238,628)	(2,096,622)
<b>Cash and Cash Equivalents - Beginning of year</b>	4,527,431	6,624,053
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,288,803</b>	<b>\$ 4,527,431</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 734,273	\$ 670,148
Noncash pass-through notes payable and notes receivable assumed	2,100,482	2,206,360
Noncash contributions received in the form of property and notes receivable	-	7,213,400
Notes payable assumed in connection with Wingate Management purchase	-	(1,075,937)

See Notes to Special Purpose  
Financial Statements.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note I - Nature of Business and Significant Accounting Policies

**Description of Organization** - National Church Residences and Affiliates (NCR and Affiliates) are not-for-profit corporations whose purpose is to develop and manage housing and health care and to provide services to individuals with limited incomes. The Affiliates include NCR Foundation, NCR Health Care, NCR Affordable Housing Management and Services, and Bristol Village Homes. All of the Affiliates were formed during the fiscal years ended June 30, 2006 and 2005. The activities of the Affiliates were formally included and accounted for in National Church Residences (NCR) prior to being formed and separated into separate legal entities. NCR and Affiliates are obligated under a 1999 master trust indenture with Fifth Third Bank.

**NCR** - NCR is the base of operations for NCR's development and housing management functions and the controlling member of 251 related party organizations. NCR has the authority to direct activities, management, and policies of the Affiliates through its board of directors. NCR also provides management and related services to the related party organizations classified below:

Entity Classification	Number of Entities
Not-for-profit subsidiaries owned, currently in operation	170
Not-for-profit subsidiaries owned, currently in development	4
Partnerships in operation (ownership interest ranging from .01 percent to 1 percent)	63
Healthcare facilities and agencies owned and in operation	12
NCR owned - Stafford Court	1
Bristol Village Homes	1
Total controlled entities	251
Managed for others, currently in operation	69
Managed for others, currently in development	2
Total portfolio	322

**NCR Foundation** - NCR Foundation was formed for the benefit of NCR and includes the accounts of John R. Glenn Foundation, Bristol Village Foundation, Traditions at Mill Run Foundation, Traditions at Bath Road Foundation, and Traditions at Chillicothe Foundation. John R. Glenn Foundation supports the affordable housing development and operations of NCR. The other foundations provide charity care to residents of specific projects. All funds raised, except for funds required for the operation of the foundations, are distributed to and held primarily for the benefit of NCR and related parties.

# National Church Residences and Affiliates

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## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**NCR Health Care** - NCR Health Care is a management company located in the NCR Columbus, Ohio office which manages the operations of five healthcare entities and seven home health agencies.

**NCR Affordable Housing Management and Services** - NCR Affordable Housing Management and Services is an organization that was set up to assume the management functions for NCR's housing portfolio once approval has been received from HUD.

**Bristol Village Homes** - Bristol Village Homes includes 383 independent houses located in Waverly, Ohio.

The significant accounting policies followed by NCR and Affiliates are described below:

**Special Purpose Financial Statements** - NCR is the sole obligor under the master trust indenture with Fifth Third Bank. Other corporations in which NCR is the sole member are not obligated under the master trust indenture; therefore, the financial statements do not include the accounts of the related party corporations in which NCR is the sole member, other than the Affiliates, as defined previously. The financial statements have been prepared for compliance with accounting practices specified in Section 5.10 of the master trust indenture between Fifth Third Bank and NCR and Affiliates and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

**The Reporting Entity - Basis of Presentation of the Financial Statements** - The special purpose financial statements include the accounts of NCR, NCR Health Care, NCR Foundation, NCR Affordable Housing Management and Services, and Bristol Village Homes and exclude the accounts of all other corporations in which NCR is the sole member or any related party organizations. Accordingly, the accompanying special purpose financial statements exclude any item of undistributed income or loss from the corporations in which NCR is the sole member and all related party organizations.

**Related Party Organizations** - The corporations in which NCR is the sole member, affiliated partnerships, and other organizations in which NCR has an ownership or member interest are referred to herein as "related party organizations."

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note I - Nature of Business and Significant Accounting Policies (Continued)

The unaudited combined financial information of related party organizations (not covered by the report of the independent auditor) is presented below based on each of the corporations' fiscal years ended in 2007 and 2006. This information excludes facilities managed for others.

	Unaudited	
	2007	2006
Total revenue	\$ 171,948,267	\$ 139,703,789
Total expenses - Before depreciation and amortization	<u>(141,590,376)</u>	<u>(123,706,758)</u>
Income - Before depreciation and amortization	30,357,891	15,997,031
Depreciation and amortization	<u>(30,095,883)</u>	<u>(28,060,244)</u>
Net income (loss)	<u>\$ 262,008</u>	<u>\$ (12,063,213)</u>
Current assets	\$ 73,362,010	\$ 64,475,733
Other assets	82,590,206	68,019,336
Property and equipment - Net of accumulated depreciation of \$279,003,911 and \$258,086,310 at fiscal years ended 2007 and 2006, respectively	729,834,469	603,558,113
Unamortized debt issuance costs	<u>11,146,094</u>	<u>8,287,898</u>
Total assets	<u>\$ 896,932,779</u>	<u>\$ 744,341,080</u>
Current liabilities	\$ 64,056,884	\$ 61,843,895
Long-term liabilities	752,005,963	648,552,837
Net assets/Equity	<u>80,869,932</u>	<u>33,944,348</u>
Total liabilities and fund balances	<u>\$ 896,932,779</u>	<u>\$ 744,341,080</u>

**Use of Estimates** - The preparation of financial statements 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** - NCR and Affiliates consider all highly liquid investments with an original maturity of three months or less to be cash equivalents (excluding temporarily restricted cash and investments).

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Designated and Temporarily Restricted Cash and Investments** - Designated and temporarily restricted cash and investments are stated at fair market value. Temporarily restricted cash and investments include primarily assets held by trustees for debt service, donor-restricted funds, and funds loaned by the MacArthur Foundation that are to be used for specific development expenditures. Board-designated cash and investments are to be used to mitigate future financial obligations and operational asset replacement. Board-designated funds can be used for other uses upon decision by the board.

**Investments in Debt Securities and Certain Equity Securities** - Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included in the special purpose statement of activities.

**Receivables** - Accounts receivable from residents and related parties are based on net charges. An allowance for uncollectible accounts is established by evaluating the accounts receivable aging and history of unpaid accounts. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible.

**Property and Equipment** - Property and equipment are carried at cost or, if donated, at fair market value at the date of donation. Depreciation is provided at rates designed to amortize the carrying amount of an asset over its estimated useful life and is computed by the straight-line method. Maintenance, repairs, and renewals that do not involve any substantial betterments are charged to expense when incurred.

Land improvements	15-25 years
Building and building improvements	10-40 years
Furniture and equipment	5-10 years
Vehicles	3-5 years

**Bond Issue Costs** - Bond issue costs are deferred and amortized over the term of the related debt using the straight-line method.

**Workers' Compensation Self-insurance** - NCR self-insures its workers' compensation liabilities and those of its related parties in the state of Ohio. NCR and its Ohio related parties are self-insured for the first \$350,000 per incident. NCR receives deposits from its related parties to pay liabilities incurred.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Developer Fees - Revenue Recognition** - Revenue from development activities is recognized over the development period when earned and paid, which includes the period necessary for the newly developed properties to achieve breakeven cash flow from rental operations. Further, developer fees are deferred to the extent of any estimated operating deficit guarantees related to the properties anticipated to be funded by NCR (see Note 13).

**Restricted and Unrestricted Revenue** - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions. All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the special purpose statement of activities as net assets released from restrictions. At June 30, 2008 and 2007, \$919,099 and \$1,177,702, respectively, was temporarily restricted by John R. Glenn Foundation to support the affordable housing development and operations of NCR. The other foundations had \$2,387,097 and \$2,669,899 temporarily restricted at June 30, 2008 and 2007, respectively, to provide charity care to residents of specific projects. There are no permanently restricted net assets at June 30, 2008 and 2007.

**Income Taxes** - A provision for income taxes has not been included in the special purpose financial statements since NCR and Affiliates have received tax-exempt status as other than private foundations from the Internal Revenue Service under Section 501(c)(3).

**New Accounting Pronouncements** - In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provisions of SFAS 157 are effective for the fiscal year beginning after November 15, 2007. NCR is currently evaluating the impact, if any, of the provisions of SFAS 157 on the financial statements.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in the statement of activities. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. NCR is currently assessing the potential impact of SFAS 159 on the financial statements.

### Note 2 - Cash in Excess of Insured Limits

NCR and Affiliates maintain cash balances at several financial institutions located in the vicinity of Columbus, Ohio. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000 per institution. As of June 30, 2008, the uninsured cash balances total \$4,639,812.

### Note 3 - Unrestricted, Designated, and Temporarily Restricted Cash and Investments

#### Unrestricted Investments

The aggregate carrying amount of NCR and Affiliates' investments by major type at June 30 is as follows:

	<u>2008</u>	<u>2007</u>
Cash equivalents	\$ 2,668,459	\$ 1,970,619
Certificates of deposit	271,181	758,800
Corporate bonds	2,105,033	1,409,212
Government securities	5,254,082	5,108,740
Equity securities and mutual funds	<u>23,865,655</u>	<u>22,662,800</u>
Total unrestricted investments	<u>\$ 34,164,410</u>	<u>\$ 31,910,171</u>

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 3 - Unrestricted, Designated, and Temporarily Restricted Cash and Investments (Continued)

#### Designated and Temporarily Restricted Cash and Investments

The composition of designated and temporarily restricted cash and investments at June 30 is set forth in the following table:

	2008	2007
Funds held by trustees - Cash and cash equivalents	\$ 3,250	\$ 12,632
Donor-restricted - Funds held at foundations	3,306,196	3,847,601
MacArthur Foundation restricted funds	3,010,913	-
Board-designated:		
Cash and cash equivalents	2,204,615	734,211
Certificates of deposit	236,657	296,943
Government securities	80,135	13,917
Corporate obligations	444,935	-
Equity securities and mutual funds	3,350,507	4,138,119
Total board-designated	<u>6,316,849</u>	<u>5,183,190</u>
Total designated and temporarily restricted cash and investments	12,637,208	9,043,423
Less current portion of designated and temporarily restricted cash and investments	<u>(3,250)</u>	<u>(12,632)</u>
Total designated and temporarily restricted cash and investments - Noncurrent	<u>\$ 12,633,958</u>	<u>\$ 9,030,791</u>

Donor-restricted funds are held by foundations administered by NCR and Affiliates.

#### Net Investment Income (Loss)

The composition of the unrestricted investment income and loss for the years ended June 30 is as follows:

	2008	2007
Interest and dividend income	\$ 1,413,402	\$ 681,639
Net realized gains	886,113	1,154,455
Changes in unrealized gains and losses	<u>(3,700,044)</u>	<u>2,470,713</u>
Net investment (loss) income	<u>\$ (1,400,529)</u>	<u>\$ 4,306,807</u>

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 4 - Related Party Transactions

In connection with its recurring operations, NCR and Affiliates have numerous transactions with related party organizations. Approximately 70 percent and 54 percent of NCR and Affiliates' revenues were earned from the related party transactions during the fiscal years ended June 30, 2008 and 2007, respectively.

NCR charges various fees for services provided to its operational related parties (management fees, bookkeeping fees, etc). It also periodically fronts construction and development costs on behalf of newly formed related parties until funds are available for reimbursement. Both of these types of charges are reflected in other receivables from related parties. Other receivables - related parties of \$2,713,704 and \$5,256,658 are net of allowance for doubtful accounts of approximately \$230,000 and \$260,000 at June 30, 2008 and 2007, respectively.

Through development of new tax credit entities, NCR will receive pass-through loans from various agencies in which funds loaned to NCR are then loaned into the designated entities. In addition, NCR can also advance funds to related parties in order to assist in operational shortfalls.

These types of loans are reflected in notes receivable from related parties at June 30 summarized as follows:

	<u>2008</u>	<u>2007</u>
Pass-through loans	\$ 9,352,404	\$ 7,129,336
Operational support loans	1,836,041	1,495,202
Acquisition loans and other	5,657,162	4,172,003
Less allowance for doubtful accounts	<u>(1,559,741)</u>	<u>(1,540,519)</u>
Net receivables from related parties	15,285,866	11,256,022
Less current portion	<u>(444,371)</u>	<u>(327,072)</u>
Net long-term receivables from related parties	<u>\$ 14,841,495</u>	<u>\$ 10,928,950</u>

In addition to the receivables referred to above at June 30, 2008 and 2007, certain related party organizations were indebted to NCR and Affiliates in the amount of approximately \$25,400,000 and \$23,600,000, respectively (excluding interest). A portion of these receivables is flow-through grants to related party organizations, which will be recorded as grant revenue when funds are received from the related party organizations.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 4 - Related Party Transactions (Continued)

Another portion of these receivables is capital support notes in which NCR, as part of a refinancing or acquisition of related party organizations, acquired a note receivable. These notes typically represent the difference between the appraised value and the outstanding debt of the newly formed entity. Since these notes may not result in actual proceeds for NCR, they are either not recorded or were written down and included in loss on impairment of notes receivable - related parties in the 2007 statement of activities.

### Note 5 - Property and Equipment

Property and equipment are summarized at June 30 as follows:

	2008			
	Land and Land Improvements	Buildings	Other	Totals
Bristol Village	\$ 3,826,477	\$ 35,973,769	\$ 1,014,782	\$ 40,815,028
Office building	322,927	5,357,618	4,094,909	9,775,454
Stafford Court	27,717	306,706	79,000	413,423
Total	4,177,121	41,638,093	5,188,691	51,003,905
Less accumulated depreciation	(1,306,231)	(24,791,670)	(4,371,200)	(30,469,101)
Net property and equipment	\$ 2,870,890	\$ 16,846,423	\$ 817,491	\$ 20,534,804

  

	2007			
	Land and Land Improvements	Buildings	Other	Totals
Bristol Village	\$ 3,600,906	\$ 34,805,974	\$ 972,267	\$ 39,379,147
Office building	322,927	4,404,418	3,849,041	8,576,386
Stafford Court	27,717	306,706	70,621	405,044
Total	3,951,550	39,517,098	4,891,929	48,360,577
Less accumulated depreciation	(1,086,029)	(22,896,884)	(4,094,464)	(28,077,377)
Net property and equipment	\$ 2,865,521	\$ 16,620,214	\$ 797,465	\$ 20,283,200

Depreciation expense totaled \$2,392,123 and \$2,255,630 for the years ended June 30, 2008 and 2007, respectively.

# **National Church Residences and Affiliates**

## **Notes to Special Purpose Financial Statements June 30, 2008 and 2007**

### **Note 6 - Wingate Transactions**

In December 2006, NCR purchased four existing senior apartment buildings located in the state of Michigan and sold them into new tax-credit partnership entities. This transaction resulted in NCR recognizing contributions revenue of \$7,213,400, developer fee revenue of \$3,344,023, and developer expense of \$249,079 in the statement of activities for year ended June 30, 2007. NCR used a portion of the proceeds from these transactions to loan \$7,001,715 into tax-credit partnerships. For reasons disclosed in Note 4, NCR has elected to write down the entire amount of these capital support notes, which is included in loss on impairment of notes receivable - related parties in the statement of activities.

In December 2006, NCR Affordable Housing Management and Services purchased 100 percent of the stock of Wingate Management, a for-profit management company that manages these four sites (mentioned above) as well as 18 other properties. Notes payable totaling \$1,014,954 and \$1,075,937, payable to the previous owners of the Wingate Management stock, remain outstanding as of June 30, 2008 and 2007, respectively. NCR Housing Management and Services recorded the investment in related parties at the purchase price of \$4,577,937 and later recorded a loss on impairment to adjust down the value of the investment recorded to \$2,424,640 (1.5 times its projected annual revenues), which resulted in a loss on impairment of investment in related party of \$2,153,297 for the year ended June 30, 2007. NCR is accounting for this investment in Wingate Management under the equity method. At June 30, 2008, the investment in Wingate Management totaled \$2,495,988.

### **Note 7 - Lines of Credit**

NCR and Affiliates have three unsecured revolving lines of credit up to a maximum of \$6,000,000. These lines bear interest at the bank's prime rate (5 percent at June 30, 2008), with interest due monthly, and expire during fiscal year 2009. At June 30, 2008, the outstanding balance on the lines totaled \$889,947. There was no outstanding balance on any lines of credit at June 30, 2007.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 8 - Long-term Debt

A summary of long-term debt at June 30, 2008 and 2007 follows:

	Facility	Interest Rate June 30, 2008	Maturity	Outstanding Balance 2008	Outstanding Balance 2007	
<b>National Church Residences</b>						
<b>Tax Exempt Bond</b>						
	County of Franklin	Central Office	Variable - 1.57 %	2025	\$ 2,795,000	\$ 2,900,000
<b>Mortgage Notes</b>						
	Key Bank	Central Office	Prime - 8.25 %	2010	1,052,317	1,108,508
	National City Bank	Stafford Court	7.30 %	2012	590,762	612,673
<b>Pass-through Notes</b>						
	City of Columbus	Abbey Church Village	- %	2016	1,423,112	1,481,563
	City of Columbus	Country Ridge Apts.	3.00 %	2038	1,526,683	1,492,123
	Ohio Housing Finance Agency	Country Ridge Apts.	3.00 %	2019	336,294	327,957
	Ohio Housing Finance Agency	Commons at Grant	2.00 %	2042	312,532	306,495
	Ohio Housing Finance Agency	Waggoner Senior Housing	2.00 %	2042	250,681	246,181
	Ohio Housing Finance Agency	Westerville Senior Housing	2.00 %	2034	269,665	264,581
	Ohio Housing Finance Agency	Kirby Manor	2.00 %	2047	479,170	470,170
	Ohio Housing Finance Agency	Chantry Place	2.00 %	2037	775,808	760,808
	Ohio Housing Finance Agency	Meadowview	2.00 %	2043	561,070	295,187
	Ohio Housing Finance Agency	Westerville II	2.00 %	2038	255,889	250,365
	Ohio Housing Finance Agency	Bristol Court	2.00 %	2038	557,184	-
	Ohio Housing Finance Agency	Harborview	2.00 %	2042	210,022	-
	Ohio Housing Finance Agency	Viewpoint	2.00 %	2044	739,981	-
	Greater Buffalo Savings	Summitview	- %	2035	900,000	900,000
	Johnson Bank	Courtyard Willow Woods	1.00 %	2023	360,960	-
<b>Bristol Village Homes</b>						
<b>Tax Exempt Bond</b>						
	County of Pike	Bristol Village Homes	Variable - 1.57 %	2025	7,745,000	8,090,000
<b>Mortgage Note</b>						
	U.S. Dept of HUD	Activity Center	5.25 %	N/A	241,969	242,064
<b>MacAthur Foundation Loan</b>						
		Central Office	2.00 %	2018	3,000,000	-
<b>NCR Affordable Housing Management and Services</b>						
	Ravet Family Trust	Wingate Management	4.90 %	2016	714,954	775,937
	Ravet Family Trust	Wingate Management	4.90 %	2016	300,000	300,000
	Total debt				25,399,053	20,824,612
	Less current portion				(612,643)	(596,044)
	Long-term portion				<u>\$ 24,786,410</u>	<u>\$ 20,228,568</u>

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 8 - Long-term Debt (Continued)

In conjunction with the County of Franklin and County of Pike Bonds, NCR and Affiliates have entered into remarketing agreements, which require the remarketing agents to utilize their efforts to remarket any such bonds that may be tendered for payment. If the proceeds of the remarketing agents are not sufficient to purchase the Series 1999 and 2005 Bonds tendered, the trustee is required to draw on irrevocable letters of credit to pay the necessary purchase price. The letters of credit total up to a maximum of \$11,972,051 and, in the event the letters of credit are drawn upon, the amount must be repaid by the expiration date of the letters of credit, which is June 15, 2010.

Provisions of the County of Franklin and County of Pike Bonds require NCR and Affiliates to, among other things, comply with certain financial ratios, restrict additional encumbrances, and restrict the sale or acquisition of certain assets and merger with another entity. At June 30, 2008 and 2007, NCR was in compliance with these requirements.

Mortgages and notes payable are collateralized by the properties and lease revenues from the properties. The remaining long-term debt is secured by interest in gross revenues and collateralized property and equipment.

The pass-through notes outstanding balances included in the above table include unpaid interest.

During the year ending June 30, 2009, management intends to refinance the KeyBank mortgage note on its existing office building as well as financing both the November 2007 purchase of a new office building and future capital improvements of the Bristol Village Homes campus through a tax-exempt bond issue.

Scheduled principal repayments on long-term debt are as follows:

Years Ending June 30	Amount
2009	\$ 612,643
2010	635,662
2011	660,979
2012	686,608
2013	707,570
Thereafter	22,095,591
Total	<u>\$ 25,399,053</u>

# **National Church Residences and Affiliates**

## **Notes to Special Purpose Financial Statements June 30, 2008 and 2007**

### **Note 9 - Pension and Other Postretirement Benefits Plans**

NCR and Affiliates and related party organizations have one multiple-employer defined benefit retirement plan and two multiple-employer defined contribution plans (the "Retirement Plans") for the employees of NCR and Affiliates and related party organizations who meet certain requirements as to age and length of service. NCR is the sponsor for these plans.

The defined contribution plan provides an annual contribution for the employees equal to 3 percent of eligible compensation plus an additional contribution up to 3 percent to match the employee contribution. Effective July 1, 2007, the defined contribution plan was amended to change the required employer contributions (including matching percentage) ranging from 3 percent to 5 percent depending on an employee's years of service. NCR and Affiliates' total contribution made to the defined contribution plan was approximately \$627,000 and \$455,000 for the fiscal years ended June 30, 2008 and 2007, respectively.

NCR and Affiliates' direct responsibility for the defined benefit retirement plan is approximately 27 percent and 26 percent for the years ended June 30, 2008 and 2007, respectively. NCR and Affiliates' total contribution to the defined benefit retirement plan totaled \$293,920 and \$310,658 in fiscal 2008 and 2007, respectively. NCR and Affiliates make annual contributions to the Retirement Plans equal to the minimum annual contributions required by the applicable regulations.

The NCR defined benefit plan was frozen from July 1, 2003 through June 30, 2006 and then again effective June 30, 2007. During this time, participants did not earn any credited service for purposes of calculating participants' benefits under the plan. Effective July 1, 2006, NCR also changed the benefit formula from 1 percent times average monthly earnings to 3/4 of 1 percent times average monthly earnings and eliminated lump-sum distributions for benefits earned after July 1, 2006. NCR is obligated to continue to make contributions to the plan.

During 2008, NCR implemented a new pension plan called the Supplemental Retirement Plan, a defined contribution plan, that is designed to provide the same level of retirement funds, when coupled with the existing plans, that would have been achieved had the defined benefits plan not been frozen. No significant contributions were made to this plan during 2008.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 9 - Pension and Other Postretirement Benefits Plans (Continued)

#### Obligations and Funded Status

	NCR and Affiliates Direct			
	Responsibility		Total Plan	
	2008	2007	2008	2007
<b>At June 30</b>				
<b>Change in Benefit Obligation</b>				
Benefit obligation at beginning of year	\$ 2,197,364	\$ 2,330,629	\$ 8,007,885	\$ 9,093,365
Service cost	-	237,587	-	926,988
Interest cost	132,598	137,941	483,231	538,201
Actuarial (gain) loss	(112,067)	117,530	(408,409)	458,564
Benefit payments	(24,001)	(120,302)	(87,468)	(469,382)
Curtailments	-	(650,964)	-	(2,539,851)
Settlements	(137,642)	-	(501,611)	-
Benefit obligation at end of year	2,056,252	2,052,421	7,493,628	8,007,885
<b>Change in Plan Assets</b>				
Fair value of plan assets at beginning of year	2,209,732	1,656,535	8,052,961	6,463,267
Actual return on plan assets	(162,195)	217,084	(591,089)	846,042
Employer contributions	293,920	310,658	1,071,138	1,213,034
Benefits paid	(24,001)	(120,303)	(87,468)	(469,382)
Settlements	(137,642)	-	(501,611)	-
Fair value of plan assets at end of year	2,179,814	2,063,974	7,943,931	8,052,961
Funded status at end of year	\$ 123,562	\$ 11,553	\$ 450,303	\$ 45,076

Amounts recognized in the balance sheet consist of the following:

	NCR and Affiliates Direct			
	Responsibility		Total Plan	
	2008	2007	2008	2007
Noncurrent assets	\$ 123,562	\$ 11,553	\$ 450,303	\$ 45,076

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 9 - Pension and Other Postretirement Benefits Plans (Continued)

Amounts recognized in unrestricted net assets consist of the following:

	NCR and Affiliates			
	Direct Responsibility		Total Plan	
	2008	2007	2008	2007
Net loss	\$ 194,540	\$ -	\$ 708,965	\$ -

The accumulated benefit obligation for NCR and Affiliates' direct responsibility of the defined benefit pension plan was \$2,056,252 and \$2,052,421 at June 30, 2008 and 2007, respectively. The accumulated benefit obligation for the total defined benefit pension plan was \$7,493,628 and \$8,007,885 at June 30, 2008 and 2007, respectively.

### Components of Net Periodic Benefit Cost and Other Amounts Recognized in Unrestricted Net Assets

	NCR and Affiliates Direct			
	Responsibility		Total Plan	
	2008	2007	2008	2007
<b>Net Periodic Benefit Cost</b>				
Service cost	\$ -	\$ 235,587	\$ -	\$ 926,988
Interest cost	132,599	137,941	483,231	538,201
Expected return on plan assets	(157,435)	(120,548)	(573,742)	(470,338)
Amortization of prior service cost	-	61,576	-	240,252
Recognized net actuarial gain	-	16,872	-	65,830
Curtailment and settlement costs	13,022	487,000	47,457	1,900,118
Net periodic benefit cost	(11,814)	818,428	(43,054)	3,201,051
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets</b>				
Net loss	207,562	-	756,422	-
Settlement	(13,022)	-	(47,457)	-
Total recognized in unrestricted net assets	194,540	-	708,965	-
Total recognized in net periodic benefit cost and unrestricted net assets	\$ 182,726	\$ 818,428	\$ 665,911	\$ 3,201,051

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 9 - Pension and Other Postretirement Benefits Plans (Continued)

The estimated net loss for the defined benefit pension plan that will be amortized from pension-related changes other than net periodic benefit cost into net periodic benefit cost over the next fiscal year is \$0.

#### Assumptions

##### Weighted Average Assumptions Used to Determine Benefit Obligations at June 30

	Pension Benefits	
	2008	2007
Discount rate	6.75 %	6.25 %
Rate of compensation increase	5.00	5.00

##### Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended June 30

	Pension Benefits	
	2008	2007
Discount rate	6.25 %	6.75 %
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	5.00	5.00

The overall expected rate of return on plan assets represents a weighted average composite rate based on the historical rates of returns of the respective asset classes adjusted for anticipated market movements.

#### Plan Assets

	2008	2007
Asset category:		
Equity securities	63 %	61 %
Cash equivalents/fixed income	37 %	39 %
Total	100 %	100 %

The objective of the plan is to have long-term growth through the investment of equities and fixed income instruments, to provide prudent management in compliance with ERISA guidelines, and actuarial and contracted obligations. The target allocation range of percentages for each major category of plan assets is as follows:

Equity securities	40 %
Cash equivalents/fixed income	30 %

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 9 - Pension and Other Postretirement Benefits Plans (Continued)

#### Cash Flow

#### Contributions

NCR and all related parties that participate in the total defined benefit plan plan to contribute an estimated \$40,000 per month through December 2008. The contributions for 2009 have yet to be determined.

#### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the fiscal years ending June 30:

Years Ending June 30	NCR and Affiliates Direct Responsibility	Total Plan
2009	\$ 143,343	\$ 522,388
2010	149,399	544,456
2011	138,606	505,124
2012	155,062	565,095
2013	161,039	586,876
2014-2018	751,839	2,739,939

### Note 10 - Deferred Revenues and Refundable Fees

NCR and Affiliates offer rental, traditional, and return of capital plans for Bristol Village residents. The rental plan requires monthly rental payments with no required up-front fees. Revenue resulting from monthly rental payments is included in rental revenue on the statement of activities. Under the terms of the traditional plan, a portion of the life-lease is refundable upon termination of the lease contract within four years of the move-in date and re-occupancy of the residency unit. The return of capital plans provides between 50 percent and 94 percent (depending on the plan chosen) refundability of the life-lease fees upon termination of the lease contract and re-occupancy of the residency unit. The deferred revenue portion of the traditional and return of capital plans is recognized over the actuarially determined estimated life of the residents, the balance of which is recognized in the year the resident moves out.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 10 - Deferred Revenues and Refundable Fees (Continued)

Deferred revenues consist of the following at June 30:

	2008	2007
Traditional plan	\$ 9,251,820	\$ 10,378,375
Return of capital plan	596,833	421,568
Total deferred revenue from life-lease fees	9,848,653	10,799,943
Less current portion of life-lease fees	(841,374)	(906,238)
Long-term portion of life-lease fees	<u>\$ 9,007,279</u>	<u>\$ 9,893,705</u>

Based on the terms of the traditional and return of capital plans, NCR and Affiliates recorded a liability for the estimated repayment of the refundable life-lease fees in the amount of \$7,960,811 and \$7,395,274 at June 30, 2008 and 2007, respectively, which is included in long-term liabilities on the balance sheet. The total gross amount of contractual refund obligations under existing contracts was \$9,480,970 and \$8,816,520 at June 30, 2008 and 2007, respectively. In addition, monthly services and administrative fees received from residents are recognized as revenue on a monthly basis.

### Note 11 - Program, Support Services, and Fund-raising Expenses

Total operating expense consisted of expenses relating to program, support services, and fund-raising expenses in the following amounts at June 30:

	2008	2007
Program services	\$ 23,526,086	\$ 22,313,209
Support services	1,517,562	1,390,447
Fund-raising	139,572	130,878
Total	<u>\$ 25,183,220</u>	<u>\$ 23,834,534</u>

### Note 12 - Fair Values of Financial Instruments

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

**Short-term Financial Instruments** - The fair values of short-term financial instruments, including cash and cash equivalents, accounts receivable and payable, and accrued liabilities approximate the carrying amounts in the accompanying financial statements due to the short maturity of such instruments.

**Investments** - Investments are recorded at fair value in the accompanying financial statements. Fair value is determined based on quoted market prices.

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 12 - Fair Values of Financial Instruments (Continued)

**Long-term Obligations** - The fair value of long-term obligations approximates the carrying amounts in the accompanying financial statements. The carrying value of the debt approximates market based on current borrowing rates.

### Note 13 - Commitments and Contingencies

NCR has various commitments and contingencies related to its primary business activities. These commitments are as follows:

**Construction Equity and Loan Guarantees** - NCR has guaranteed various loans and equity of certain related party transactions. In the event of default by a related party, NCR could be obligated to repay the full amount outstanding. The maximum potential future payments of these loans at June 30 are as follows:

	2008	2007
Bristol Court Apartments, LP	\$ -	\$ 913,580
Chantry Place	2,000,000	2,000,000
Clara Park Commons	-	1,500,000
Courtyard at Willow Woods	1,230,969	-
Cypress Sunrise	-	902,619
Harborview	732,129	-
Heritage Place at Trails Edge	-	2,100,000
Madison Tower	2,944,733	2,944,733
McPherson Woods	306,000	306,000
Meadow View	-	1,946,287
Memorial Towers	4,700,000	4,700,000
New Town Village	1,585,090	-
Ravine at Central College II	2,350,000	2,350,000
Romulus	3,502,627	3,502,627
Santiago Fajardo Village	1,562,953	2,384,454
Solberg Tower	4,675,499	4,675,499
Summerfield Village	1,301,575	1,301,575
Vanderbilt	5,550,000	5,550,000
Viewpoint	9,800,000	-
Villa Esperanza	2,513,335	2,639,722
Villa Providencia	2,035,441	1,958,931
Villas of Combined Locks	2,456,387	-
Wayne Tower	2,723,396	2,723,396
Wysong Plaza	-	1,494,691
Total	<u>\$ 51,970,134</u>	<u>\$ 45,894,114</u>

# National Church Residences and Affiliates

## Notes to Special Purpose Financial Statements June 30, 2008 and 2007

### Note 13 - Commitments and Contingencies (Continued)

These loans and mortgages bear interest at variable rates, which range from 1.0 percent to 6.0 percent at June 30, 2008. The debt is secured by the assets held by the related party organizations, which consist principally of properties and facilities. The construction guarantees typically will expire at the end of a 30-month period. In the event NCR is required to make payments under these guarantees, NCR could seek to recover these amounts from the related party organizations; however, NCR does not hold specific recourse or collateral rights in connection with the guarantees.

**Operating Deficit** - NCR has made certain commitments related to numerous low-income tax credit housing projects developed by partnerships sponsored by NCR. To induce investor participation in the projects, NCR has extended operating deficit guarantees to the general partners in the partnerships. These guarantees can be drawn upon for specified purposes. Operating deficit guarantees totaled \$28,333,474 and \$24,110,915 at June 30, 2008 and 2007, respectively.

In the event NCR is required to make payments under these guarantees, NCR could seek to recover these amounts from the related party organizations; however, NCR does not hold specific recourse or collateral rights in connection with the guarantees. At June 30, 2008 and 2007, approximately \$2,080,000 and \$1,784,000, respectively, was cumulatively funded by NCR. Management believes that any additional funding of these operating deficit/completion guarantees will not be material, if required.

In relation to these projects, NCR has made certain limited guarantees with assurance that the low-income tax credits will be available to the investors over the projected periods during which the credits are anticipated to be earned. As of June 30, 2008, NCR believes it has completed all matters necessary to assure that the credits will be available and anticipates that all future requirements will be met. Such matters consist principally of renting the housing units to qualified tenants and maintaining proper administrative records.

NCR is involved in litigation arising in the ordinary course of business. In the opinion of NCR's management and legal counsel, liabilities not covered by insurance resulting from such litigation are not expected to be material.

In May 2007, HUD performed a comprehensive review of NCR's management practices. As a result of HUD's review, NCR has reserved \$400,000 in accrued expenses as a contingency for future reimbursements to HUD sites for site charges that the review team did not consider to be eligible program expenses.

## **Additional Information**

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To the Board of Trustees  
National Church Residences and Affiliates

We have audited the special purpose financial statements of National Church Residences and Affiliates as of June 30, 2008 and 2007. Our audits were made for the purpose of forming an opinion on the special purpose financial statements taken as a whole. The accompanying combining special purpose balance sheet and statement of activities information is presented for the purpose of additional analysis of the special purpose financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies and is not a required part of the special purpose financial statements. The combining information has been subjected to the procedures applied in the audits of the special purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

*Plante & Moran, PLLC*

August 21, 2008

# National Church Residences and Affiliates

## Combining Special Purpose Balance Sheet June 30, 2008

	National Church Residences	NCR Foundation	NCR Health Care	NCR Affordable Housing Management and Services	Bristol Village Homes	Total
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 2,661,437	\$ -	\$ 466,495	\$ -	\$ 160,871	\$ 3,288,803
Investments	10,309,706	22,569,657	-	-	1,285,047	34,164,410
Temporarily restricted cash and investments	-	-	-	-	3,250	3,250
Other receivables:						
Related parties	3,416,510	-	230,630	-	(933,436)	2,713,704
Current portion of notes receivable from related parties	444,371	-	-	-	-	444,371
Other	436,666	15,000	-	-	(14,903)	436,763
Other current assets	615,802	-	12,092	-	16,648	644,542
<b>Total current assets</b>	<b>17,884,492</b>	<b>22,584,657</b>	<b>709,217</b>	<b>-</b>	<b>517,477</b>	<b>41,695,843</b>
<b>Property and Equipment - Net</b>	<b>4,671,344</b>	<b>-</b>	<b>56,263</b>	<b>-</b>	<b>15,807,197</b>	<b>20,534,804</b>
<b>Other</b>						
Designated and temporarily restricted cash and cash equivalents	4,055,878	5,560,996	-	-	3,017,084	12,633,958
Long-term receivables from related parties	14,822,064	19,431	-	-	-	14,841,495
Investment in related party organizations	230	-	-	2,495,988	-	2,496,218
Net unamortized bond issuance costs	133,228	-	-	-	209,020	342,248
Other noncurrent assets	986,991	-	-	-	-	986,991
<b>Total assets</b>	<b>\$ 42,554,227</b>	<b>\$ 28,165,084</b>	<b>\$ 765,480</b>	<b>\$ 2,495,988</b>	<b>\$ 19,550,778</b>	<b>\$ 93,531,557</b>

# National Church Residences and Affiliates

## Combining Special Purpose Balance Sheet (Continued)

June 30, 2008

	National Church Residences	NCR Foundation	NCR Health Care	NCR Affordable Housing Management and Services	Bristol Village Homes	Total
<b>Liabilities and Net Assets (Deficit)</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	\$ 1,898,662	\$ -	\$ 152,035	\$ -	\$ 555,681	\$ 2,606,378
Lines of credit	889,947	-	-	-	-	889,947
Accrued interest	29,627	-	-	39,542	9,872	79,041
Deposits held	278,184	-	-	-	121,708	399,892
Accrued liabilities and other:						
Life-lease fees	-	-	-	-	841,374	841,374
Current portion of long-term debt	195,624	-	-	61,979	355,040	612,643
Other liabilities	-	74,982	-	-	-	74,982
Total current liabilities	3,292,044	74,982	152,035	101,521	1,883,675	5,504,257
<b>Long-term Debt - Net of current portion</b>	16,202,502	-	-	951,979	7,631,929	24,786,410
<b>Other Long-term Liabilities</b>						
Refundable fees	-	-	-	-	7,960,811	7,960,811
Deferred compensation liability	516,940	-	-	-	-	516,940
Workers' compensation liability - Including reserves for related parties	312,403	-	-	-	-	312,403
Deferred revenue - Life-lease fees - Net of current portion	-	-	-	-	9,007,279	9,007,279
Deferred revenue - Developer fees	363,500	-	-	-	-	363,500
Intercompany payables (receivables)	(4,002,000)	(3,026,307)	-	3,502,000	3,526,307	-
Other long-term liabilities	-	428,667	-	-	-	428,667
<b>Net Assets (Deficit)</b>						
Unrestricted	25,868,838	27,381,546	613,445	(2,059,512)	(10,459,223)	41,345,094
Temporarily restricted	-	3,306,196	-	-	-	3,306,196
Total net assets (deficit)	25,868,838	30,687,742	613,445	(2,059,512)	(10,459,223)	44,651,290
Total liabilities and net assets (deficit)	<u>\$ 42,554,227</u>	<u>\$ 28,165,084</u>	<u>\$ 765,480</u>	<u>\$ 2,495,988</u>	<u>\$ 19,550,778</u>	<u>\$ 93,531,557</u>

# National Church Residences and Affiliates

## Combining Special Purpose Statement of Activities Year Ended June 30, 2008

	National Church Residences	NCR Foundation	NCR Health Care	NCR Affordable Housing Management and Services	Bristol Village Homes	Total
<b>Operating Revenue</b>						
Management fees	\$ 12,509,514	\$ -	\$ 3,754,781	\$ -	\$ -	\$ 16,264,295
Service and administrative	-	-	-	-	2,512,901	2,512,901
Developer fees and other	4,570,017	-	-	-	89,987	4,660,004
Life-lease amortization revenue	-	-	-	-	1,374,083	1,374,083
Distributions received from unconsolidated subsidiaries	2,210,322	-	-	300,000	-	2,510,322
Rental revenue	238,090	-	-	-	369,711	607,801
Total operating revenue	19,527,943	-	3,754,781	300,000	4,346,682	27,929,406
<b>Operating Expenses</b>						
Payroll and other employee-related expenses	10,869,994	-	1,920,005	-	686,290	13,476,289
Administration	3,012,564	848,472	380,204	-	351,536	4,592,776
Depreciation and amortization	424,348	-	31,167	-	1,950,024	2,405,539
Operating and maintenance	372,732	-	56,870	-	788,328	1,217,930
Interest	342,149	44,811	-	51,203	312,130	750,293
Taxes and insurance	108,055	-	7,278	-	410,476	525,809
Travel	738,055	-	104,647	-	42,168	884,870
Advertising	131,883	-	6,944	-	485,168	623,995
Utilities	91,513	-	-	-	322,837	414,350
Service and ancillary	38,999	-	21,100	-	231,270	291,369
Expense (income) from affiliates	2,928,295	(4,495,842)	1,022,313	200,000	345,234	-
Total operating expenses	19,058,587	(3,602,559)	3,550,528	251,203	5,925,461	25,183,220
<b>Operating Income (Loss)</b>	469,356	3,602,559	204,253	48,797	(1,578,779)	2,746,186
<b>Other Income (Loss)</b>						
Net investment (loss) income	(404,290)	(911,139)	1,643	-	(86,743)	(1,400,529)
Gain on equity investment in related party organization	-	-	-	71,348	-	71,348
Pension-related changes other than net periodic benefit cost	(164,959)	-	(19,037)	-	(10,544)	(194,540)
Net assets released from restriction - Unrestricted	-	1,056,824	-	-	-	1,056,824
Total other (loss) income	(569,249)	145,685	(17,394)	71,348	(97,287)	(466,897)
<b>(Decrease) Increase in Unrestricted Net Assets</b>	<b>\$ (99,893)</b>	<b>\$ 3,748,244</b>	<b>\$ 186,859</b>	<b>\$ 120,145</b>	<b>\$ (1,676,066)</b>	<b>\$ 2,279,289</b>