

SALEM PRESBYTERY

FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2009



SALEM PRESBYTERY

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Independent Auditor's Report

To the Council of Salem Presbytery
Clemmons, North Carolina

We have audited the accompanying statement of financial position of Salem Presbytery (the "Presbytery") as of December 31, 2009, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Presbytery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Salem Presbytery as of December 31, 2008 and for the year then ended, were audited by other auditors whose report dated April 30, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salem Presbytery as of December 31, 2009, and the changes in its net assets and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

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

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
June 7, 2010

SALEM PRESBYTERY
Statement of Financial Position
December 31, 2009

Assets

Cash and cash equivalents	\$ 794,346
Restricted cash	83,600
Total cash and cash equivalents	<u>877,946</u>
Receivables, net	491,744
Investments	1,165,312
Property, equipment, and improvements, net	753,825
Land held for sale	225,025
Other assets	3,311
Investment in camps	68,730
Total assets	<u><u>\$ 3,585,893</u></u>

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	\$ 670,306
Capital lease obligation	14,609
Total liabilities	<u>684,915</u>
Net Assets:	
Unrestricted:	
Undesignated	1,150,481
Designated for specific purposes	1,176,797
	<u>2,327,278</u>
Temporarily restricted	534,870
Permanently restricted	38,830
Total net assets	<u>2,900,978</u>
Total liabilities and net assets	<u><u>\$ 3,585,893</u></u>

SALEM PRESBYTERY**Statement of Activities and Changes in Net Assets****Year Ended December 31, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Presbytery mission support	\$ 1,303,570	\$ -	\$ -	\$ 1,303,570
Investment income	66,134	62,729	1,334	130,197
Program receipts	13,019	-	-	13,019
Gifts, grants, and legacies	218,611	303,686	-	522,297
Change in investment in camps	(2,771)	-	-	(2,771)
Net assets released from restrictions	382,282	(382,282)	-	-
Total support and revenue	<u>1,980,845</u>	<u>(15,867)</u>	<u>1,334</u>	<u>1,966,312</u>
Expenses:				
Program expenses	620,576	-	-	620,576
Supporting services:				
Salaries and related expenses	687,871	-	-	687,871
Other supporting expenses	876,664	-	-	876,664
Total Expenses	<u>2,185,111</u>	<u>-</u>	<u>-</u>	<u>2,185,111</u>
Changes in net assets	<u>(204,266)</u>	<u>(15,867)</u>	<u>1,334</u>	<u>(218,799)</u>
Net assets, as previously reported	1,448,841	816,927	348,997	2,614,765
Adjustment for restatement and reclassification of net assets	<u>1,082,703</u>	<u>(266,190)</u>	<u>(311,501)</u>	<u>505,012</u>
Net assets, restated	<u>2,531,544</u>	<u>550,737</u>	<u>37,496</u>	<u>3,119,777</u>
Net assets, ending	<u>\$ 2,327,278</u>	<u>\$ 534,870</u>	<u>\$ 38,830</u>	<u>\$ 2,900,978</u>

SALEM PRESBYTERY
Statement of Cash Flows
Year Ended December 31, 2009

Cash flows from operating activities:	
Changes in net assets	\$ (218,799)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation expense	27,948
Loss on sale of fixed assets	767
Investment earnings reinvested	(58,394)
Realized gain on investments	(3,788)
Unrealized loss on investments	6,142
Change in investment in camps	2,771
(Increase) decrease in:	
Accounts receivable	(192,098)
Prepaid expenses	290
Increase (decrease) in:	
Accounts payable and accrued expenses	507,440
Net cash provided by operating activities	<u>72,279</u>
 Cash flows from financing activities:	
Purchase of investments	(573,210)
Proceeds from sale of investments	533,950
Payments on capital leases	(4,005)
Net cash used in financing activities	<u>(43,265)</u>
 Net increase in cash and cash equivalents	29,014
Cash and cash equivalents, beginning	848,932
Cash and cash equivalents, ending	<u>\$ 877,946</u>
 Supplemental disclosures of cash flow information:	
Cash payments for interest	<u>\$ 695</u>

SALEM PRESBYTERY

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Salem Presbytery (the "Presbytery") is a not-for-profit organization established under the laws of the State of North Carolina and operates as a religious organization. Salem Presbytery is called to fulfill the mission and governing responsibilities given by Christ, as interpreted by the Constitution of the Presbyterian Church (U.S.A.). The Presbytery is a corporate expression consisting of all the Presbyterian churches and ministers in northwestern North Carolina.

A summary of the Presbytery's significant accounting policies follows:

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued new guidance related to U.S. generally accepted accounting principles ("GAAP") effective for financial statements issued for periods ending after September 15, 2009. The guidance established the FASB Accounting Standards Codification ("FASB ASC") as the sole source of authoritative guidance for GAAP. Adoption of this guidance did not have a material impact on the Presbytery's financial statements.

Basis of Presentation

The financial statements of the Presbytery have been prepared on the accrual basis of accounting.

Financial Statement Presentation

The Presbytery reports information regarding its financial position and activities using three classes of net assets, as follows:

Unrestricted net assets: Net assets that are presently available for use by the Presbytery. Designated unrestricted net assets are designated portions of unrestricted net assets, by the Presbytery Council, for specific purposes. Such designations are not restrictions because the designations may be reversed by the Council, and they do not alter the nature of any unrestricted contributions.

Temporarily restricted net assets: Net assets that are subject to donor-imposed stipulations which will be met either by actions of the Presbytery or by the passage of time.

Permanently restricted net assets: Net assets that are subject to donor-imposed stipulations that must be maintained permanently by the Presbytery. Income earned on these investments may or may not be used by the Presbytery depending on the donor-imposed stipulations.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Presbytery considers all cash accounts and all highly liquid investments with a maturity of three months or less, except amounts held in money market accounts, to be cash and cash equivalents. Money market accounts are used to hold investment funds between transaction activities of the brokers and thus reported as investments.

The Presbytery maintains its cash in financial institutions insured by the Federal Deposit Insurance Corporation (the "FDIC"). In May 2009, the FDIC temporarily increased coverage to \$250,000, for substantially all depository accounts. The increased coverage is scheduled to expire December 31, 2013, at which time it is anticipated amounts insured by the FDIC will return to \$100,000. Deposit accounts, at times, may exceed federally insured limits.

SALEM PRESBYTERY
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. The Presbytery applies FASB ASC guidance for Fair Value Measurements, which establishes a framework for measuring fair values for assets and liabilities using one of the following valuation measurements: quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); or significant unobservable inputs (Level 3). Observable inputs reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity, while unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances. The application of this guidance did not have any impact on the Presbytery's financial statements.

Investment income or loss (including realized or unrealized gains and losses on investments and interest and dividends) is included in the change in unrestricted net assets unless the donor restricts the income or loss. Realized gains and losses are determined using the specific identification method.

Property and Equipment

Property and equipment are carried at cost. Donated property and equipment items are recorded at fair market value at the date received. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis.

Receivables

Contributions and unconditional promises to give are recognized as revenues or expenses when made or the promise is conveyed, whichever is earliest. Contributions of assets other than cash are recorded at estimated fair value at the date of donation. Contributions received with donor stipulations that restrict the use of the assets and promises to give that are receivable in future periods are reported as temporarily restricted revenue. When the use or time restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Management reviews each accounts receivable balance on a periodic basis to determine if any allowance is needed.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

SALEM PRESBYTERY
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Employees of the Presbytery are entitled to paid vacation depending on length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Presbytery's policy is to recognize the costs of compensated absences when actually paid to employees.

Income Taxes

The Presbytery is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It pays no federal or state income taxes on income related to its exempt purpose.

It is the Presbytery's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified during 2009. Currently, the statute of limitations remains open subsequent to and including 2007; however, no examinations are in progress or anticipated.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Presbytery has performed an evaluation of subsequent events through June 7, 2010, which is the date the financial statements were available to be issued.

NOTE 2 - RESTRICTED CASH

The Presbytery maintains cash at the Presbyterian Church Investment and Loan, Inc. (the "PILP") for investment purposes. At times, the Presbytery designates a portion of the investments to help congregations within the Presbytery to obtain favorable loan rates with the PILP. At December 31, 2009, the Presbytery had designated \$83,600 for these purposes.

NOTE 3 - AGENCY TRANSACTIONS

The Presbytery acts as an agent or intermediary between churches within its jurisdiction and the Synod of the Mid-Atlantic and General Assembly. All revenues and expenses have been netted for financial statement presentation purposes. There is no financial statement impact of these transactions.

SALEM PRESBYTERY
Notes to Financial Statements

NOTE 4 - RECEIVABLES

Accounts receivable at December 31, 2009 consisted of the following:

Mission support, net	\$ 297,606
Due from ACM (see Note 15)	145,667
Notes receivable, net	38,799
Other	9,672
	<u>\$ 491,744</u>

Notes receivable consists of loans given to three churches totaling \$107,759, including accrued interest. The notes have varying terms ending between 2014 and 2016. The notes bear interest ranging from 4.50% to 5.25%. At December 31, 2009, the allowance for uncollectible loans was \$82,941.

NOTE 5 - INVESTMENTS

A summary of investments at December 31, 2009 is as follows:

	Cost	Fair Value	Unrealized Gains (Losses)
Investments:			
Fixed-income securities	\$ 765,000	\$ 756,451	\$ (8,549)
Mutual Funds	400,650	400,650	-
Equity securities	8,211	8,211	-
	<u>\$1,173,861</u>	<u>\$1,165,312</u>	<u>\$ (8,549)</u>

The fair value hierarchy of the Presbytery's investments at December 31, 2009 is as follows:

	Fair Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Investments:				
Fixed-income securities	\$ 756,451	\$ 756,451	\$ -	\$ -
Mutual funds	400,650	350,271	50,379	-
Equity securities	8,211	8,211	-	-
	<u>\$1,165,312</u>	<u>\$1,114,933</u>	<u>\$ 50,379</u>	<u>\$ -</u>

Investment income consists of the following at December 31, 2009:

	Unrestricted	Temporarily Unrestricted	Permanently Restricted	Total
Interest and dividends	\$ 50,790	\$ 60,375	\$ 1,334	\$ 112,499
Interest from notes receivable	15,344	-	-	15,344
Unrealized and realized gains	-	2,354	-	2,354
	<u>\$ 66,134</u>	<u>\$ 62,729</u>	<u>\$ 1,334</u>	<u>\$ 130,197</u>

SALEM PRESBYTERY
Notes to Financial Statements

NOTE 6 - ENDOWMENTS

The Presbytery's endowments consist of donor-restricted funds established for a variety of charitable purposes that the Presbytery must hold in perpetuity. In March 2009, the State Prudent Management of Institutional Funds Act ("SPMIFA") became effective. The Council of the Presbytery has interpreted SPMIFA as requiring the preservation of the fair value of gift(s) as of the gift date(s) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Presbytery classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Presbytery considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purpose of the Presbytery and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investment; (6) other resources of the Presbytery; and (7) the investment policies of the Presbytery.

The Presbytery has the following endowment net assets at December 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowments, beginning of the year	\$ -	\$ -	\$ 348,997	\$ 348,997
Reclassifications due to law change	189,462	122,039	(311,501)	-
Interest and dividends	-	62,573	1,334	63,907
Endowments, end of the year	<u>\$ 189,462</u>	<u>\$ 184,612</u>	<u>\$ 38,830</u>	<u>\$ 412,904</u>

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or SPMIFA requires the Presbytery to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. No permanently restricted endowment assets are less than the donor's basis as of December 31, 2009.

SALEM PRESBYTERY
Notes to Financial Statements

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following as of December 31, 2009:

Land	\$ 264,156
Buildings	583,477
Furniture and equipment	95,183
	<u>942,816</u>
Less accumulated depreciation	188,991
	<u>\$ 753,825</u>

Depreciation expense for the year ended December 31, 2009 was \$27,948.

NOTE 8 - LAND HELD FOR SALE

Land held for sale includes land in the Lake Jeanette area of Greensboro, North Carolina that is currently being marketed for sale. The sales price is expected to exceed the carrying value of the land.

NOTE 9 - INVESTMENT IN CAMPS

The Presbytery owns 33.33% of Camp Grier, a non-profit organization. The remaining ownership resides with the presbyteries of Western North Carolina and Charlotte. The Presbytery accounts for this investment on the equity basis of accounting. Pertinent financial information for Camp Grier as of December 31, 2009 is as follows:

Statement of Financial Position:

Assets	<u>\$ 272,194</u>
Liabilities	\$ 66,004
Net Assets	<u>206,190</u>
Total liabilities and net assets	<u>\$ 272,194</u>

Statement of Activities

Revenues	\$ 448,550
Expense	<u>480,653</u>
Net loss	<u>\$ (32,103)</u>

Annual subsidies paid to the camp totaled \$32,000 for the year ended December 31, 2009.

SALEM PRESBYTERY
Notes to Financial Statements

NOTE 10 - CAPITAL LEASE OBLIGATION

The Presbytery has a capital lease agreement for office equipment expiring in April 2013. Monthly payments including interest at 4.14% are \$392.

Future minimum capital lease payments as of December 31, 2009 are as follows:

2010	\$ 4,699
2011	4,699
2012	4,699
2013	<u>1,566</u>
	15,663
Amount representing interest	<u>(1,054)</u>
Present value of lease obligations	<u>\$ 14,609</u>

NOTE 11 - RETIREMENT PLAN

The employees of the Presbytery participate in a defined contribution retirement plan administered by the Board of Pensions of the Presbyterian Church (U.S.A.). The Presbytery's contributions are equal to 11% of the annual salary of participating employees. During the year ended December 31, 2009, Presbytery's contributions to the plan totaled \$47,550.

NOTE 12 - DESIGNATED NET ASSETS

Designated net assets are available for the following purposes as of December 31, 2009:

New Church development	\$ 787,537
Capital improvements	172,558
Operations	150,000
Hispanic ministry	19,322
Campus ministry	12,658
Other work of Presbytery	<u>34,722</u>
	<u>\$1,176,797</u>

NOTE 13 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2009:

New church development	\$ 2,026
Missions and evangelism	365,665
Hunger programs	128,047
Campus ministry	11,296
Other work of Presbytery	<u>27,836</u>
	<u>\$ 534,870</u>

SALEM PRESBYTERY
Notes to Financial Statements

NOTE 14 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are available for the following purposes as of December 31, 2009:

Missions and evangelism	\$ 31,466
Other programs	7,364
	<u>\$ 38,830</u>

NOTE 15 - MEMBERSHIP IN OTHER ORGANIZATIONS

At the beginning of 2009, Salem Presbytery had a membership interest in Associated Campus Ministries at UNC Greensboro, Inc. ("ACM"). ACM provides to members, facilities for their use in pursuing their respective campus ministries at the University of North Carolina at Greensboro. Members pay a proportionate share of operating expenses for maintaining any space used primarily by its ministry and may from time to time be assessed a building reserve fund fee to cover capital expenditures and restoration of the facilities. During 2009, the Presbytery agreed to end its membership in ACM. The fair value of its share of equity was \$218,500, distributed to the Presbytery in three annual installments of \$72,833 beginning in December 2009. In addition, the Presbytery has made a grant in the amount due from ACM to the Presbyterian Campus Ministries of Greensboro in the same installments.

NOTE 16 - CONTINGENCIES

The Presbytery has guaranteed loans for churches within the Presbytery with principal totaling \$953,000 as of December 31, 2009.

NOTE 17 - RESTATEMENT OF PRIOR PERIOD NET ASSETS

During the year ended December 31, 2009, the Presbytery evaluated its designations of net assets as unrestricted, temporarily restricted, and permanently restricted. Net assets balances were adjusted to reflect the donor's original restrictions. Additionally, the Presbytery identified property and revenues that were not recorded in the prior year financial statements. Beginning net assets have been restated to reflect this correction as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balances, January 1, 2009, as previously stated	<u>\$ 1,448,841</u>	<u>\$ 816,927</u>	<u>\$ 348,997</u>	<u>\$ 2,614,765</u>
Revenues, not previously recorded	1,557	25,385	-	26,942
Property additions, not previously recorded	478,070	-	-	478,070
Reclassification of net asset balances	<u>603,076</u>	<u>(291,575)</u>	<u>(311,501)</u>	<u>-</u>
	<u>1,082,703</u>	<u>(266,190)</u>	<u>(311,501)</u>	<u>505,012</u>
Beginning balances, January 1, 2009, as restated	<u>\$ 2,531,544</u>	<u>\$ 550,737</u>	<u>\$ 37,496</u>	<u>\$ 3,119,777</u>

SUPPLEMENTARY INFORMATION

SALEM PRESBYTERY**Schedule of Agency Transactions - Presbyterian Mission Receipts****Year Ended December 31, 2009**

Presbyterian Mission receipts from churches:

Unified giving	\$ 1,275,393
Expenses:	
Unified giving	1,275,393
Undisbursed balance	<u>\$ -</u>
Selected giving	\$ 24,223
Expenses:	
Missionary support	22,123
Union giving	2,100
Undisbursed balance	<u>\$ -</u>
Special offerings	\$ 95,609
Expenses:	
Christmas joy offering	34,446
Pentecost giving	7,395
One great hour	39,187
Peacemaking giving	11,593
Thanksgiving offering	1,343
Mothers/Father's day	1,645
Undisbursed balance	<u>\$ -</u>
Validated causes	\$ 204,904
Expenses:	
Hunger related	151,678
1% Theological	26,905
SOS/ECO projects	7,222
Campus ministries	10,791
Other validated causes	8,308
Undisbursed balance	<u>\$ -</u>