CONSOLIDATED FINANCIAL STATEMENTS AND OMB CIRCULAR A-133
SUPPLEMENTARY INFORMATION TOGETHER WITH
REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

THE DOMESTIC AND FOREIGN MISSIONARY SOCIETY OF THE PROTESTANT EPISCOPAL CHURCH IN THE UNITED STATES OF AMERICA AND AFFILIATES

December 31, 2008 and 2007

CONTENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Executive Council of
The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates:

We have audited the accompanying consolidated statements of financial position of The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America and Affiliates (the "Society") as of December 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the St. John's School, which statements reflect total assets and revenues constituting 2% and 2%, respectively, and 7% and 7%, respectively, of the related consolidated totals as of December 31, 2008 and 2007. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for St. John's School, is based solely on the reports of the other auditors.

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2009, on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control 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.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of the Society as of and for the years ended December 31, 2008 and 2007, taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2008 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Grant Thornton LLP

New York, New York
September 19, 2009

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church
in the United States of America and Affiliates

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2008 and 2007
(Dollar amounts in thousands)

ASSETS	2008	2007
Current assets:		
Cash and cash equivalents	$ 11,052	$ 17,145
Accounts receivable:		
Diocesan commitments receivable, net (Note B)	1,311	1,037
Loans receivable, net (Note D)	580	1,521
Government grants	1,215	1,496
Other receivables, net of an allowance of $77 in 2008	9,113	6,308
Collateral received under securities loan agreement (Note C)	61,780	87,799
Inventory, net (Note B)	138	193
Prepaid expenses and other	301	580
Total current assets	85,490	116,079
Investments (Note C):		
DFMS-controlled funds	205,851	315,216
Funds held for the benefit of others	66,612	89,304
Total investments	272,463	404,520
Property and equipment, net (Note E)	53,774	55,766
Loans receivable - noncurrent, net (Note D)	4,253	4,144
Other assets	170	169
Beneficial interest in outside trusts (Notes B and C)	6,026	8,541
Total assets	$ 422,176	$ 589,219
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	$ 8,624	$ 7,228
Payable under securities loan agreement (Note C)	61,780	87,799
Grants payable	1,017	1,469
Mortgage payable (Note F)	106	106
Accrued postretirement benefits other than pensions (Note H)	609	603
Total current liabilities	72,136	97,205
Notes payable (Note F)	37,500	37,500
Mortgage payable, net of current installments (Note F)	1,590	1,699
Annuities Payable	397	570
Accrued postretirement benefits other than pensions, net of current (Note H)	8,623	8,014
Funds held for the benefit of others	48,585	60,955
Funds held in a trustee relationship	18,027	28,349
Total liabilities	186,858	234,292
Contingencies (Note L)		
Net assets (Note J):		
Unrestricted:		
Available for general operations	34,476	72,876
Executive Council Designated Employee Benefit Program	3,180	3,180
Executive Council Designated Principal and Appreciation	79,106	93,575
Invested in property and equipment	30,534	32,243
Total unrestricted	147,296	201,874
Temporarily restricted (Note I)	58,800	121,484
Permanently restricted	29,222	31,569
Total net assets	235,318	354,927
Total liabilities and net assets	$ 422,176	$ 589,219

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended December 31, 2008 and 2007
(Dollar amounts in thousands)

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:								
Diocesan commitments (Note K)	$ 30,390	$ -	$ -	**$ 30,390**	$ 29,232	$ -	$ -	$ 29,232
Contributions and bequests	431	3,799	31	**4,261**	256	3,062	395	3,713
Contributed services	1,015	-	-	**1,015**	1,136	-	-	1,136
Investment return designated for current operations (Note C)	9,851	1,966	-	**11,817**	9,711	2,157	-	11,868
Other investment income	1,609	289	-	**1,898**	2,273	172	-	2,445
Government revenue	9,491	-	-	**9,491**	6,687	-	-	6,687
Fees, sales and other	4,751	(3)	-	**4,748**	5,175	-	-	5,175
Episcopal Relief and Development (Note M)	-	18,263	-	**18,263**	-	19,255	1	19,256
Net assets released from restrictions	36,543	(36,543)	-	**-**	36,422	(36,422)	-	-
Revenue from the Episcopal Church in Micronesia	6,921	-	(35)	**6,886**	6,672	-	7	6,679
Total revenues and other support	101,002	(12,229)	(4)	**88,769**	97,564	(11,776)	403	86,191
Expenses:								
Program services-								
Canonical and missional programs	38,400	-	-	**38,400**	37,303	-	-	37,303
Government expenses	9,527	-	-	**9,527**	8,516	-	-	8,516
General convention	2,309	-	-	**2,309**	1,593	-	-	1,593
Grant-related activities and other	7,481	-	-	**7,481**	6,911	-	-	6,911
Episcopal Relief and Development (Note M)	25,384	-	-	**25,384**	24,834	-	-	24,834
Expenses from the Episcopal Church in Micronesia	7,582	-	-	**7,582**	7,171	-	-	7,171
Total program services	90,683	-	-	**90,683**	86,328	-	-	86,328
Supporting services-								
Fundraising	2,743	-	-	**2,743**	2,685	-	-	2,685
General and administrative	10,291	-	-	**10,291**	11,624	-	-	11,624
Total supporting services	13,034	-	-	**13,034**	14,309	-	-	14,309
Total expenses	103,717	-	-	**103,717**	100,637	-	-	100,637
Change in net assets from operations	(2,715)	(12,229)	(4)	**(14,948)**	(3,073)	(11,776)	403	(14,446)
Nonoperating activities:								
Investment (loss) return (Note C)	(40,403)	(48,200)	-	**(88,603)**	20,413	10,320	69	30,802
Less: Other investment income	1,609	289	2,343	**4,241**	2,273	172	-	2,445
Net investment (loss) gain - trust fund	(42,012)	(48,489)	(2,343)	**(92,844)**	18,140	10,148	69	28,357
Less: Investment return designated for current operations	(9,851)	(1,966)	-	**(11,817)**	(9,711)	(2,157)	-	(11,868)
Total nonoperating activities	(51,863)	(50,455)	(2,343)	**(104,661)**	8,429	7,991	69	16,489
Change in net assets	(51,863)	(50,455)	(2,343)	**(104,661)**	5,356	(3,785)	472	2,043
Cumulative effect of change in accounting principle (Note H)	-	-	-	**-**	1,378	-	-	1,378
Change in net assets	(54,578)	(62,684)	(2,347)	**(119,609)**	6,734	(3,785)	472	3,421
Net assets, beginning of year	201,874	121,484	31,569	**354,927**	195,140	125,269	31,097	351,506
Net assets, end of year	$ 147,296	$ 58,800	$ 29,222	**$ 235,318**	$ 201,874	$ 121,484	$ 31,569	$ 354,927

The accompanying notes are an integral part of these consolidated financial statements.

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church
in the United States of America and Affiliates

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2008 and 2007
(Dollar amounts in thousands)

	2008	2007
Cash flows from operating activities:		
Change in net assets	**$ (119,609)**	$ 3,421
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Noncash items:		
Cumulative effect of change in accounting principle	**-**	(1,378)
Depreciation	**2,953**	2,763
Bad debt expense	**176**	81
Total noncash adjustments	**3,129**	1,466
Change in working capital:		
(Increase) decrease in diocesan commitments receivable	**(274)**	772
Decrease in loans receivable	**832**	649
Decrease (increase) in government grants receivable	**280**	(1,386)
(Increase) decrease in other receivables	**(2,882)**	705
Decrease (increase) in inventory, prepaid expenses and other	**332**	(291)
Increase in other assets	**(1)**	(6)
Increase (decrease) in accounts payable and accrued expenses	**1,396**	(258)
Decrease in grants payable	**(452)**	(110)
Total change in working capital accounts	**(769)**	75
Change in investments:		
Net realized and unrealized losses (gains) on investments	**101,810**	(25,043)
Total change in investments	**101,810**	(25,043)
Other changes:		
Change in beneficial interests in outside trusts	**2,343**	(116)
Increase in accrued postretirement benefits other than pensions	**615**	328
Permanently restricted contributions	**(31)**	(395)
Total other changes	**2,927**	(183)
Total change in working capital accounts and other	**107,097**	(23,685)
Net cash used in operating activities	**(12,512)**	(20,264)
Cash flows from investing activities:		
Purchases of property and equipment	**(961)**	(1,623)
Proceeds from sales of investments	**885,870**	15,482
Purchases of investments	**(878,413)**	(1,168)
Net cash provided by investing activities	**6,496**	12,691
Cash flows from financing activities:		
Permanently restricted contributions	**31**	395
Principal payments on mortgage loan	**(108)**	(111)
Net cash (used in) provided by financing activities	**(77)**	284
Net decrease in cash and cash equivalents	**(6,093)**	(7,289)
Cash and cash equivalents, beginning of year	**17,145**	24,434
Cash and cash equivalents, end of year	**$ 11,052**	$ 17,145
Supplemental disclosure of cash flow information:		
Cash paid for interest during the year	**$ 1,962**	$ 2,316

The accompanying notes are an integral part of these consolidated financial statements.

NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES

The Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the United States of America ("DFMS") is the corporate organization charged with the legal and financial responsibilities for the operations of the Episcopal Church in the United States. It does not, however, operate or otherwise control individual dioceses. The General Convention is the legislative body of the Episcopal Church and meets in convention once every three years. Between conventions, the Executive Council of the General Convention is charged with the responsibility of implementing the programs and policies adopted by the General Convention.

DFMS's consolidated financial statements include the activities of Episcopal Relief & Development ("ERD"), a separate 501(c)(3) not-for-profit corporation, Episcopal Church Women, United Thank Offering and all other direct agencies of DFMS, as well as missional church and school activities in Micronesia (Guam). All intercompany transactions are eliminated upon consolidation. These entities and programs are collectively known as the "Society."

A significant amount of the Society's support comes from amounts provided by the dioceses.

The Society has been classified by the Internal Revenue Service as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been made in the accompanying consolidated financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Basis of Presentation*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, the classification of the Society's net assets and its support, revenues and expenses are based on the existence or absence of donor-imposed restrictions. The amounts for each of the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, are displayed in the consolidated statements of financial position and the changes in each of those classes of net assets are displayed in the consolidated statements of activities.

NOTE B (continued)

Net assets consist of the following:

Unrestricted – net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations and, therefore, are available to carry out the Society's operations. Unrestricted net assets also include those net assets that are restricted as to their use by action of the Executive Council.

Temporarily Restricted – net assets resulting from contributions and other inflows of assets whose use by the Society is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Society pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Temporarily restricted net assets are comprised primarily of funds designated for disaster relief and other specific diocesan programs at the Society.

Permanently Restricted – net assets resulting from contributions and other inflows of assets whose use by the Society is limited in perpetuity by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Society. Permanently restricted net assets are comprised primarily of funds restricted by the donor to be held in perpetuity for the purpose of supporting the operations of the Society.

2. *Concentration of Credit Risk*

Financial instruments that potentially subject the Society to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit, and investments. Management does not believe that a significant risk of loss due to the failure of a financial institution the Society utilizes is likely. Management also believes that its market risk is mitigated by an adequate diversification of its investments.

NOTE B (continued)

3. *Diocesan Commitments Receivable*

The Society provides for an allowance for uncollectible receivables based on an assessment of various factors, including historical information and current conditions. The allowance for uncollectible accounts was $290 and $326 at December 31, 2008 and 2007, respectively.

4. *Investments*

Investments include those that belong to the Society as well as those held on behalf of others. They consist of both marketable and non-marketable securities, stated at quoted market values or values provided by the respective fund manager or general partner. Realized and unrealized gains or losses on investments belonging to the Society have been reflected in the accompanying consolidated statements of activities. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

5. *Fair Value Measurements*

Effective January 1, 2008, the Society adopted Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS No. 157 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

NOTE B (continued)

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of December 31, 2008. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of December 31, 2008. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of December 31, 2008. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity. The Society considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Society's perceived risk of that instrument.

6. *Cash and Cash Equivalents*

The Society considers all highly liquid investments with original maturities of less than three months from the date of purchase to be cash and cash equivalents, except for those cash equivalents which are included in the Society's investment portfolio which are considered to be for long-term investment purposes. The Society's cash and cash equivalents were classified as Level 1 within the fair value hierarchy of SFAS No. 157 as of December 31, 2008.

NOTE B (continued)

7. *Valuation of Investments*

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include actively traded equities, certain U.S. government and sovereign obligations, and certain money market securities. The Society does not adjust the quoted price for such instruments, even in situations where the Society holds a large position and a sale could reasonably impact the quoted price.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government and sovereign obligations, most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank loans and bridge loans, less liquid listed equities, state, municipal and provincial obligations, most physical commodities and certain loan commitments. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity and real estate investments, certain bank loans and bridge loans, less liquid corporate debt securities (including distressed debt instruments), collateralized debt obligations, and less liquid mortgage securities (backed by either commercial or residential real estate). When observable prices are not available for these securities, the Society uses one or more valuation techniques (e.g., the market approach, the income approach or the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

The inputs used by the Society in estimating the value of Level 3 investments include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted

NOTE B (continued)

to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Society in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Society, due to the lack of observable inputs, may significantly impact the resulting fair value and therefore the Society's changes in net assets.

8. *Inventory*

Inventory is recorded at the lower of cost or market and is accounted for using the average cost method. Such inventory consists primarily of program-related literature and other materials. The allowance for obsolescence was $7 and $6 at December 31, 2008 and 2007, respectively.

9. *Property and Equipment*

The Society's investment in property and equipment consists of its New York headquarters and the school and missional churches of Micronesia ("Guam"). Property and equipment, with the exception of land, are depreciated using the straight-line method over the estimated service lives of the respective assets. Property and equipment costing greater than $1,500 and with useful lives greater than one year are capitalized.

10. *Beneficial Interest in Outside Trusts*

From time to time, certain donors have established trusts with third party administrators, typically banks or other Episcopal entities, that call for the income earned on these gifts to be paid to the Society and/or other beneficiaries and the principal to be invested in perpetuity. Historically, the income received from these outside trusts has been recorded as either temporarily restricted or unrestricted based upon the donors' imposed stipulations. The fair value of these outside trust assets is recognized as a component of permanently restricted net assets. The beneficial interest in outside trust is adjusted each year and the change is recognized in the consolidated statements of activities based on changes in market value of the trusts' underlying investments. A liability has been established for amounts payable to life tenants under such arrangements.

NOTE B (continued)

11. *Grants Payable*

The awarding of grants is reflected in the consolidated financial statements at the time they are approved by the appropriate board. Grants represent unconditional promises to give that are expected to be paid within one year.

12. *Funds Held for the Benefit of Others*

In the ordinary course of business, the Society acts as a custodian for funds owned by others and for which no benefit of income or principal is received. In these cases, the balances are treated as liabilities rather than included in the Society's net assets and as assets held in the investment accounts. The income from these investments is not included in the accompanying consolidated statements of activities but reflected as a change in the value of such assets and liabilities.

13. *Funds Held in a Trustee Relationship*

Funds held in a trustee relationship are funds held in a fiduciary relationship by the Society, as trustee, where the original principal is invested permanently and the income is used in support of specific third-party beneficiaries.

14. *Contributed Services*

Contributed services are valued at their estimated fair market value and are recognized as revenue and expenses in the accompanying consolidated statements of activities. Contributed legal services for the years ended December 31, 2008 and 2007 totaled $1,015 and $1,136, respectively.

15. *Fair Value of Financial Instruments*

The Society estimates that the fair value of its financial instruments does not differ materially from the carrying values as presented in the accompanying consolidated statements of financial position.

NOTE B (continued)

16. *New Accounting Pronouncements*

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109." FIN 48, which clarifies FASB Statement No. 109, establishes the criterion that an individual tax position has to meet for some or all the benefits of that position to be recognized in the entity's financial statements. The cumulative effect of applying FIN 48 will be reported as an adjustment to net assets at the beginning of the period in which it is adopted, if an adjustment is concluded to be necessary. FSP FIN-48-3 deferred the effective date of adopting FIN 48 for non-public entities until fiscal years beginning after December 15, 2008. As a non-public entity, the Society has elected to defer the adoption of FIN 48 and is currently assessing the impact, if any, FIN 48 will have on its consolidated financial statements. The Society has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; and to assess other matters that may be considered tax positions. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can reasonable estimated.

17. *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 judgments that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. The most significant of which pertain to the determination of specific reserves against loans and other amounts receivable, the valuation of non-marketable investments, postretirement benefit obligations, and the useful lives assigned to fixed assets. Actual results may differ from these estimates.

18. *Reclassifications*

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year's presentation.

(Dollar amounts in thousands)

NOTE C - INVESTMENTS

At December 31, 2008, total investments of approximately $272,000 consisted of $238,000 in trust fund endowment assets, $9,000 in unit-trust and pooled income funds, $19,000 in medium-term investments, $3,000 in St. John's School (Guam) investments and $3,000 in certificates of deposit with minority-controlled banks. At December 31, 2007, total investments of approximately $405,000 consisted of $363,000 in trust fund assets, $12,000 in unit-trust and pooled income funds, $24,000 in medium-term investments, $3,000 in St. John's School (Guam) investments and $3,000 in certificates of deposit with minority-controlled banks.

Investments are carried at market value and consisted of the following at December 31:

	Market Value		Cost	
	2008	2007	**2008**	2007
Common stock	**$ 156,133**	$ 263,400	**$ 195,226**	$ 220,225
Bonds:				
Corporate	**17,769**	50,379	**27,993**	50,873
Government	**33,984**	47,297	**33,466**	46,241
Other, primarily mutual bond funds	**3,784**	5,036	**5,369**	5,315
Total bonds	**55,537**	102,712	**66,828**	102,429
Mutual funds (primarily common stock and bonds)	**17,910**	6,505	**24,614**	6,532
Certificates of deposit	**2,500**	2,600	**2,500**	2,600
Other, primarily money market and other cash equivalents	**8,416**	8,442	**8,414**	8,441
Real estate	**284**	284	**284**	284
Alternative investments	**31,683**	20,577	**31,159**	20,339
Total investments	**272,463**	404,520	**329,025**	360,850
Funds held for others	**(66,612)**	(89,304)	**(79,042)**	(81,236)
Total DFMS-controlled funds	**$ 205,851**	$ 315,216	**$ 249,983**	$ 279,614

(Dollar amounts in thousands)

NOTE C (continued)

Since alternative investments may not be readily marketable, the estimated fair value assigned to such interests is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. The values assigned to these holdings do not necessarily represent amounts which might ultimately be realized upon sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. Because of the inherent uncertainty of such valuations, those estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed and the differences could be material.

The following table prioritizes the inputs used to measure the fair value of the Society's investments in accordance with SFAS No. 157 at December 31, 2008:

	Level 1	Level 2	Level 3	**Total**
Common stock	$ 156,133	$ -	$ -	**$ 156,133**
Bonds:		-	-	
Corporate	17,769	-	-	**17,769**
Government	33,984	-	-	**33,984**
Other, primarily mutual bond funds	3,784	-	-	**3,784**
Mutual Funds (primarily common stock and bonds)	17,910	-	-	**17,910**
Certificate of deposits	-	2,500	-	**2,500**
Other, primarily money market and other cash equivalents	8,416	-	-	**8,416**
Alternative investments:				
Fund of funds	-	-	8,677	**8,677**
Fixed income funds	-	23,006	-	**23,006**
Real estate	-	-	284	**284**
Total	$ 237,996	$ 25,506	$ 8,961	**$ 272,463**

(Dollar amounts in thousands)

NOTE C (continued)

The following table summarizes the changes in fair value associated with the Society's Level 3 investments for the year ended December 31, 2008:

Balance as of December 31, 2007	$11,066
Realized losses	(2,115)
Unrealized gains	109
Transfers	(99)
Balance as of December 31, 2008	$ 8,961

The Society lends certain equities and bonds included in its investment portfolio to brokerage firms. In return for the securities loaned, the Society receives cash or securities as collateral in amounts at least equal to the fair value of the securities loaned. The Society retains all rights of ownership to the securities loaned and receives all interest and dividend income. The related collateral received under this arrangement at December 31, 2008 and 2007 is reflected as collateral received under securities loan agreement with an off-setting payable on the accompanying statements of financial position.

The following table prioritizes the inputs used to measure the fair value of the collateral received under the securities lending arrangement at December 31, 2008 under SFAS No. 157:

	Level 1	Level 2	**Total**
Asset backed securities	$ -	$ 5,750	**$ 5,750**
Bank notes	-	10,762	**10,762**
Certificates of deposit	-	17,784	**17,784**
Corporate debt	-	27,484	**27,484**
Total	$ -	$ 61,780	**$ 61,780**

(Dollar amounts in thousands)

NOTE C (continued)

The following table prioritizes the inputs used to measure the fair value of the Society's beneficial interest in outside trusts in accordance with SFAS No. 157 at December 31, 2008:

	Level 1	Level 2	Level 3	**Total**
Money market funds	$ 230	$ -	$ -	**$ 230**
Equities	3,443	-	-	**3,443**
Fixed income	1,792	-	-	**1,792**
Bonds	97	-	-	**97**
Stocks	162	-	-	**162**
Mutual Funds	26	-	-	**26**
Alternative Investments	-	276	-	**276**
Total	$ 5,750	$ 276	$ -	**$ 6,026**

The Society follows the "Total Return Approach" to investments whereby it applies a prudent portion of the realized and unrealized returns on investments to meet current designated and undesignated expenditures. Total return consists of two elements: yield and appreciation. Based on the Society's long-term investment strategy, the Executive Council sets the payout rate on the DFMS trust funds at a percentage (5½% in 2007 and 5% in 2008) of a five-year moving average market value of the portfolio. Any return in excess of this percentage is reinvested to protect the real dollar value of these funds against the effects of inflation. In February 2008, however, to support the work of dioceses in reorganization, the Executive Council decided to distribute up to $500 in 2008, and also decided in October 2008 to distribute up to $700 in 2009 from nine trust funds.

Investment income (loss) is comprised of the following for the years ended December 31:

	2008	2007
Interest and dividends	**$ 6,896**	$ 8,095
Realized and unrealized (losses) gains	**(101,810)**	25,043
Total investment (loss) income	**(94,914)**	33,138
Less: ERD investment loss (income)	**6,311**	(2,336)
Investment (loss) return	**$ (88,603)**	$ 30,802

(Dollar amounts in thousands)

NOTE C (continued)

From December 31, 2008 through March 31, 2009, as a result of the extremely volatile capital markets worldwide, management estimates that the Society's investments have experienced a reduction in value of approximately 8% (unaudited).

NOTE D - LOANS RECEIVABLE, NET

Loans receivable, net, were comprised of the following at December 31:

	2008	2007
Construction loans to dioceses and missionary districts	**$ 620**	$ 938
Economic justice and community investment loans	**4,750**	5,250
Residential loans to employees	**21**	26
	5,391	6,214
Less: Reserve for uncollectible accounts	**(558)**	(549)
	4,833	5,665
Less: Current portion	**(580)**	(1,521)
Long-term loans receivable, net	**$ 4,253**	$ 4,144

Such loans bear interest in varying amounts ranging from 0.9% to 8.0% and are payable as installment loans or on demand. These loans are generally unsecured.

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following at December 31:

	2008	2007	Useful Lives
Land	**$ 7,503**	$ 7,503	-
Buildings and improvements	**66,570**	68,979	10-30
Other equipment and furnishings	**4,927**	8,667	5
	79,000	85,149	
Less: Accumulated depreciation	**(25,226)**	(29,383)	
Property and equipment, net	**$ 53,774**	$ 55,766	

NOTE E (continued)

Depreciation expense amounted to $2,953 and $2,763 for the years ended December 31, 2008 and 2007, respectively.

The Society entered into contracts totaling an estimated $31,800 for renovation of the Society's headquarters offices in New York City. Through December 31, 2008, the Society has incurred $34,847.

NOTE F - MORTGAGE AND NOTES PAYABLE

1. *Property*

In June 1998, the St. John's School obtained a loan from DFMS to rebuild school properties destroyed by a typhoon in 1997. In February 1999, the School repaid this loan by obtaining a $2,400 mortgage (secured by the underlying property owned by DFMS) which carried an interest rate of 7.60% per annum through February 2002. The interest rate was adjusted in February 2002 to 6.5% and was adjusted in February 2005 to 5.7%, which is a rate equal to the Federal Home Loan three-year fixed rate in effect for those dates plus 1.75%. Mortgage payable amounted to $1,696 and $1,805 as of December 31, 2008 and 2007, respectively. The mortgage was scheduled to mature in February 2008 but the note was refinanced on March 15, 2008 in the amount of $1,715. Monthly installments under the refinancing include interest at 5.82%, adjusted every three years.

Interest expense amounted to $1,851 and $1,976 for the years ended December 31, 2008 and 2007, respectively.

2. *Line of Credit*

In December 2005, DFMS obtained a $50 million line of credit, secured by DFMS's investment in unrestricted marketable securities, from the Bank of New York to be used primarily for working capital and other business purposes. As of December 31, 2008 and 2007, $37,500 was outstanding under this line of credit and is reflected on the accompanying consolidated statements of financial position as notes payable. The line of credit bears interest at rates based on the Prime Rate or the Eurodollar Rate of various maturities selected by DFMS at the time of each borrowing (2.375% and 4.690% at December 31, 2008 and 2007 respectively).