
SALEM PRESBYTERY

*Financial Statements
and
Supplementary Information*

Year Ended December 31, 2018

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June 26, 2019

INDEPENDENT AUDITORS' REPORT

To the Members of the Council
Salem Presbytery
Clemmons, North Carolina

We have audited the accompanying financial statements of Salem Presbytery (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note L to the financial statements, Salem Presbytery serves as the guarantor for bank loans to certain Presbyterian churches that totaled approximately \$1,349,000 at December 31, 2018. One or more loan defaults by any of the Presbyterian churches could result in a significant adverse effect on Salem Presbytery's financial position. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in the accompanying supplementary information as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gray, Callison & Jones CPA, PC

SALEM PRESBYTERY
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS	
Cash and cash equivalents	\$ 175,115
Contributions receivable:	
Current year, net of allowance for doubtful accounts of \$5,000	38,871
Next year	25,812
In-house funds	20,973
Accounts receivable - other	22,700
Investments, at fair value	1,464,019
Note Receivable	30,337
Property and equipment, net	<u>856,765</u>
	<u>\$ 2,634,592</u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued expenses	\$ 64,680
Obligations under capital lease	<u>1,441</u>
	<u>66,121</u>
NET ASSETS	
Without donor restrictions:	
Budget fund:	
Unappropriated	410,530
Net investment in property and equipment	<u>856,765</u>
	1,267,295
Board designated:	
Time or purpose	730,384
Endowments	<u>33,181</u>
	<u>2,030,860</u>
With donor restrictions:	
Temporary restrictions:	
Time or purpose	157,975
Endowments	<u>229,286</u>
	387,261
Perpetual restrictions:	
Endowments	<u>150,350</u>
	<u>537,611</u>
	<u>2,568,471</u>
	<u>\$ 2,634,592</u>

The accompanying notes are an integral part of this statement.

SALEM PRESBYTERY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contribution, gifts, and grants	\$ 479,923	\$ 168,416	\$ 648,339
Reversion of member church property	300,000		300,000
Dividends and interest	34,264	8,387	42,651
Realized and unrealized depreciation in fair value of investments	(31,236)	(19,410)	(50,646)
Program income	7,321		7,321
Other income	39,402		39,402
Net assets released from restrictions	<u>230,363</u>	<u>(230,363)</u>	<u>0</u>
	<u>1,060,037</u>	<u>(72,970)</u>	<u>987,067</u>
EXPENSES			
Program Expenses:			
Campus Ministry	143,500		143,500
GA & Synold Support	9,833		9,833
Clergy & Congregational Support	143,444		143,444
Presbytery Committee Ministry	176,255		176,255
Hispanic Ministry	75,703		75,703
Youth Ministry	28,713		28,713
Hunger Ministry	115,926		115,926
Other Programs & Ministries	<u>8,531</u>		<u>8,531</u>
	701,905		701,905
General and administrative	252,592		252,592
Fundraising	<u>50,144</u>		<u>50,144</u>
	<u>1,004,641</u>		<u>1,004,641</u>
CHANGE IN NET ASSETS	55,396	(72,970)	(17,574)
NET ASSETS, at beginning of year	<u>1,975,464</u>	<u>610,581</u>	<u>2,586,045</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,030,860</u>	<u>\$ 537,611</u>	<u>\$ 2,568,471</u>

The accompanying notes are an integral part of this statement.

SALEM PRESBYTERY
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	Program Services							Supporting Services				
	Campus Ministry	GA & Synod Support	Clergy & Congregational Support	Presbytery Committee Ministry	Hispanic Ministry	Youth Ministry	Hunger Ministry	Other Programs	Total Program Services	Management and General	Fundraising	Total Expenses
Personnel expense	\$ -	\$ -	\$ 70,096	\$124,193	\$55,448	\$13,139	\$ 22,419	\$ -	\$285,295	\$ 187,707	\$ 38,769	\$ 511,771
Campus ministry	140,500								140,500			140,500
Closed Church expense		9,833	2,805	4,973	2,219	527	898		11,422	7,516	1,553	20,491
SEND				24					9,857			9,857
Church growth				27					27			27
Equipment & conferences				1,225					1,225			1,225
Missions	3,000		48,480		4,438	823	83,075	8,531	65,272			65,272
Hunger									83,075			83,075
Resource center				1,237					1,237			1,237
Youth ministry						10,765			10,765			10,765
Council/committees			1,924	13,448					15,372	2,549	1,064	15,372
Continuing education			1,558	2,445	1,522	371	638		6,534			10,147
Travel & professional			3,524	6,445	2,145	737	4,883		17,734	6,939	1,819	26,492
Communications			3,412	6,049	2,699	641	1,091		13,892	9,142	1,889	24,923
Temporary/outside services			2,846	607	271	64	110		3,898	919	190	5,007
Office supplies			1,294	2,294	1,023	243	414		5,268	5,669	716	11,653
Occupancy			2,380	4,219	1,883	447	761		9,690	6,376	1,318	17,384
Professional fees									0	11,625		11,625
Dues and subscriptions			35	63	28	7	11		144	95	19	258
Insurance			2,057	3,646	1,627	386	658		8,374	5,510	1,139	15,023
Interest									0	442		442
Depreciation			2,928	5,191	2,317	550	937		11,923	7,846	1,621	21,390
Miscellaneous			105	169	83	13	31		401	257	47	705
	<u>\$143,500</u>	<u>\$ 9,833</u>	<u>\$ 143,444</u>	<u>\$176,255</u>	<u>\$75,703</u>	<u>\$28,713</u>	<u>\$115,926</u>	<u>\$ 8,531</u>	<u>\$701,905</u>	<u>\$ 252,592</u>	<u>\$ 50,144</u>	<u>\$1,004,641</u>

The accompanying notes are an integral part of this statement.

SALEM PRESBYTERY
STATEMENT OF CASH FLOWS
Year ended December 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$ (17,574)
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:	
Depreciation expense	21,390
Reversion of member church property	(300,000)
Gain on sale of property and equipment	2,877
(Appreciation) depreciation fair value of investments	50,646
(Increase) decrease in:	
Contributions receivable – current year	(7,230)
Contributions receivable – next year	104,087
Contributions receivable – in-house funds	(4,068)
Accounts receivable – Other	(10,710)
Note receivable	13,424
Prepaid expenses	4,081
Accounts payable	<u>51,322</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(91,755)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(320,864)
Redemptions of investments	338,377
Proceeds from sale of property and equipment	57,123
Purchase of property and equipment	<u>(15,519)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>59,117</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on capital lease obligations	<u>(4,659)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>(4,659)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,297)
Cash and cash equivalents, beginning of year	<u>212,412</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 175,115</u>
Supplemental Schedule of Cash Flow Information	
Interest paid	<u>\$ 442</u>

The accompanying notes are an integral part of this statement.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

NOTE A: 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 non-profit corporation consisting of Presbyterian churches and ministers in northwestern North Carolina.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Presbytery’s financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Support and revenue is recorded in the period earned and expenses are recorded in the period incurred.

Financial statement presentation

The accompanying financial statements are intended to present only financial position and activities for Salem Presbytery.

The Presbytery has adopted certain elements of FASB ASC 958 “*Not-for-Profit Entities*”. In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU also requires changes in the way certain information is aggregated and reported by the Presbytery, including required disclosures about liquidity and availability of resources and increased disclosures of functional expenses. The new standard is effective for the Presbytery’s year ended December 31, 2018 and thereafter. The Presbytery adopted the ASU effective January 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

Net assets of the Presbytery consist of the following:

Without Donor Restrictions:

Budget Fund – These net assets are unrestricted and available for general budget activities of the Presbytery.

Board Appropriated – these net assets are to be used for specific purposes as determined by the Council of the Presbytery. These also include Council designated, quasi-endowment type funds where the Council designated resources are available for any uses the Council deems appropriate, along with any related income derived from the investment of such funds.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

With Donor Restrictions:

These net assets are restricted by donors to be used for some specified purpose. These also include donor mandated, quasi-endowment type funds where donor-restricted resources are available for use for specified purposes, along with any related income derived from the investment of these net resource assets, donor-restricted resources to be held by the Presbytery in perpetuity (as endowment funds) with any related income derived from these net assets being available without donor restrictions for donor-specific purposes.

Cash and cash equivalents

The Presbytery considers all cash accounts and all highly liquid investments with a maturity of three months or less to be cash and cash equivalents.

Contributions and contributions receivable

Contributions, unconditional promise to give, gifts, and grants collected are recorded as either without donor restrictions or with donor restrictions depending on the existence or nature of any donor restrictions.

Contributions and unconditional promises to give are recorded as contributions receivable and support when made or the promise is conveyed, whichever is earlier. Contributions of assets other than cash are recorded at estimated fair value on the donation date. Support that is restricted by the donor is reported as increases in either net assets with temporary restrictions or net assets with perpetual restrictions depending on the nature of the restrictions. When a donor restriction is met, donor restricted net assets are reclassified to net assets without donor restrictions.

Endowment contributions are maintained in perpetuity by the Presbytery. Income earned on these contributions is used by the Presbytery based on the donor-imposed stipulations and/or may be used for unrestricted purposes absent donor-imposed stipulations.

Investments

Investments consist primarily of assets invested in marketable equity and fixed income securities, and certificate of deposit accounts. 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. Fair value of marketable equity and debt securities is based on quoted market prices. 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.

Investments are exposed to various risks such as significant world events, 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 fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

Investment policy

The Presbytery Council's investment policy is to invest in assets that would produce results exceeding the investments' purchase prices and incur significant yields of return, while assuming moderate levels of investment risk. The Presbytery Council expects its endowment funds over time to provide reasonable rates of return. To satisfy the long-term rate-of-return objective, the Presbytery Council relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Presbytery Council maintains an asset allocation that places a greater emphasis on marketable equity, fixed income, and money-market accounts to achieve its long-term return objectives within prudent risk constraints.

Fair value measurements

Cash and cash equivalents, receivables, accounts payable and accrued expenses, and capital lease obligations are financial instruments with carrying amounts that approximate fair value because of the short maturity of those instruments.

Property and equipment, net

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

Income taxes

The Presbytery is exempt from income taxes under Section 501(c)(3) of the Internal revenue Code (the "Code"). Accordingly, no provision for income taxes is reflected in the accompanying financial statements. Qualifying contributions to the Presbytery are tax deductible.

The Presbytery evaluates 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 2018.

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. Agency transactions receipted and disbursed during the current period have been netted for financial statement presentation purposes.

Estimates and assumptions

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

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

NOTE C: CASH AND CASH EQUIVALENTS

The Presbytery maintains its cash in financial institutions insured by the National Credit Union Administration (the "NCUA") and the Federal Deposit Insurance Corporation (the "FDIC"), as applicable. At times, cash and cash equivalents on deposit in certain financial institutions may exceed the NCUA and FDIC limits. At December 31, 2018, the excess of deposit liabilities reported by these financial institutions over the amount that would have been covered by the NCUA and FDIC totaled \$100 and \$43,819, respectively.

Cash and cash equivalents at December 31, 2018 are represented as follows:

Allegacy Federal Credit Union	
General Checking	\$ 39,804
Restricted Account Checking	36,616
Savings	<u>5</u>
	<u>76,425</u>
Merrill Lynch	
General Account	16,422
Synod/Duke Building	<u>2,009</u>
	<u>18,431</u>
Presbyterian Foundation	
Fidelity Institutional Government	
Money Market Accounts	7,099
Cash Accounts	<u>612</u>
	<u>7,711</u>
Presbyterian Church (U.S.A.)	
Investment and Loan Program	
Mission Market Account	<u>72,448</u>
Petty Cash	<u>100</u>
	<u>\$ 175,115</u>

At December 31, 2018, the Presbytery had \$72,448 investment cash at Presbyterian Church (U.S.A.) Investment and Loan Program, Inc. (the "PILP") designated to help congregations within the Presbytery to obtain favorable loan rates with the PILP. The Presbytery's designated cash amounts may be withdrawn at any time; however, withdrawals of the designated cash may result in increased loan rates for affected churches.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

NOTE D: INVESTMENTS

Investments consist of marketable and fixed income securities, including mutual funds, and certificates of deposit, and at December 31, 2018, are as follows:

	<u>At Fair Value</u>
Equities:	
Common Stock	\$ 205,678
Mutual Funds	<u>154,481</u>
	<u>360,159</u>
Fixed Income:	
Mutual Funds	56,623
Corporate bonds	<u>925,924</u>
	<u>982,547</u>
Other	<u>121,313</u>
	<u>\$ 1,464,019</u>

During the year ended December 31, 2018, Salem Presbytery recorded the following investment income from deposited cash and invested marketable securities:

Dividends and interest	\$ 42,651
Realized/unrealized depreciation in the fair value of investments	<u>(50,646)</u>
	<u>\$ (7,995)</u>

NOTE E: FAIR VALUE MEASUREMENTS

Salem Presbytery has adopted the provisions of FASB ASC 820 "Fair Value Measurements". Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Financial Accounting Standards Board issued ASC 820, Fair Value Measurements. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. This statement does not require any new fair value measurements; rather it applies under other accounting pronouncements that require or permit fair value measurements. Assets recorded at fair value are categorized upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by FASB ASC 820, are as follows:

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

Level Input: Input Definition:

- Level I Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level II Inputs, other than quoted prices included in Level I, that are observable for the asset or liability through corroboration with market data at the measurement date.
- Level III Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a brief description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

Interest in registered investment companies (mutual funds): Value at the net asset value of shares held by Salem Presbytery at year end.

Corporate debt securities: Certain debt securities are valued at the closing price reported in the active market in which the bond is traded.

Other investments: Valued based on Market Approach including dealer quotes, trade data, two-sided markets institutional bids, comparable trades and other news media.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Although Salem Presbytery believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes fair value measurements by level at December 31, 2018 for assets measured at fair value on a recurring basis:

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)	
Equities:				
Common Stock	\$ 205,678	\$	\$	\$ 205,678
Mutual Funds:				
Growth	36,974			36,974
Balanced	<u>117,507</u>			<u>117,507</u>
	<u>360,159</u>			<u>360,159</u>
Fixed Income:				
Mutual Funds:				
Income	56,623			56,623
Corporate bonds	<u>925,924</u>			<u>924,924</u>
	<u>982,547</u>			<u>982,547</u>
Other	<u>121,313</u>			<u>121,313</u>
Total	<u>\$ 1,464,019</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,464,019</u>

Investments maintained at brokerage firms are protected up to \$500,000 and cash and cash equivalents are protected up to \$250,000 by the Securities Investor Protection Corporation ("SIPC"). The SIPC insures against the loss or theft of securities as well as the failure or insolvency of a brokerage firm. The insurance does not apply to losses related to market risk.

NOTE F: PROPERTY AND EQUIPMENT, NET

Property and equipment, net are comprised of the following at December 31, 2018:

Land and improvements	\$ 504,156
Buildings and improvements	613,508
Furniture, equipment, and vehicles	<u>77,294</u>
	1,194,958
Less accumulated depreciation	<u>(338,193)</u>
	<u>\$ 856,765</u>

Included in furniture, equipment, and vehicles is LED lighting fixtures financed under a lease agreement classified a capital lease. At December 31, 2018, the LED lighting had a cost of \$4,580 and accumulated depreciation of \$458.

Depreciation expense included in other supporting expenses was \$21,390 for the year ended December 31, 2018.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

NOTE G: CAPITAL LEASE OBLIGATION

The Presbytery is leasing LED lighting under a 24-month lease agreement classified as a capital lease. Monthly lease payments, including imputed interest at 11.0% and excluding North Carolina sales tax, are \$213. Interest expense under the capital lease obligation was approximately \$290 for the year ended December 31, 2018. The leased LED lighting with a cost of \$4,580 is included in furniture, equipment, and vehicles at December 31, 2018. The leased LED lighting had a net book value of \$4,122 at December 31, 2018.

The Presbytery was leasing telephone equipment under a 24-month lease agreement classified as a capital lease. Monthly lease payments, including imputed interest at 16.0% and excluding North Carolina sales tax, were \$317. Interest expense under the capital lease obligation was approximately \$143 for the year ended December 31, 2018. The leased telephone equipment with a cost of \$7,260 is included in furniture, equipment, and vehicles at December 31, 2018. The leased telephone equipment had a net book value of \$3,630 at December 31, 2018. During 2018, the lease obligation has been paid in full.

Future minimum lease payments for the capital lease obligations for 2019 are as follows:

Future minimum lease payments	\$ 1,494
Less: amounts representing interest	<u>(53)</u>
Capital lease obligation	<u>\$ 1,441</u>

NOTE I: NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions, including designated and restricted net assets appropriated by the Presbytery's Council as of December 31, 2018, available for the following purposes as of December 31, 2018 are as follows:

Unappropriated:	
Budget Fund:	
Unappropriated	\$ 410,530
Net Investment in Property and Equipment`	<u>856,765</u>
	<u>1,267,295</u>
Board Appropriated:	
Time or Purpose Restrictions:	
Designated Funds:	
Church Growth (New Church Development):	
Church Growth and Transformation Fund	154,990
Whispering Pines Fund	52,439
Edward Webb African America Church Fund	10,014
Designated Year End Fund	<u>16,774</u>
	<u>234,217</u>
Capital Improvements:	
General Loan Fund	<u>150,000</u>

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

Operation:		
Designated Reserve Fund		<u>150,000</u>
Campus Ministry:		
Campus Co-op Ministries Fund		<u>4,757</u>
Other Works:		
Camp New Hope Fund		116,683
Assistance Ministry Fund		683
Youth Triennium		5,000
Tzeltal Fund		967
Hispanic Ministry		<u>72,935</u>
		<u>196,168</u>
		<u>735,142</u>
 Endowments:		
Church Growth (New Church Development):		
Synod/Duck Building Presbytery Fund		<u>28,423</u>
 TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS		 <u>\$ 2,030,860</u>

NOTE J: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions available for the following purposes at December 31, 2018 are as follows:

EXPENDABLE DONOR ESTRICTED

Time or Purpose Restriction:		
Next Year's Pledge support		<u>\$ 25,812</u>
 Designated Funds:		
Hunger Funds:		
International		47,026
Domestic		<u>26,962</u>
		<u>73,988</u>
 Other Works:		
Implementation		5,000
Black Caucus Fund		1,880
Camp Scholarships Fund		11,590
Peace and Justice Fund		11,447
Self-Development of Peoples Fund		14,023
Hispanic Ministry Fund		8,103
Professionals & Pastors Fund		<u>6,133</u>
		<u>58,176</u>
		<u>157,976</u>

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

Endowments:

Missions and Evangelism:

DP Foust Home Mission Fund	73,958
Byron Wolfe Mission Challenge Fund	21,496
Stone Estate Fund	90,881
Maryland Hickerson Fund	944
Cora Harrison Fund	2,780
Virgil Ashbough Fund	<u>9,015</u>
	<u>199,074</u>

Other Works:

Seminary Education Scholarship Fund	26,021
Ruby T. Robertson Fund	691
Latta Family Scholarship Fund	<u>3,499</u>
	<u>30,211</u>
	<u>229,285</u>

TOTAL EXPENDABLE DONOR RESTRICTED 387,261

NONEXPENDABLE DONOR RESTRICTED

Perpetual Restrictions:

Endowment Funds:

Missions and Evangelism:

Maryland Hickerson Fund	601
Cora Harrison Fund	260
Byron Wolfe Mission Challenge fund	10,000
Virgil Ashbaugh Fund	520
Ruby T. Robertson Fund	6,958
Stone Estate Fund	12,482
Mission Challenge Fund	<u>60,565</u>
	<u>91,386</u>

Other Works:

James & Roxana Atwood Fund	25,000
Charles & Bonnie Simms Fund	12,236
Latta Family Scholarship Fund	<u>21,728</u>
	<u>58,964</u>

TOTAL NONEXPENDABLE DONOR RESTRICTED 150,350

TOTAL NET ASSETS WITH DONOR RESTRICTIONS \$ 537,611

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

NOTE K: ENDOWMENT FUNDS

Salem Presbytery maintains several donor-mandated and Council designated endowment funds. Salem Presbytery has, to the extent practical, segregated the cash and investments supporting the underlying principal (or corpus) and related unexpended income of these funds from other assets and classified and reported them based on the existence or absence of donor-imposed restrictions.

Salem Presbytery has interpreted the Uniform Prudent Management of Institutional funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Salem Presbytery classifies as perpetual restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the perpetual endowment, and (3) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. All other endowment investment returns, typically dividends and interest income, are available for appropriation and, therefore, are classified as net assets without donor restrictions of net assets with donor restrictions that are temporarily restricted, as applicable, until appropriated for expenditure. In accordance with the Act, Salem Presbytery considers the following factors in making a final determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Salem 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 investments
6. Other resources of Salem Presbytery
7. The investment policies of Salem Presbytery

The Salem Presbytery has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the fair value of the endowment assets. Endowment assets include those assets of donor-restricted funds that Salem Presbytery must hold in perpetuity or for a donor-specified period as well as Council-designated funds. The policies provide Salem Presbytery a framework for governing its investment practices in manner that maximizes investment returns while also preserving and protecting its invested assets. For those funds of a long-term nature, the Salem Presbytery policies allow for a growth and income strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (dividends and interest), and allow for investment in equity and fixed income securities. For funds with a short-term horizon (less than five years), capital preservation is important, and investment in money market funds, CDs, mutual funds and short-term government securities is allowed.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

The Salem Presbytery has a policy governing the appropriation and expenditure of its endowment funds. Generally, for substantially all permanently restricted funds, annual appropriations are limited to the current yield of these funds. For all other funds (unrestricted and temporarily restricted), appropriations are either limited to the current yield of the fund or that amount deemed appropriate by Salem Presbytery management.

Information about the Presbytery's endowment fund net assets for the year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment as of December 31, 2018:			
Donor-restricted endowment funds	\$	\$ 379,636	\$ 379,636
Board-designated endowment funds	<u>33,181</u>	<u>0</u>	<u>33,181</u>
Total	<u>\$ 33,181</u>	<u>\$ 379,636</u>	<u>\$ 412,817</u>
Changes in endowment:			
Endowment, beginning of year	\$ 38,432	\$ 377,919	\$ 416,351
Investment returns, net	(2,251)	(11,023)	(13,274)
Support and revenue		26,206	26,206
Transfers		(323)	(323)
Appropriation of expenditure	<u>(3,000)</u>	<u>(13,143)</u>	<u>(16,143)</u>
Endowment, end of year	<u>\$ 33,181</u>	<u>\$ 379,636</u>	<u>\$ 412,817</u>

A donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than either the original gift amount or the amount required to be maintained by the donor or by law. Presbytery management is not aware that any of its perpetual endowment funds are underwater. Presbytery policies do not permit spending of the perpetual endowment fund corpus, unless specifically allowed by the donor or relevant laws and regulations.

NOTE L: LIQUIDITY AND AVAILABILITY OF RESOURCES

The Presbytery regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Presbytery considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

The Presbytery's financial assets available to meet its general operating needs within one year are as follows:

Financial assets at December 31, 2018:	
Cash and cash equivalents	\$ 175,115
Contributions Receivable	85,656
Accounts Receivable – Other	22,700
Investments, at fair value	1,464,019
Current portion of note receivable	5,387
Accounts payable and accrued expenses	(64,680)
Current portion of obligations under capital lease	<u>(1,440)</u>
	<u>1,686,757</u>
Less financial resources unavailable for general operating needs due to:	
Future Expendable Resources	
Board Designated:	
Time or purpose restrictions	735,142
Endowment funds	<u>28,424</u>
	<u>763,566</u>
Donor Restricted:	
Time or purpose restrictions	157,977
Endowment funds	<u>229,285</u>
	<u>387,262</u>
Total Future Expendable Resources	<u>1,150,828</u>
Nonexpendable Resources	
Donor Restricted:	
Endowment funds	<u>150,351</u>
Total Nonexpendable Resources	<u>150,351</u>
Total Financial resources unavailable for general operating needs	<u>1,301,179</u>
Financial assets available to meet general operating needs within one year	<u>\$ 385,578</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the Presbytery operates with a balanced budget and anticipates collecting sufficient support and revenue to cover general expenditures not covered by donor-restricted resources. Included in restricted resources are approximately \$26,000 in donor gifts designated for general use in 2019.

The Presbytery's governing council has designated a portion of its unrestricted resources for endowment and other purposes. Those amounts are identified as board-designated in the table above. These funds are invested for long-term appreciation and current income but remain available and may be spent at the discretion of the Council.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

NOTE M: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses have been allocated on a reasonable basis that is consistently applied. Direct expenses are recorded by category, by function determined to be benefited. Indirect costs, including certain capital outlays, are allocated to the function estimated to be benefited, principally based on direct costs incurred.

The table below summarizes 2018 direct and indirect expenses by function:

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Direct expenses	\$ 634,591	\$ 208,302	\$ 40,997	\$ 883,890
Indirect expenses	<u>67,315</u>	<u>44,289</u>	<u>9,147</u>	<u>120,751</u>
	<u>\$ 701,906</u>	<u>\$ 252,591</u>	<u>\$ 50,144</u>	<u>\$ 1,004,641</u>

NOTE O: LOAN GUARANTEES

As of December 31, 2018, Salem Presbytery has guaranteed four Presbyterian Church Investment and Loan Program, Inc. ("PCILP") loans and two loans from financial institutions for certain Presbyterian churches with principal balances that totaled approximately \$1,349,000 at December 31, 2018. The two bank loans are in technical default. For one of the bank loans, for approximately \$22,000, the Church is still making payments against the loan. The other bank loan, with an estimated outstanding balance of approximately \$402,000, was to a church that was a member church of the Presbytery at the time the loan was obtained, but the church has since renounced the Presbytery's jurisdiction and is no longer a member church in good standing. The Church renegotiated the loan on November 17, 2016, and again on February 13, 2017, and continues to make payments on the loan. It is the Presbytery's view the matter of its guarantee of this loan remains unresolved.

Salem Presbytery could potentially become liable for the unpaid principal balance, accrued interest, and costs, if any, for each instance in which a Presbyterian church defaults on its loan obligation. Except for the aforementioned financial institution loans, none of the loans the Presbytery has guaranteed were in default through June 26, 2019, the date the financial statements were available to be issued.

NOTE P: RETIREMENT PLAN

The employees of Salem 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, 2018, Salem Presbytery's contributions to the plan totaled \$36,671.

SALEM PRESBYTERY
NOTES TO FINANCIAL STATEMENTS

NOTE Q: SUBSEQUENT EVENT

On January 29, 2019, the Presbytery's Executive Council approved a comprehensive restructuring plan that calls for a decentralized management structure, stationing program and administrative personnel at member churches or letting them work out of their personal homes, reducing the Presbytery's annual budget by approximately twenty percent, and selling or leasing out its offices in Clemmons, North Carolina. The restructuring plan began being implemented in the first and second quarters of 2019.

The Presbytery evaluated the effects subsequent events would have on the financial statements through June 26, 2019, which is the date the financial statements were available for issuance.

SUPPLEMENTARY INFORMATION

SALEM PRESBYTERY
STATEMENT OF CHANGES IN NET ASSETS
Year Ended December 31, 2018

	Net Assets at January 1, 2018	Support and Revenue	Dividends and Interest	Realized and Unrealized Appreciation (Depreciation)	Expenses	Transfers/Net Assets Released	Net Assets at December 31, 2018
NET ASSETS WITHOUT DONOR RESTRICTIONS							
Unappropriated:							
Budget Fund	\$1,254,749	\$ 808,938	\$ 32,718	\$ (27,437)	\$ (856,236)	\$ 54,563	\$ 1,267,295
Board Designated Funds:							
Other Works:							
Camp New Hope Fund	116,683						116,683
Assistance Ministries Fund	683						683
Youth Triennium	2,500					2,500	5,000
Hispanic Ministry	0					72,835	72,835
Tzeltal Fund	967						967
Church Growth (New Church Development):							
Church Growth and Transformation Fund	178,023	17,708			(40,741)		154,990
Designated Year End Fund	16,774						16,774
Whispering Pines Funds	53,638				(1,199)		52,439
Edward Webb African American Church Fund	13,014				(3,000)		10,014
Campus Ministries:							
Campus Co-op Ministries Fund	8,274		513	(1,030)	(3,000)		4,757
Operations:							
Designated Reserve Fund – Operations	150,000						150,000
Capital Improvements:							
General Loan Fund	150,000						150,000
Synod/Duke Building Fund	30,159		1,033	(2,769)			28,423
	<u>720,715</u>	<u>17,708</u>	<u>1,546</u>	<u>(3,799)</u>	<u>(47,940)</u>	<u>75,335</u>	<u>763,565</u>
	<u>1,975,464</u>	<u>826,646</u>	<u>34,264</u>	<u>(31,236)</u>	<u>(904,176)</u>	<u>129,898</u>	<u>2,030,860</u>

See independent auditors' report.

SALEM PRESBYTERY
STATEMENT OF CHANGES IN NET ASSETS
Year Ended December 31, 2018

	Net Assets at January 1, 2018	Support and Revenue	Dividends and Interest	Realized and Unrealized Appreciation (Depreciation)	Expenses	Transfers/ Net Assets Released from Restrictions	Net Assets at December 31, 2018
NET ASSETS WITH DONOR RESGRICIONS:							
Temporary Restrictions:							
Next Year's Undesignated Giving:							
Undesignated Support Designated for Next Year	129,899	25,812				(129,899)	25,812
Other Works:							
Implementation	5,000						5,000
Black Caucus Fund	1,780	100					1,880
Camp Scholarships Fund	11,514	898			(822)		11,590
Seminary Education Scholarships Fund	31,357	1,206			(6,542)		26,021
Peace and Justice Fund	11,637	1,798			(1,988)		11,447
Self-Development of Peoples Fund	14,023						14,023
Ruby T. Robertson Fund	691						691
Hispanic Ministry Fund	11,041	1,500			(4,438)		8,103
Professionals & Pastors Fund	6,133						6,133
Latta Family Scholarship Fund	4,457		950	(1,908)			3,499
Missions & Evangelism:							
DP Foust Home Mission Fund	75,979		1,382	(3,403)			73,958
Byron Wolfe Mission Challenge Fund	28,724		3,599	(7,227)	(3,600)		21,496
Stone Estate Fund	94,491		1,861	(5,471)			90,881

See independent auditors' report.

SALEM PRESBYTERY
STATEMENT OF CHANGES IN NET ASSETS
Year Ended December 31, 2018

	Net Assets at January 1, 2018	Support and Revenue	Dividends and Interest	Realized and Unrealized Appreciation (Depreciation)	Expenses	Transfers/ Net Assets Released from Restrictions	Net Assets at December 31, 2018
Maryland Hickerson Fund	999		28	(83)			944
Cora Harrison Fund	2,885		55	(160)			2,780
Virgil Ashbaugh Fund	9,347		172	(504)			9,015
Hunger Programs:							
Hunger Program Funds:							
International	20,313	56,051			(29,500)	162	47,026
Domestic	24,324	56,051			(53,575)	162	26,962
	<u>484,594</u>	<u>143,416</u>	<u>8,047</u>	<u>(18,756)</u>	<u>(100,465)</u>	<u>(129,575)</u>	<u>387,261</u>
PERPETUAL RESTRICTIONS:							
Missions & Evangelism:							
Maryland Hickerson Fund	601						601
Cora Harrison Fund	260						260
Byron Wolfe Mission Challenge Fund	10,000						10,000
Virgil Ashbaugh Fund	520						520
Ruby T. Robertson Fund	7,603		319	(641)		(323)	6,958
Stone Estate Fund	12,482						12,482
Mission Challenge Fund	60,565						60,565
Other Works:							
James & Roxana Atwood Fund	0	25,000					25,000
Charles & Bonnie Simms Fund	12,228		21	(13)			12,236
Latta Family Scholarship Fund	21,728						21,728
	<u>125,987</u>	<u>25,000</u>	<u>340</u>	<u>(654)</u>		<u>(323)</u>	<u>150,350</u>
	<u>610,581</u>	<u>168,416</u>	<u>8,387</u>	<u>(19,410)</u>	<u>0</u>	<u>(129,898)</u>	<u>537,611</u>
GRAND TOTAL	<u>\$2,586,045</u>	<u>\$ 995,062</u>	<u>\$ 42,651</u>	<u>\$ (50,646)</u>	<u>\$ (1,004,641)</u>	<u>\$ 0</u>	<u>\$2,568,471</u>

See independent auditors' report.

SALEM PRESBYTERY
 SCHEDULE OF AGENCY TRANSACTIONS
 Year ended December 31, 2018

	Liability Balance at January 1, <u>2018</u>	<u>Receipts</u>	<u>Disbursements</u>	Liability Balance at December 31, <u>2018</u>
PCUSA Passthrough Funds:				
Christmas Joy	\$ 0	\$ 22,978	\$ (22,978)	\$ 0
One Great Hour of Sharing	0	38,024	(38,024)	0
Peacemaking	0	5,675	(5,675)	0
Pentecost	0	9,873	(9,873)	0
Least Coin	0	11	(11)	0
Mother's Day	0	400	(400)	0
Shared Mission PMA	0	1,819	(1,819)	0
Thank Offering	0	653	(653)	0
General Relief	0	2,879	(2,879)	0
Blanket Fund	0	305	(305)	0
Atlantic Regional Hurricanes	0	21,665	(21,665)	0
International Disasters & Emergencies	0	110	(110)	0
USA Hurricane	0	8,200	(8,200)	0
USA Other	0	1,445	(1,445)	0
Missionaries	0	23,992	(23,992)	0
Local Validated Causes:				
Children's Hope Alliance	0	2,652	(2,652)	0
Winston-Salem Campus Ministry	0	2,350	(2,350)	0
Theological Education	0	16,068	(16,068)	0
Other Local Causes	<u>0</u>	<u>3,035</u>	<u>(3,035)</u>	<u>0</u>
 Total Agency Fund Liability	 <u>\$ 0</u>	 <u>\$ 162,134</u>	 <u>\$ (162,134)</u>	 <u>\$ 0</u>

See independent auditor's report.